10 July 2025

HARDMAN & CO.

CAVENDISH PLC

Profitable even in tough markets

Cavendish reported a return to profitability in the year to March 2025. Revenue was up 3% on a comparable basis – against a still tricky background for UK smaller companies – and adjusted pre-tax profit was £3.7m against a loss of £1.8m in the year to March 2024. The result was an indication of the strength of the diversified revenue stream – with both private and public divisions healthily profitable – and a strong control on costs, which fell on a like-for-like basis. Currently, the stock is trading on 9.4x EV/NOPLAT 2026E and 5.6x 2027E.

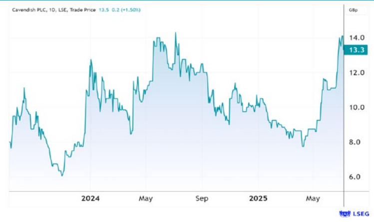
- **Strategy:** Cavendish is an investment bank, focused on UK smaller companies (less than £1bn) and providing capital raising and corporate advice. It is growing its private company business with new offices in Manchester and Birmingham, and is improving its digital capability. It also has a debt advisory business.
- **Results highlights:** Private company M&A transaction volumes were up 15% and average fee size +13%; offsetting a slight fall in public market transaction values. Fund raising fees rose 13% while revenue from retainers and the traditional securities trading side were flat. *Pro forma*, non-staff costs were reduced by 16%.
- **Valuation:** There is only one listed comparable company – Peel Hunt – which made a loss for its year to Mar'25. So, we have used a DCF model, with a 15% discount rate, to reflect market-fuelled volatility of returns. Our derived central value is £69m, or 18.4p per share, fully diluted, with a range of £68m-£90m. A return to more benign market conditions should see this rise.
- **Key risk:** The UK smaller company sector has seen steady outflows of funds investing in the sector – although there are early signs this may be reversing – and a remorseless trickle of net delistings. There are various industry initiatives to turn this round, but it might, in the end, have to wait for the market to recognise the cheapness of the underlying investments.
- **Investment summary:** Cavendish – the product of the 2023 merger of finnCap and Cenkos – is a well-balanced business with M&A capability and capital raising in both public and private markets. Its return to profitability in all areas, even in tricky markets, demonstrates the strength of its diverse revenue streams; and it is supported by a strong balance sheet (£21m cash) and a good dividend yield.

Financial summary and valuation

Year-end Mar (£m)	2022	2023	2024	2025	2026E	2027E
Sales	52.5	32.9	48.1	55.6	58.3	63.0
EBITDA	10.4	-3.8	-2.0	2.7	3.2	6.0
Reported EBIT	8.6	-5.6	-3.9	0.7	1.2	4.0
Reported PTP	8.1	-6.3	-4.3	0.7	1.2	4.0
Adjusted net income	7.6	-0.8	-1.1	3.1	3.1	5.2
Underlying EPS (p)	4.61	-0.45	-0.44	0.90	0.90	1.53
Fully diluted EPS (p)	3.57	-3.25	-1.40	0.01	0.28	0.94
Net (debt)/cash	23	8	20	21	22	25
DPS (p)	1.75	0.00	0.25	0.80	0.85	0.90
P/E (x)	2.8	n/a	n/a	11.9	14.5	8.5
EV/NOPLAT (x)	3.6	n/a	n/a	7.8	9.4	5.6
Yield	13.5%	0.0%	1.9%	6.2%	6.5%	6.9%

Source: Cavendish plc and Hardman & Co Research

Financial Services



Source: LSEG, 2025

Market data

EPIC/TKR	**CAV**
Price (p)	**13.0**
12m high (p)	14.5
12m low (p)	7.3
Shares (m)	386
Mkt cap (£m)	50
EV (£m)	29
Free float*	93%
Country of listing	UK
Currency	GBP
Market	AIM

**As defined by AIM Rule 26*

Description

Cavendish is a UK investment bank, focused on smaller companies (capitalised at less than £1bn). It provides advice for capital raising and M&A to both public and private companies in both debt and equity.

Company information

CEO (jt)	John Farrugia
CEO (jt)	Julian Morse
CFO	Ben Procter
Chair	Lisa Gordon

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Key shareholders

Cavendish EBT	7.2%
Jon Moulton	5.2%
Bridger Ltd	4.5%
Baron Leigh of Hurley	4.4%
Canaccord Genuity	4.4%
Vin Muria	4.4%
Sam Smith	4.2%

Diary

Sep'25	AGM
Nov'25	Interim results

Analyst

Jason Streets js@hardmanandco.com

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Executive summary

Return to substantial profitability in the year to March 2025…

The UK small and mid-cap-focused investment bank, Cavendish, reported a return to profitability in the year to March 2025. An adjusted PBT of £3.7m against a backdrop of a still difficult market for UK stocks on AIM and capitalised at less than £1bn on the main market – Cavendish's focus – was, we believe, an impressive performance. This can also be seen in the context of its only listed comparator, Peel Hunt, which reported another loss in the same period.

The performance, the first full-year figures of the combined entity, was a justification for the merger between finnCap and Cenkos, in September 2023. Cavendish benefited from more diverse streams of revenue – in particular its private company M&A business, which saw revenues up 31% – and a strong control over costs, which were down on a comparable basis.

Cavendish is building up its private company side with the opening of two new offices: in Manchester and Birmingham. It is also looking to hire selectively in other areas to boost market share – something its return to profitability will help with.

…against a very tricky market backdrop and UK fund outflows

The background for the UK smaller company sector has been poor for several years. The market (and AIM in particular) has underperformed international peers; cash has been consistently withdrawn from UK-focused retail funds; and the number of smaller companies listed has also been declining. The investment case for Cavendish does not rely on an improvement in market conditions as it is profitable in all divisions; nevertheless, we feel, with a number of political initiatives in the offing and just the sheer cheapness of the UK market relative to other markets and a faltering US market in particular, the likelihood is that conditions will improve rather than worsen from here.

Difficult to forecast – our FY27E doubles as an upper end of the range forecast for FY26

The lumpiness of some of the business and the near impossibility of predicting the timing of deals – which tend to carry the larger fees – makes forecasting for the business especially hard. We have taken a novel approach. We have forecast FY26 and FY27 revenues and profits, but the FY27 figures are also an attempt at an upper end of the range of possible outcomes for FY26. The difference between the two is relatively modest at revenue level – £63m vs. £58m (+8%) – but very marked at the adjusted EPS level – 5.2p vs. 3.1p (+70%) – reflecting both the relatively low margins and a substantial fixed cost base. The main difference in the revenue forecasts is four additional deals (two private, two public) against 101 in total in FY25.

Outlook is upbeat with two IPOs already completed and a strong pipeline of M&A

The outlook is positive with a strong pipeline of potential M&A deals and two IPO deals already completed in April, including the largest in the UK to date. The trading book is profitable and UK markets have begun to outperform the US. There are some early tentative signs that international flows into the UK market have picked up and this may well lead into a turnaround in domestic flows.

With no useful comparators, we have used a DCF for our valuation range…

With only one other comparable listed stock, and it being currently loss-making and forecast to make only a very modest profit in the current year, similar multiple analysis is not an option. We have opted for a DCF approach – cash equates closely to profits now the one-off merger costs are settled – using a high 15% discount rate to reflect the volatile, unpredictable level of valuable deals. If, over time, Cavendish manages to prove that the mixture of private *and* public deals, M&A *and* fund raising makes the revenue line less volatile, we would look to use a lower discount rate.

...which comes out at a central value of £69m, or 18.4p per share fully diluted

Our central valuation comes out at £69m, or 18.4p per fully diluted share (adjusting for both the EBT holding and the in-the-money options outstanding). A 12% discount rate would raise that to 23.2p. At 18.4p, it equates to an EV/NOPLAT multiple for our lower-end FY26 forecast of 15.6x and an adjusted PER of 20.4x. If the upper-end FY26 forecast (or FY27E) were used, those multiples fall to 9.2x and 12.0x, respectively. In the meantime, the stock trades on an historical dividend yield of 6.2% and has £21m of cash and no debt.

The principal risk with a business such as Cavendish – both positive and negative – is, inevitably, market conditions. The strong balance sheet provides reassurance.

FY25 results review

Cavendish reported results for the year ending March 2025. These were the first full-year results since the merger of finnCap and Cenkos, in September 2023. When we refer to like-for-like, or comparable figures, we are referring to *pro forma* numbers, which assume that the merger had been effective for the whole of FY24.

Amid backdrop of ongoing tricky market, Cavendish sees return to profitability…

Revenues were up 16% from £48m to £56m on a reported basis, or 3% like for like. This was achieved against a very difficult background (explored in detail in the section "Business context") of continued draining of funds from the small cap sector (and UK equities generally) and the reduction in the number of listed companies.

Costs were up 6% on a reported basis but down 10% like for like. Cavendish managed to squeeze the promised synergies out of the combined group very effectively; in particular, getting rid of the surplus office premises in Tokenhouse Yard, and rationalising duplicated trading infrastructure.

The revenue increase and the cost control led to reported EBIT turning from a loss of £3.9m in FY24 to a profit of £700k in FY25. Adjusted profit before tax moved from a loss of £1.8m to a profit of £3.7m, or 0.94p per share net income. The key adjustment is to exclude share-based payments (£2.5m in FY25 and £1.7m in FY24).

Underlying the revenue improvement was the strength of the private company business. Cavendish reported private transaction fees up 30%, from £14.1m to £18.3m. This was an improvement in both number of transactions (+15%) and revenue per transaction (+13%). This strength was offset by a 4% increase in the number of Public Market transactions but a fall in their average value of 13%. (These figures are all as reported rather than like for like; on a comparable basis Public M&A was down by a third and Private M&A up by a half.) Revenues from fund raisings increased 13% – a significant market share gain. The other two components of revenue – corporate retainers and the securities business – were both marginally lower, on a comparable basis.

…indicating strength of diversified revenue stream and good cost control

Overall, the revenue generation reflected the strength of the diverse streams of Cavendish's business: both private and public company advisory work; M&A advice as well as capital raising; and debt advisory as well as equity. Nevertheless, the traditional business of equity capital raising remains a core strength. In the past six months, Cavendish has been responsible for more than 60% of all IPO capital raised through IPOs in the UK markets, albeit a rather depressed £121m. Most of that has fallen into the new fiscal year.

Revenue split 2024 (actual and *pro forma*) and 2025 (£m)

	2024A	2024 *pro forma*	2025	'24pf vs. '25
Retainers	10.0	12.6	11.7	-7%
Transactions	33.5	35.8	38.3	7%
Securities	4.5	5.9	5.7	-4%
Total	48.1	54.2	55.6	3%

Source: Cavendish plc

The company paid off all its debt during the year and finished with net cash of £21.2m, or 5.7p per diluted share. It is obviously critical in turbulent times to have a strong balance sheet, and this has enabled Cavendish to declare a final 0.5p dividend to add to the interim 0.3p paid during the year.

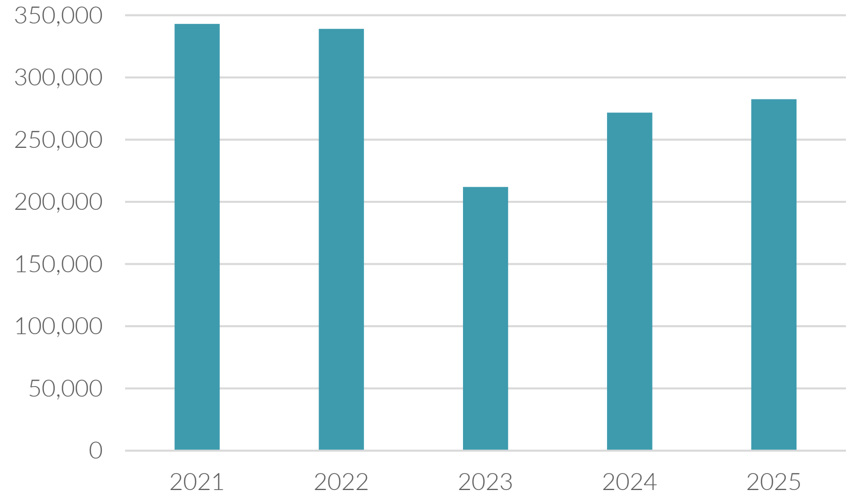
KPIs

In addition to usual financial metrics like EPS, DPS and net cash, Cavendish highlights four other metrics: revenue per head; number of corporate clients; transaction revenue; and the compensation revenue.

Revenue per head

The revenue per head naturally adjusts for the merger, as the headcount is calculated on a weighted basis. There has been a steady improvement since the depths of 2023, but the metric is still well below both 2022 and 2021, providing plenty of further upside potential, in our view.

Revenue per head, 2021-25 (£)



Source: Cavendish plc

Corporate clients

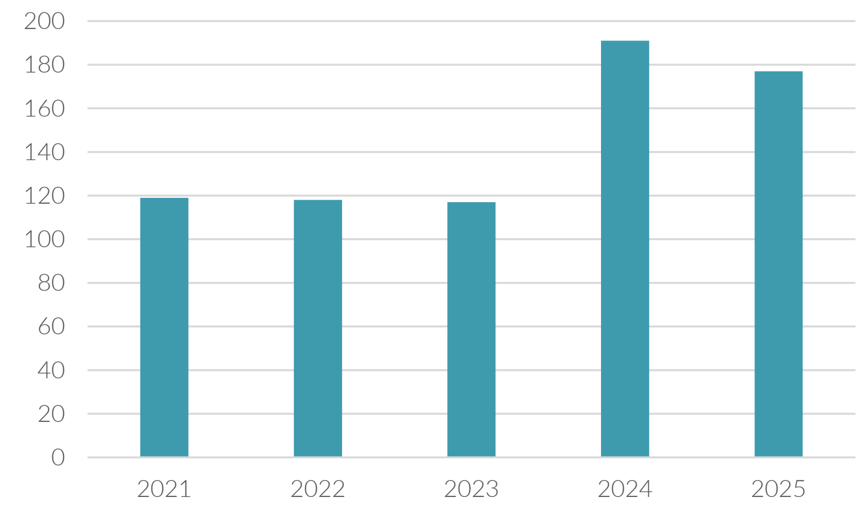
Number of clients is a key revenue driver

Obviously, the number of clients is a key driver of transaction revenue as well as corporate retainers. There is an irony in the investment bank business that "quality" clients are not necessarily the most profitable ones. Companies that have strong balance sheets, can fund organic growth, and are not interested in acquisitions are not the ones who generate banking revenues.

We would expect that between a third and a half of the clients will generate transaction fees of one kind or another each year, although the scale of these can vary substantially.

There was a decline in the number of clients over the year, despite the company winning more from competitors than losing to them. This was largely down to companies delisting from the public markets.

Number of corporate clients, 2021-25

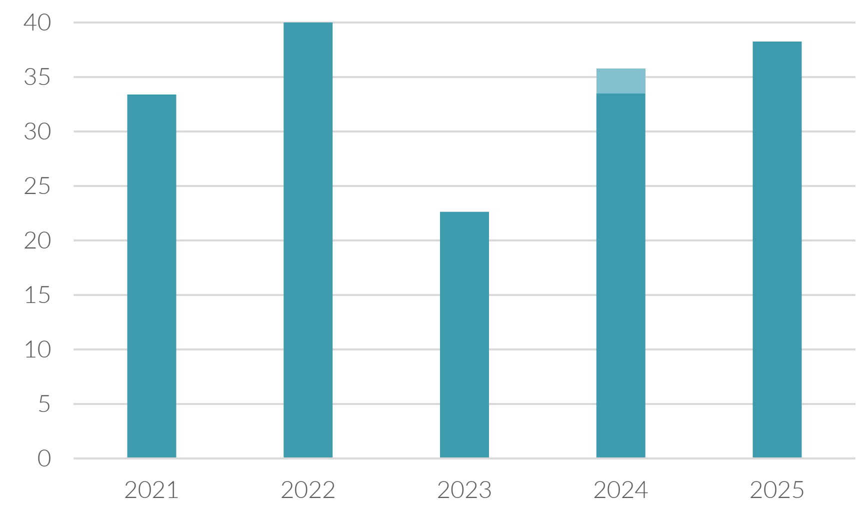


Source: Cavendish plc

Transaction revenues

Transaction revenues are a clear metric for the business – they are the primary source of revenue. We have added the *pro forma* adjustment to the 2024 figure. The 2025 outcome is challenging the 2022 peak and was driven, as detailed elsewhere, by the growth in the Private M&A business.

Transaction revenues, 2021-25 (£m)



Source: Cavendish plc

Compensation ratio

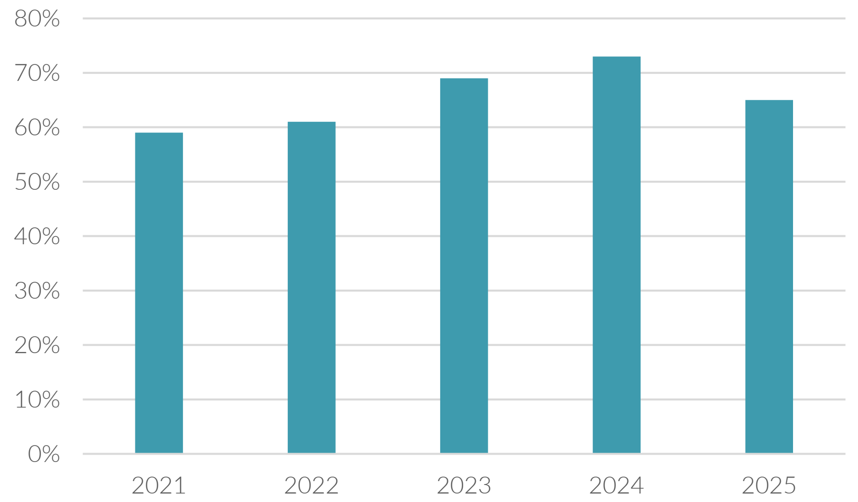
The compensation ratio is a critical metric for the management of the business. The company has to balance the competing interests of the shareholders and the staff. The business is nothing without the key revenue generating staff. The stronger the platform the lower the ratio can be – that is, the more the success of the business can be determined by the strength of the brand the less has to be paid to the fee generators; and conversely the weaker the brand the more the staff will have to be paid to convince them to work from a weaker platform. This is not in absolute terms but as a proportion of revenues: the stronger the platform the higher the revenues, so staff can be paid higher absolute amounts on a stronger platform with a lower ratio.

It also becomes harder to manage when revenues take a hit – especially if it is the individual business rather than the sector as a whole. If an individual bank has a bad year, it still needs to keep its most important staff sweet or they are liable to be poached elsewhere.

65% compensation ratio good compromise between various stakeholders

The CFO, in his statement, remarks that the 65% level paid in 2025 is a "a level that is both aligned with overall profitability and competitive within the markets in which we operate." The figure excludes the share-based payments. If they were included, it would rise to 69%, although the calculation of the cost of share-based payments is not necessarily an accurate reflection of their true cost (see "Financials" section).

Compensation ratio, 2021-25



Source: Cavendish plc

Business overview

UK small and mid-cap focused investment bank

Cavendish plc is a leading UK-focused investment bank specialising in mid-market and smaller UK company corporate transactions. The company was formed in September 2023 through the merger of finnCap Group plc and Cenkos Securities plc: two longstanding names in UK smaller-company broking and advisory business.

Cavendish is now the clear market leader in AIM advisory and had 177 retained corporate clients at the end of FY25. It offers a comprehensive range of services, including equity capital markets (ECM), private and public mergers and acquisitions (M&A), debt advisory, and private capital solutions.

All its operations are UK-based, although both clients and investors may be international. It is part of the Oaklins international network of mid-market advisers with 800 M&A professionals in 40 countries.

As at May 2025, it had 125 corporate clients listed on AIM out of a total of 650, or 19%, making it the largest corporate broker on the junior market by number of clients. The total market cap of its AIM clients was £9.8bn (an average of just under £80m) out of a total of £66bn (15%), making it the fourth-largest broker by size of companies. It had a further 31 Main-listed clients and an additional £11.9bn of equity value. It is the 21st largest adviser on both AIM and the Main market and advises one in 10 of all UK quoted companies.

It generates fees from retainers – annual payments made by clients to retain Cavendish as their broker (approximately 20% of group revenues). Every company listed on the London Stock Exchange has to have a sponsor. It also makes money from trading equities on the London markets and some international exchanges. This can involve taking principal positions as market makers, but these are generally restricted to corporate clients only.

Largest part of the business is corporate advisory – both private and public

There are some modest revenues from selling research services, but the research function is largely there to support the other revenue-generating parts of the business. Combined, the securities business generates about 10% of group revenues. But by far the largest part of the business is the corporate advisory business, which generates transaction revenues accounting for about 70% of group revenues and split fairly evenly between private companies and public companies.

Cavendish business in a nutshell

Client types	Advisory services	Industry sectors
Listed and private companies	Corporate Finance Advisory	Business Services
Private equity funds	Debt Advisory	Consumer
Institutional investors	Investment Companies	Financial Services
Family offices	Public company capital raising and IPO	Healthcare
Investment companies	Private M&A	Industrials
Hedge funds	Private Growth Capital	Natural Resources
Private client fund managers	Public M&A	Technology, Media and Telecommunications
	Research & Distribution	Business Services

Source: Hardman & Co Research

It is important to point out that the private and public market sides do not operate in silos. There is much crossover and both sets of clients can see the benefits of having both sets of expertise under the same roof.

Sector approach gives Cavendish competitive advantage

Cavendish also sees its sector approach as giving it an advantage in the smaller and mid-market segment. It may be common in the bulge bracket, but, at the smaller end, the market is dominated by generalists. It's obviously attractive to potential clients – that its advisers really understand their business and the sector they operate in – but it requires a minimum scale to the operations and Cavendish is certainly a big enough player: in both private and public markets. It's also attractive to be able to run dual or even triple track processes: IPO, trade sale, or sale to private equity and you need the skillsets and contacts to be able to do that well.

Growth and strategic priorities

Cavendish's strategy is to push deeper into its current areas of operation. It has opened new offices in Manchester and Birmingham to help grow the private transactions business. There are no current plans to open elsewhere, but these offices will need to be built up, which will involve some upfront cost. It will consider expanding into other services to its existing client base where it can see synergistic – or cross selling – opportunities.

More straightforwardly, the plan is to win new clients and extend the range of services offered to existing clients. To execute this plan will involve strengthening its teams with selective hires. Its outperformance – returning to profitability when many of its competitors are struggling – and winning market share (e.g. the substantial proportion of the IPOs it has done in 2025) will be very helpful in this process.

The company has also built a team focused on data modelling and applied AI. It is used to generate proprietary insights that enhance its core business activities. Some uses are for automating processes (like tying together the various parts of a share buyback: informing the client, writing the RNS, etc.) and some for analysing information feeds to improve analysts' and bankers' effectiveness; this is not just about being efficient, though, rather generating new ideas and processes to improve its client service.

Industry context

UK capital markets

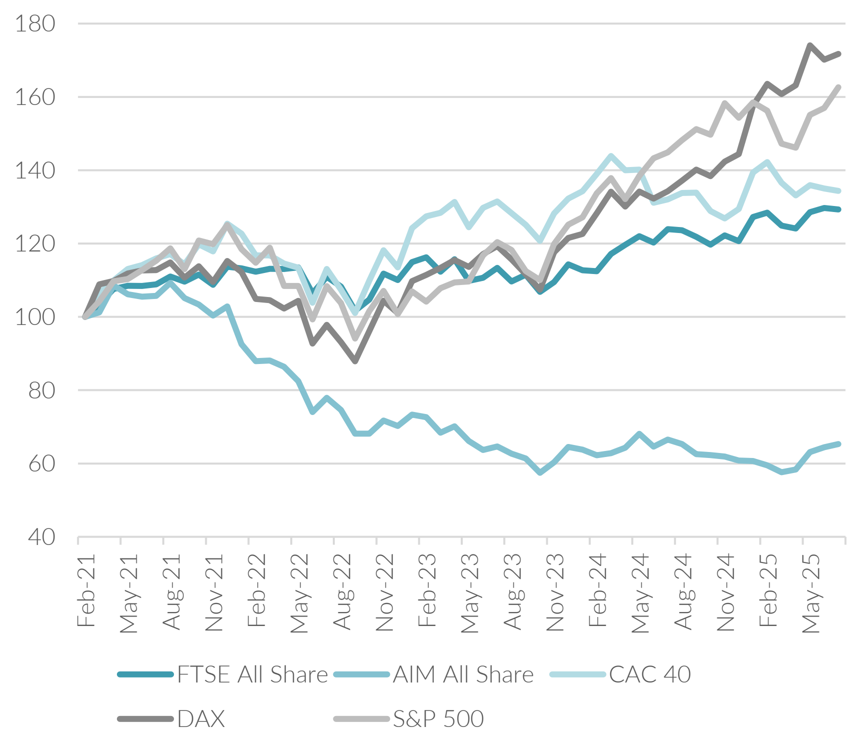
The past few years have been very difficult in UK capital markets. Since the global financial crisis, economic growth has been sluggish, productivity improvements have been negligible, and the US capital markets have sucked up all the available cash that hasn't been firmly nailed down. We have endured Brexit-induced uncertainty, a global pandemic, an energy price surge, a (thankfully transient) inflation spike, a destabilising UK budget, a war on the eastern fringe of Europe and now President Trump-inspired US "liberation" (or the start of deglobalisation).

It is beyond the scope of this report to delve deeper into these matters, but there are some sobering statistics to show just how difficult it has been for investment banks focusing on UK mid and smaller companies.

UK market overall has underperformed US and European peers in recent years...

First, we have seen the UK stock market as a whole underperform both the US and its key European peers. Since the beginning of 2021, while the US (S&P 500) and Germany (Dax) have risen 63% and 72%, respectively, and the French market (CAC 40) is up 34%, the UK (FTSE All Share) is up 29% and the FTSE AIM All share is *down* 35%.

Major stock market performance, 2021-25 (to 1 July)



Source: Hardman & Co Research

Since the market bottomed after President Trump's Liberation Day (7 April) the AIM market has performed well: +24% compared with 15% for the FTSE All Share and 22% for the S&P. Nevertheless, this is a difficult background against which to do capital markets business. It is as much driven by money flows as economic or corporate profits performance.

...creating a difficult environment to carry out capital markets business

UK-focused fund flows began turning substantially negative in the middle of 2020. By the end of 2020, the rolling 12-month figures for both UK All companies and UK smaller companies fund flows were both negative and have been ever since.

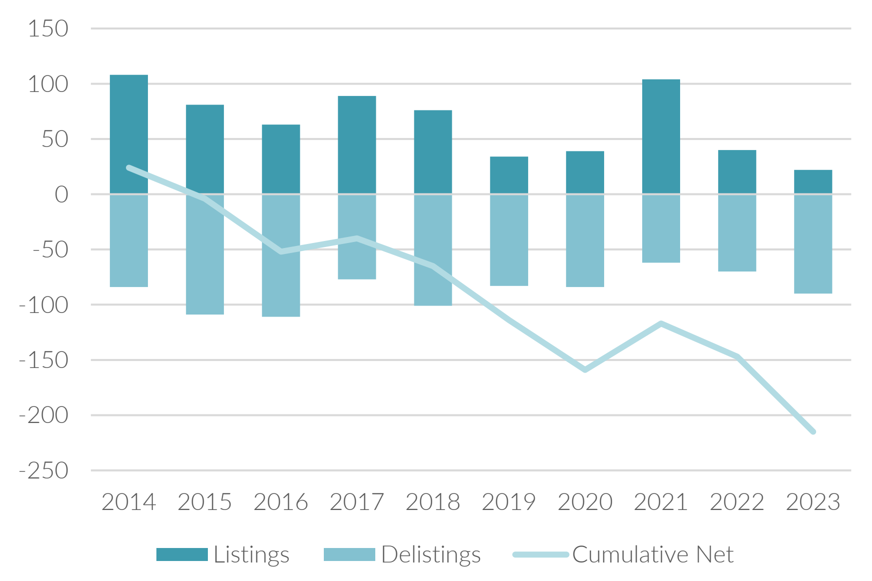
UK All companies' funds are still losing not far off £10bn a year in assets. UK smaller company funds, which are substantially smaller in total assets (£8bn vs. £135bn for UK All Companies), are losing just under £1.2bn a year, or £100m every month. As yet – the data runs until the end of May 2025 – there is no sign of a turnaround.

And it's not just the retail investor who has been deserting UK equities. Since 2003, the weighting of UK pension funds in UK equities has fallen from 39% to 5% (in 2022) and for insurance funds from 27% to 4%.

There has been, however, some positive signs in recent months from international flows, which have turned positive this year, according to data from EPFR. This could be the beginning of a turnaround.

In addition, the number of listed companies has fallen fairly consistently over recent years. Using data from New Financial, the number of companies with a market cap of less than £1bn have fallen by more than 200 over the past 10 years.

Number of smaller listed companies (less than £1bn market cap), 2014-23

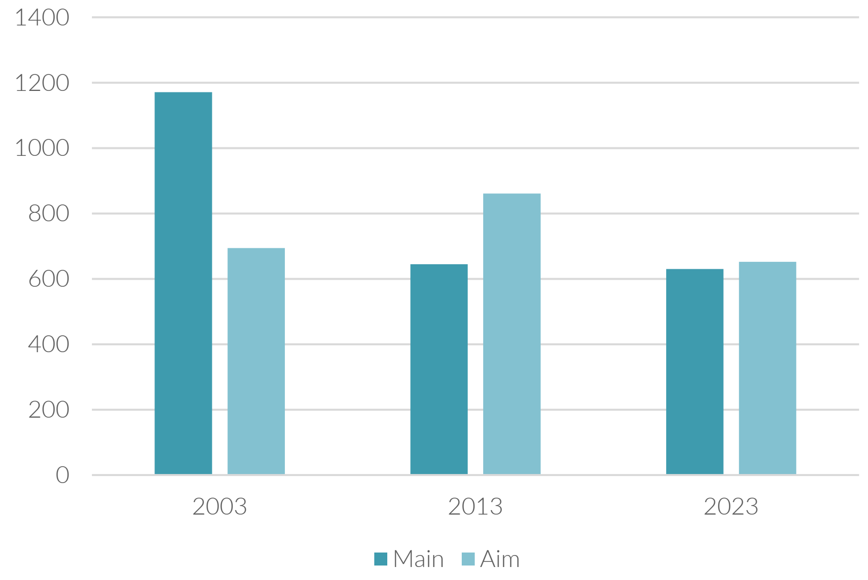


Source: New Financial and LSEG

Also, in 2024, just looking at AIM alone, there were 21 new listings and 89 cancellations.

In 2003, there were just shy of 1,200 companies listed on the main market with a market cap of under £1bn and a smidgeon under 700 on AIM. By 2023, the number on the main market had nearly halved to 630 and the number on AIM had dropped to 652. However, that AIM figure was half its peak in 2007 of 1,347. This is not just a UK phenomenon: the number of US listed companies has halved since its peak and is down 10% recently.

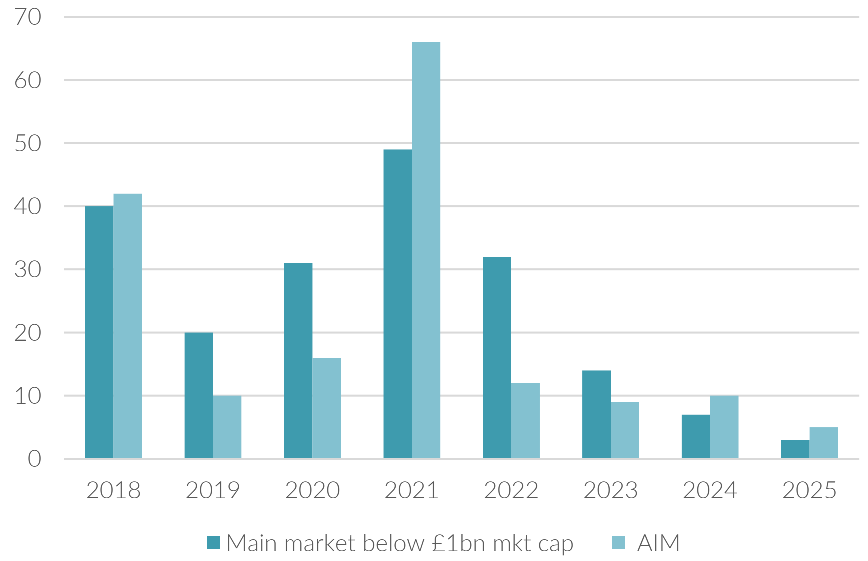
No. of UK listed companies 2003, 2013, 2023



Source: New Financial and LSEG

For an investment bank, the absolute number of listed companies is less important than the amount of activity, although the two are clearly linked. Here, unfortunately, we see difficult times too. Using only data for companies with a market cap of under £1bn, we can see the past six years have been pretty lean, with the exception of 2021. Currently, 2025 is shaping up no better.

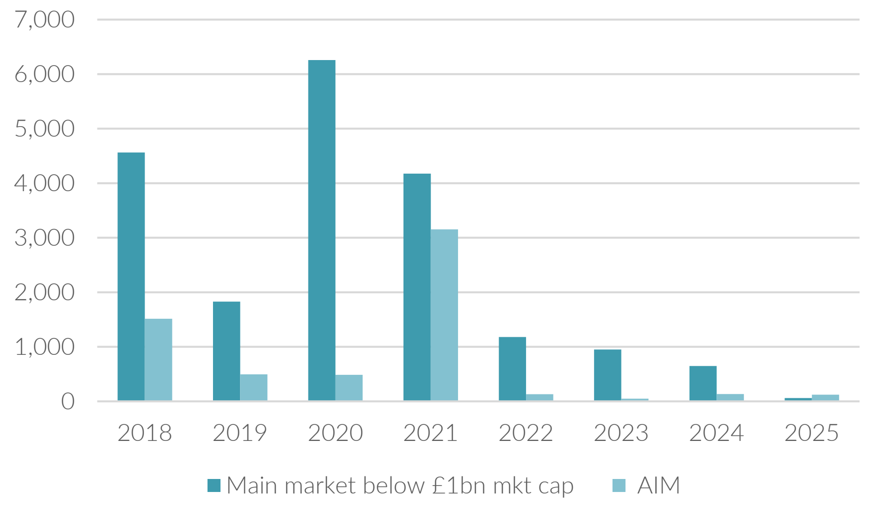
Number of smaller company IPOs 2018-25



Source: LSEG

The number of deals follows a very similar pattern whether on the main market or AIM (although 2021 was particularly rich on AIM). The amount of money raised, though, tells a different story, with the sums raised on the main market generally dwarfing those on AIM.

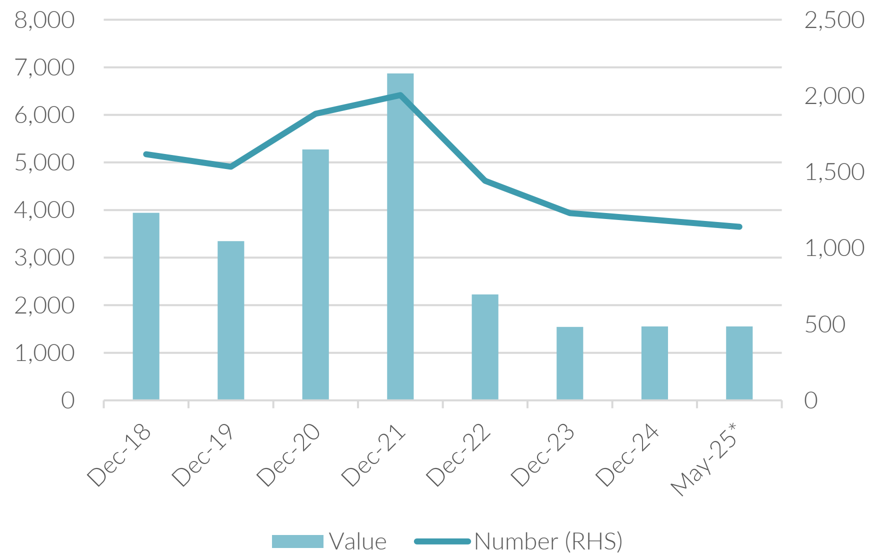
Capital raised in IPOs, 2018-25 (£m)



Source: LSEG

In 2022, while £1.2bn was raised on the main market, only £119m was raised on AIM; in 2023, the figures were £951m and £46m, respectively, and, in 2024, £357m and £120m. To date in 2025, that trend has been reversed, with twice as much (£122m) being raised as on the main market (£59m).

Capital raised on AIM in secondary issues, 2018-25 (£m)



Note: The figure for May'25 is the rolling 12 months to May'25.
Source: LSEG

The market in secondary issues has shown a very similar pattern (a little more resilience evident in 2019 and 2020), with the peak in 2021 seeing a sharp tail off and few signs of recovery. It has, though, been stable at the lower levels.

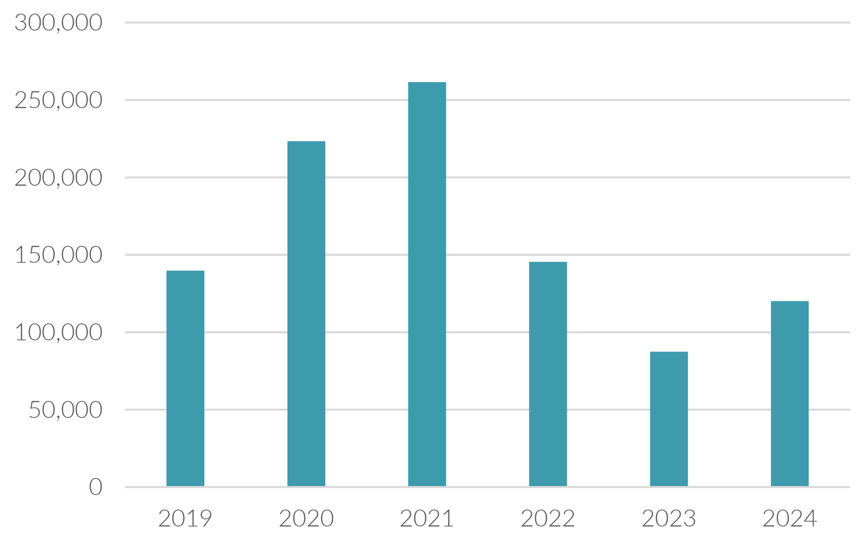
In 2025, to the end of May, the amount raised in secondary issues equals roughly the amount raised in the same period in 2024 (ca.£450m). The chart shows calendar years and the rolling 12 months to May 2025. Cavendish has been particularly active and has accounted for 60% of all IPO money raised in the UK in the past six months.

UK M&A markets

Capital raising – the primary purpose of capital markets – is only one part of Cavendish's business. The other key component is corporate transactions or M&A. This is generally thought of as more stable and while that is true, M&A on public markets is still at least partly driven by market sentiment. Data from PwC and LSEG shows a showdown in the value of M&A activity from the recent peak in 2021, but the fall is not nearly so steep as that seen in capital raising.

M&A markets are never "shut" in the way the primary equity markets are sometimes said to be, but turbulence in markets makes valuation harder and therefore harder to get two parties to agree.

UK M&A deal values, 2019-24 (£m)

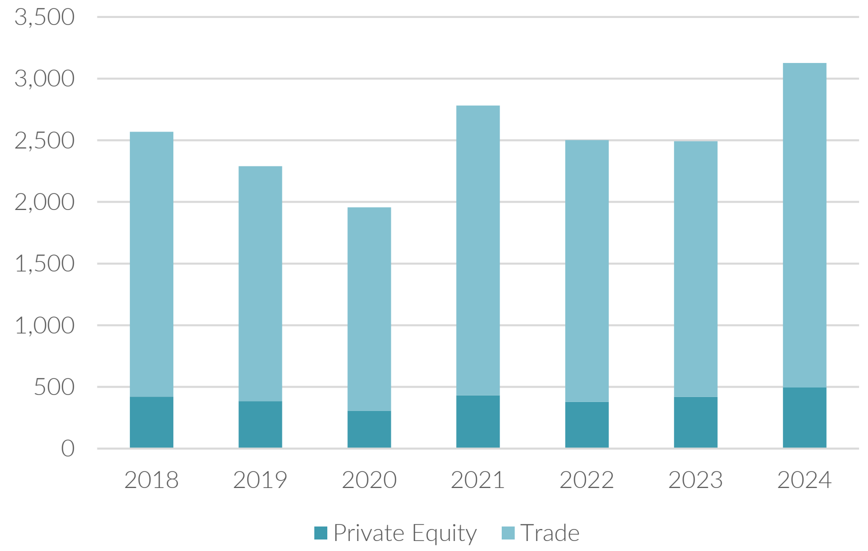


Source: LSEG and PwC

M&A in private companies is a different matter, though. Private corporate transactions are often driven by personal motivations – retirement, death, family disputes, etc., etc. – and these continue whatever is going on in the wider world. Data for private M&A is also less reliable; however, providing the errors are reasonably consistent, it still gives us a clear indication of trends.

The chart below, sourced from the accountants BDO, gives volumes rather than values but nevertheless shows a remarkably steady, and indeed gently growing market.

Private company M&A deal volumes, 2018-24 (number)



Source: BDO

Another data source – MarketIQ – ranks advisers by the number of deals they advised on. Here, Cavendish are ranked 9th equal with KMPG with 92 transactions, or about a 3% market share.

UK M&A Financial Adviser rankings by volume of deals, 2024

Adviser	Rank	Deals	Market share
K3 Capital Group	1	254	8.1%
Grant Thornton	2	246	7.9%
BDO	3	225	7.2%
AZETS	4	154	4.9%
RSM	5	138	4.4%
PKF	6	126	4.0%
Hazelwoods	7	105	3.4%
PwC	8	95	3.0%
KPMG	9=	92	2.9%
Cavendish	9=	92	2.9%
Total		**3,127**	**100%**

Source: MarketIQ

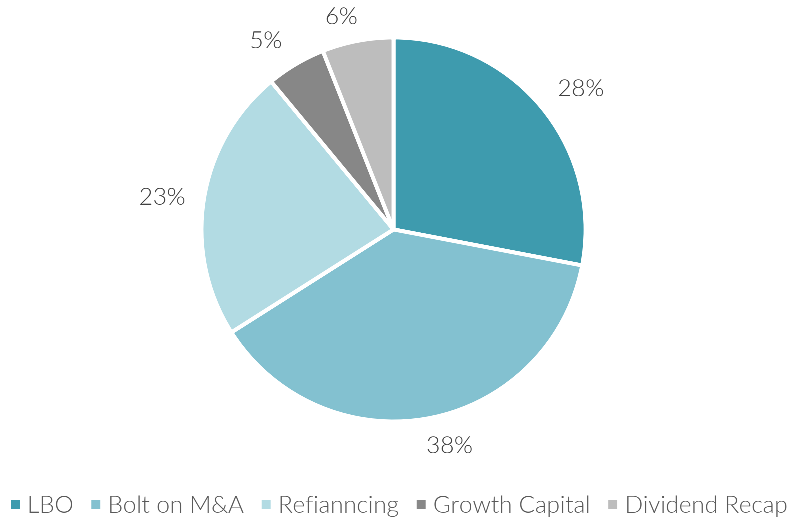
Interestingly, according to the MarketIQ data, two thirds of the Cavendish deals were done in London (ranked 6th) and the South East (ranked 9th). Its recent expansion into Manchester and Birmingham is a clear attempt to win a growing share of this market. Private transactions – being generally smaller, more local, companies – are more likely to be advised by locally based advisers.

This steadier source of business has proved crucial to Cavendish's performance in the past couple of years and its strong return to profitability in the year just reported.

Debt advisory

Debt advisory shows some similar characteristics. It is primarily driven by transactions, with Deloitte's Private Debt Deal Tracker showing that, in 2024, 66% of debt deals in the UK involved M&A (28% LBOs, 38% bolt-on M&A); the balance was a mixture of refinancing, growth capital and dividend recapitalisations.

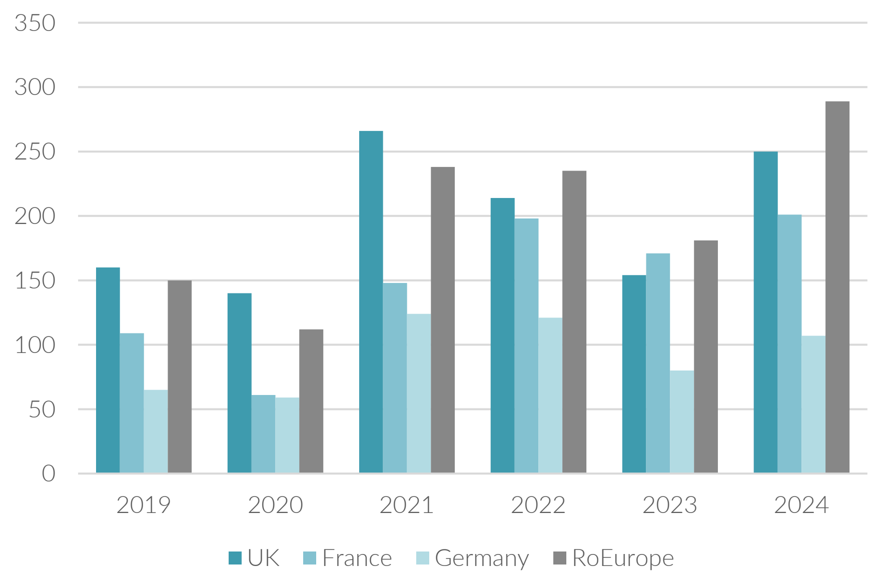
Purpose of private debt deals, 2024



Source: Deloitte

Over the past five years, the number of private debt deals has roughly tracked the private M&A pattern: with 2020 hit by COVID-19; 2021 boosted by COVID recovery financing; 2023 easing off and a strong showing in 2024.

Private debt deals in Europe, 2019-24 (number)



Source: Deloitte

The UK is about 30% of the European market for private debt deals.

We expect continued activity in this sector, driven by all the normal personal reasons but boosted by the sheer amount of private equity capital that has been raised and needs to be deployed.

Regulatory and other change

In recent years, there have been various lobbying attempts to change rules and regulations to improve the attraction of UK equity markets and to encourage investment. These have included everything from asking for a cut to or abolition of stamp duty applied to share purchases on the main market (unlikely to succeed with a government hard pressed for tax revenue) to a special ISA for UK equities only. The Chair of Cavendish is on one of these bodies looking to boost investment in UK markets – the Capital Markets Industry Taskforce.

The Labour government toyed with removing the Inheritance Tax relief on qualifying AIM stocks. This certainly didn't help sentiment in the market. In the end, the tax relief was "only" halved (from 40% to 20%); the removal of the uncertainty without doubt helped sentiment, but it was hardly a boost to the market.

There are various plans to increase UK pension allotments to equities, but these may be diverted into unlisted infrastructure rather than quoted equities. Also, any increase in personal pension contributions is rather more likely to flow into the S&P as into the AIM market without specific further inducements, in our view.

Any change that results in more money flowing into UK equites is to be welcomed, but we don't see an investment case based on hopeful aspirations for rule changes or expectations in a change to UK risk culture. On the other hand, markets do what markets do – the long run underperformance of UK equities means that they are cheap compared with all the more recently favoured alternatives, and, in the end, money will seek cheapness out. No one knows when the flows into passives and US equities in particular will stop and reverse, but we may already have seen the peak. Sometimes investment is just about patience.

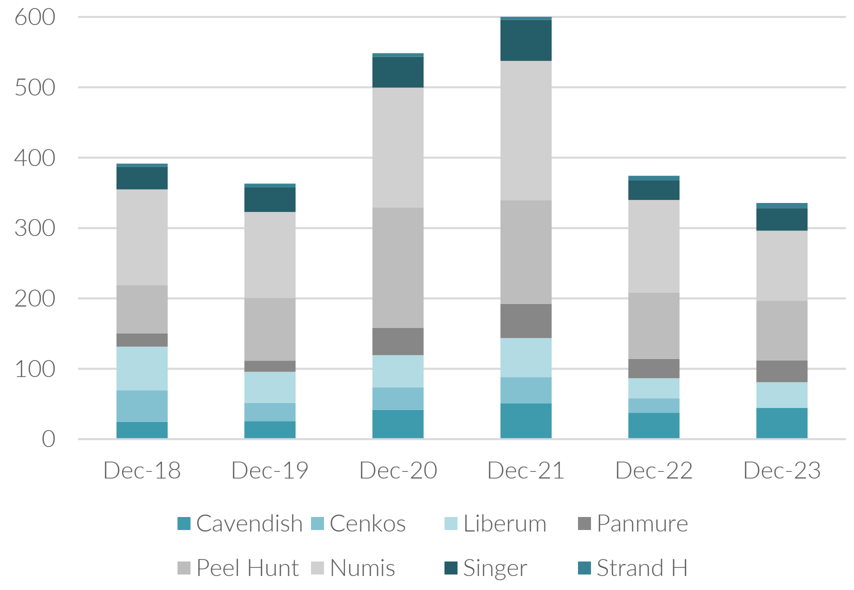
What we do know is that Cavendish has moved decisively back to profitability against this tricky backdrop. Of course, it is possible that conditions deteriorate, but it seems to us far more likely that the flows will reverse and the recent better performance of the UK stock market (and AIM in particular) will continue.

Competitors

There are plenty of competitors in the space Cavendish operates in. We have tracked six of them; two of which have merged (Panmure and Liberum) and one was acquired (Numis by Deutsche Bank). They all have slightly different biases – Peel Hunt, for example, the only other listed company, has a very strong trading business – but what is very clear is that they are all very sensitive to the same forces. They account for more than 600 corporate clients between them.

In aggregate, the seven (counting Cenkos and finnCap as one) saw revenues rise from just under £400m in 2018 to £600m in 2021 and then nearly halve to £335m in 2023. (We have calendarised the figures from the non-December year-end companies.)

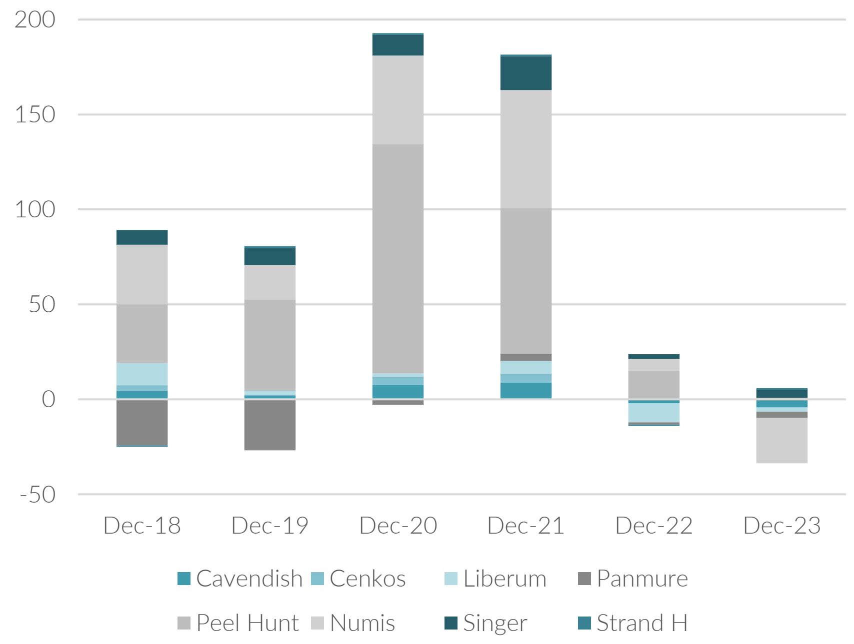
Cavendish and competitors' aggregate revenues, 2018-23 (£m)



Source: Hardman and Co Research

The underperformers in this group were Liberum and Panmure who merged in 2023. When we look at the same group of companies' profitability, the vulnerability of the sector is clear to see.

Cavendish and competitors' aggregate revenues, 2018-23 (£m)



Source: Hardman and Co Research

In 2022, aggregate profitability fell from over £180m in each of the previous years to under £10m in 2022 and a near £30m loss in 2023. The other thing worth noting from this chart is that Peel Hunt's profits were much bigger in 2020 than in 2021, as it benefited from the additional trading in COVID year and is not so strong on the ECM side, while Numis improved its profitability massively in 2021, driven by the requirement to refinance post-COVID disruption and the delayed pipeline.

Conclusion

It is clear from the market data that, while equity raising is a very market-sensitive activity, which is being hit not only by weak markets but the general withdrawal of funds from the mid and small cap parts of the UK market, M&A (and private company M&A, in particular) and debt advisory, while not unaffected by markets, is a much more stable business. Cavendish's expansion into these segments of the financial advisory markets has given it a much more stable, and therefore more valuable, platform. The push into the regions of the UK should add further diversity of income sources and additional stability.

We don't anticipate a resurgence in UK equity markets in our forecasts, but there might just prove to be one driven by the extreme low valuations, or effective regulatory change. Or both. What is clear is that Cavendish can still make profits in very tricky conditions and that, if markets improve, the upside should be very substantial.

Financials

Income statement

Key driver of revenue forecasts is number of transactions per year

The key driver of our revenue forecasts is the number of transactions each year. In FY25, there were 101, up from 94 in the previous year. These split 31 private company transactions and 70 public company ones. The revenue worked out to be £590k per average private transaction (£522k in FY24) and £286k per public one (£330k in FY24). Clearly, these averages can easily be distorted by a few large or very small deals. They are also made up of various types of transactions.

On the Private side, this will involve buying and selling businesses and debt advisory. The vast bulk of the revenue is success fees, but there are retainers paid too (just less than 10% of total revenues). And the largest part of the business is selling the client's business.

On the Public side, there are M&A fees for buying and selling, IPO fees and placing fees and other advisory fees. A single IPO transaction is likely to be the biggest individual transaction (although not necessarily), but they are also rarer, much more dependent on market conditions and can easily slip from one period into the next. Cavendish did two IPOs in April 2025 – i.e. in the current financial year.

For our FY26E and FY27E forecasts, we have made various assumptions, tabulated below. The number of private transactions is assumed to grow modestly (to 35 and then 37) and the average value to be £580k followed by £600k. For the Public market transactions, we have assumed a constant number, 70, in FY26E and 72 in FY267E, and that the average fee bounces back to £300k in FY26E and £330k in FY27E – the same as it was in FY24.

Transaction fees 2024-27E (£m)

	Private 24	Private 25	Private 26	Private 27
Transactions	27	31	35	37
Transaction fees	14.1	18.3	20.3	22.2
Avg. deal fees	0.521	0.590	0.580	0.600
Transaction value	823	644	735	814
Avg. transaction value	30	21	21	22
	Public 24	**Public 25**	**Public 26**	**Public 27**
Transactions	68	70	70	72
Transaction fees	22.1	20.0	21.1	23.8
Avg. deal fees	0.325	0.286	0.300	0.330
Transaction value	1,600	2,100	2,000	2,000
Avg. transaction value	24	30	29	28
	Total '24	**Total '25**	**Total '26E**	**Total '27E**
Transactions	95	101	105	109
Transaction fees	36.2	38.3	41.4	46.0
Avg. deal fees	0.381	0.379	0.394	0.422
Transaction value	2,423	2,744	2,735	2,814
Avg. transaction value	26	27	26	26

Note: 2024 figures are pro forma. Source: Cavendish plc and Hardman and Co estimates

In addition to transaction fees, there are revenues from retainers. These average around £64k annually per client. They tend to trend up gently as the average client size increases. We have assumed a continued slow attrition of net clients.

As well as the retainers, there are also revenues from the traditional broking business: market making, trading commissions and research fees. These climbed from a reported £4.5m in FY24 to £5.7m in FY25. In reality, these were flat on a comparable basis (FY24 *pro forma* Securities revenue £5.9m). We have assumed £6.0m for FY26E and £6.5m for FY27E, reflecting expected higher market levels.

Revenue split, 2024-27E (£m)

	2024	2025	2026E	2027E
Retainers	10.0	11.7	10.9	10.5
Transactions	33.5	38.3	41.4	46.0
Securities	4.5	5.7	6.0	6.5
Total	**48.1**	**55.6**	**58.3**	**63.0**

Source: Cavendish plc and Hardman and Co estimates

Cavendish has kept a very strong control on costs – capturing the synergy benefits of the merger – and we expect that process to continue. There will be, however, some additional cost associated with the new offices in Manchester and Birmingham. The compensation ratio, at 64%, was said to be competitive and, if things proceed steadily, it should continue to hover around that mark. There were some one-off share awards related to the merger, which won't be repeated, so that element of staff costs is expected to shrink in FY26E.

Income statement, 2022-27E

Year-end Mar (£m)	2022	2023	2024	2025	2026E	2027E
Revenue	52.5	32.9	48.1	55.6	58.3	63.0
Other operating expenses	0.0	-0.2	-0.3	-0.3	-0.1	0.0
Admin. expenses	-43.9	-34.5	-51.6	-54.6	-57.0	-59.0
Operating profit	8.6	-1.9	-3.8	0.7	1.2	4.0
Non-recurring items	0.0	-3.7	-0.1	0.0	0.0	0.0
EBIT	8.6	-5.6	-3.9	0.7	1.2	4.0
Share of joint venture and associates' losses	0.0	-0.3	-0.3	-0.2	-0.1	-0.1
Finance income	0.0	0.1	0.4	0.6	0.5	0.5
Finance charge	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Profit before tax	8.1	-6.3	-4.3	0.7	1.2	4.0
Tax	-1.6	0.8	0.8	0.0	-0.2	-0.8
Net profit	6.5	-5.5	-3.5	0.8	1.0	3.2
Adjusted net profit			0.0	3.7	3.1	5.2
EPS (basic)	3.95	-3.25	-1.40	0.23	0.28	0.94
EPS (fully diluted)	3.57	-3.25	-1.40	0.21	0.28	0.94
Adjusted EPS			-0.44	1.10	0.90	1.53
DPS	1.75	0.00	0.25	0.80	0.85	0.90
EBIT margin	*16%*	*-6%*	*-8%*	*1%*	*2%*	*6%*
Revenue split						
Retainers	6.6	7.0	10.0	11.7	10.9	10.5
Transactions	40.0	22.6	33.5	38.3	41.4	46.0
Securities	5.9	3.3	4.5	5.7	6.0	6.5
Total	52.5	32.9	48.1	55.6	58.3	63.0
Growth						
Retainers		5%	44%	17%	-7%	-4%
Transactions		-43%	48%	14%	8%	11%
Securities		-45%	39%	25%	6%	8%
Total		-37%	46%	16%	5%	8%

Source: Cavendish plc and Hardman and Co estimates

The forecasts are very sensitive to the revenue inputs. With a business operating on largely fixed costs – essentially the only variable is compensation, and it has a slightly degeared effect as it doesn't rise as fast as profits or fall as fast as them – and with low operating margins (our forecast has EBIT margins of ca.3% in FY26, or 7%

excluding share-based compensation) the forecast profits vary sharply with changed inputs.

Balance sheet

No debt on the balance sheet

Cavendish is cash-rich. In FY25, it paid off what little debt it had and retained £21.2m of cash on the balance sheet. Typically, this would be an annual peak, as cash bonuses are paid in June.

There is a capitalised lease liability (right of use asset) of £7.5m, which equates to an annual rent of ca.£1.5m.

Balance sheet, 2022-27E

Year-end Mar (£m)	2022	2023	2024	2025	2026E	2027E
P,P & G	13.3	12.2	11.1	9.6	7.8	6.0
Intangibles	13.5	13.5	13.4	13.6	13.7	13.8
Financial assets (FV)	0.8	0.4	0.5	0.3	0.3	0.3
Associates and joint ventures	0.0	2.1	2.0	1.9	1.9	1.9
Deferred tax assets	0.6	0.9	3.6	3.0	3.0	3.0
Non-current assets	28.2	29.1	30.6	28.3	26.6	24.9
Trade receivables	13.1	12.7	22.7	22.9	22.9	21.9
Corp. tax receivable	0.0	0.5	0.0	0.6	0.6	0.6
Current financial assets (FV)	0.9	0.3	5.6	4.2	2.6	1.5
Cash	24.4	9.4	20.7	21.2	21.7	25.1
Current assets	38.4	22.8	49.0	48.9	47.7	49.0
Total assets	66.6	52.0	79.7	77.3	74.3	73.9
Lease liability	-11.2	-10.0	-8.7	-7.5	-5.5	-3.5
Debt	-0.9	-0.5	-0.1	0.0	-0.2	-0.3
Provisions	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Non-current liabilities	-12.1	-10.5	-8.9	-7.6	-5.7	-3.9
Trade payables	-20.4	-14.6	-29.4	-28.3	-26.0	-23.4
Current liabilities (FV)			-1.4	-1.5	-1.5	-1.5
Corporation tax	-0.7				-0.2	-1.0
Debt	-0.4	-0.8	-0.4	0.0	0.0	0.0
Current liabilities	-21.5	-15.5	-31.1	-29.8	-27.8	-26.0
Total net assets	33.1	26.0	39.6	39.8	40.9	44.1
Share capital	1.8	1.8	3.8	3.9	3.9	4.0
Share premium	1.5	1.7	3.1	3.2	3.2	3.2
Treasury shares	-1.9	-1.9	-4.8	-4.5	-4.5	-4.5
Other reserves	11.5	12.0	28.9	29.4	29.4	29.4
Retained earnings	20.3	12.4	8.6	7.9	8.8	12.0
Total equity	33.1	26.0	39.6	39.8	40.9	44.1
Net cash (inc. leases)	12.1	-2.0	11.5	13.7	16.0	21.3
Net cash (ex leases)	23.2	8.1	20.3	21.2	21.5	24.8

Source: Cavendish plc and Hardman and Co estimates

Income statement converts straightforwardly into cash

Cashflow

There are relatively few capital investment requirements in this business. Other than systems, the principal investments are usually in people, the cost of which runs through the income statement.

Out of the operational cash, the two big items to pay are the dividend (which is obviously discretionary) and the lease costs.

The other big item to consider is the share-based payments. Compensation payments through share schemes – especially deferred ones and often with some conditionality – are a common feature of people businesses. If you want to study cashflow only, then clearly it is right to ignore them. On the other hand, they still represent a genuine cost to the business, or more precisely to the other shareholders (the dilution effect of the new shares issued to pay the compensation).

Cavendish strips out the share-based payments when calculating its adjusted earnings per share along with nearly every listed company we look at. Normally, we would be somewhat sceptical about this; however, the company has a very valid concern that the calculation of the cost of these payments, while theoretically correct, is not necessarily an accurate reflection of their true cost. The problem lies in the value of the implicit options, which is driven by a Black Scholes model, which, we would argue, is inappropriate for a share with relatively low liquidity and, consequently, an unrealistically high calculation of volatility. And the options have various conditions attached – they will only vest if various criteria have been met, including challenging share price performance targets, so they will only ultimately be a cost to the business if things have gone well.

Cashflow statement, 2022-27E

Year-end Mar (£m)	2022	2023	2024	2025	2026E	2027E
Profit/loss before tax	3.7	-6.3	-4.3	0.7	1.2	4.0
Depreciation	1.8	1.8	1.9	1.9	2.0	2.0
Goodwill			-5.8	0.0	0.0	0.0
Share based payments	1.1	0.6	1.7	2.5	1.9	1.9
Finance net	0.5	0.4	0.1	-0.2	-0.1	-0.1
Associates	0.0	0.3	0.3	0.2	0.1	0.1
Change in working capital	-0.8	-5.6	5.8	-0.3	0.0	1.0
Tax paid	-1.6	-1.2	0.3	0.1	-0.2	-0.8
Other	-1.4	0.2	1.6	2.0	0.0	0.0
Cashflow from operating	3.2	-9.8	1.7	6.9	4.9	8.1
Purchase of P, P & E	-0.5	-0.7	-0.2	-0.1	-0.2	-0.2
Purchase of intangibles	-0.2	0.0	-0.1	-0.1	-0.1	-0.1
Invest in associates and jvs	0.0	-2.0	-0.2	-0.1	-0.1	-0.1
Acquisitions	0.0		11.6	0.0	0.0	0.0
Sale of investments	1.5	0.9	0.1	0.0	0.0	0.0
Interest received	0.0	0.1	0.4	0.6	0.3	0.3
Cashflow from investing	0.9	-1.9	11.6	0.3	-0.1	-0.1
Dividends paid	-2.6	-2.0		-1.9	-2.3	-2.6
Issue of shares	-0.3	0.0	1.5	-1.0	0.1	0.1
Interest paid	-0.1	0.0	0.0	0.0	-0.1	-0.1
Lease liabilities	-1.2	-1.6	-2.6	-3.2	-2.0	-2.0
Net borrowing	-0.3	0.1	-0.8	-0.5	0.0	0.0
Cashflow from financing	-4.5	-3.4	-1.9	-6.7	-4.3	-4.6
Net change in cash	-0.4	-15.1	11.4	0.5	0.4	3.4
Cash at start	20.4	24.4	9.4	20.7	21.2	21.7
Cash at end	20.0	9.4	20.7	21.2	21.7	25.1

Source: Cavendish plc and Hardman and Co estimates

Risks

Healthy financial markets are key

- By far the biggest risk to the profitability of the business is the health of the financial markets and investor sentiment. It is not just the level of the markets but also the willingness of investors to commit new capital. The business has suffered from both weak markets in smaller UK companies and from the steady drain of assets away from the sector. Clearly, the company can control neither market levels nor investor sentiment, but it reduces the impact by running a strong balance sheet and by diversifying its source of revenues.

- Investment banking is a people business and there is always a risk that key people or teams leave the company. The company mitigates this danger by having a competitive remuneration policy and building a congenial workplace. Investors in a "people business" have to understand that while variable compensation can ease some of the blow from falling revenues, there is still a critical need to reward the top talent even in a tough market if the business is to thrive on the upswing.

- Regulatory risk is ever present in financial services. There have been many instances of financial services firms being fined substantial sums in recent years for misconduct. The only mitigation against this risk is constant awareness, robust procedures and building a compliant culture.

- Other risks include general business risks such as devising (and following) a successful business strategy; running a financially robust balance sheet with appropriate controls on counterparty exposures and liquidity risks; managing robust operating systems with appropriate redundancy capacity; and managing the company's reputation.

Valuation

As a rule, we tend to like comparable company valuations. Unfortunately, there is only one similar listed business to Cavendish in the UK, Peel Hunt. It recently reported a loss for the year to March 2025 and is expected to return to profitability in the next two years putting it on a FY26E PER of 37x and a more "normalised" FY27E PER of 14.6x. There is only one public estimate. Goldman Sachs and Morgan Stanley trade on 12.3x and 13.8x 2026 estimates. Investment Banking, even for Giants like the Americans, is not typically a highly rated business. Plus, their exposure to the vagaries of capital markets makes comparison with other advisory businesses tenuous.

DCF with higher discount rate

As a fallback, when no useful comparable companies are trading, we use a DCF model. The normal constraint on an equity DCF is the unknowable future cashflows. With investment banks, the future is even more opaque than other more predictable businesses, and we have demonstrated how sensitive the bottom line can be to even modest changes in the top line. To compensate for this, we have used a 15% central discount rate, higher than our usual 10%.[1] The sensitivity tables below show the differing outcomes with different discount rates and different mid-term growth rates.

For the purpose of the DCF, we have used only our March 2026E forecast. We then have a mid-term (2027-28E) growth rate, with a central assumption of 10%, and we have then assumed a perpetual growth rate of a nominal 4% (assuming a stable 20% tax rate).

DCF valuation

£m	2025	2026E	2027E	2028E
Revenue	55.6	58.3	63.0	68.0
Adjusted EBITDA	3.6	3.6	6.4	6.9
Capex	-0.6	-0.3	-0.3	-0.3
Tax	0.0	-0.2	-0.8	-0.9
Net cashflow	3.4	3.1	5.3	5.7
Discount factor	1.0	1.1	1.3	1.5
Discounted cashflow		2.8	4.2	3.9

Source: Hardman & Co Research

DCF summation

Value components	£m
2026-28	10.9
2028 onwards	37.1
Total	48.0
plus net cash end-2025	21.2
Equity value	69.2
Equity value per share FD (p)	18.4

Source: Hardman & Co Research

Our central valuation works out at £69.2m, or 18.4p per share, based on a current issued share capital of ca.386m shares and then adjusted for the EBT holding and the share options dilution.

[1] %. (As regular readers will know, we don't subscribe to the fiction that is the CAPM and prefer to default to 10% as the sort of minimum return an investor in most equities outside bond proxies would be looking for when deciding to invest.)

We also show a table with varying growth rates for the two years between our forecast period (to 2025) and our perpetual calculation and different discount rates.

DCF sensitivity table – valuation

Mid-term growth rate	6%	8%	10%	12%
Discount rate	£m	£m	£m	£m
10%	108	110	111	113
12%	86	87	89	90
15%	68	69	70	71

Source: Hardman & Co Research

We look at a range of between £68m and £90m, reflecting a slightly lower growth rate at the bottom end and a slightly higher growth rate and lower discount rate at the high end. The growth rate assumption is rather less significant than the discount rate – hence the asymmetric range. We would look to use a lower discount rate as and when Cavendish demonstrates the resilience of its earnings from its diverse revenue streams.

Next, we show how these values equate to EV/NOPLAT multiples for 2026E.

DCF sensitivity table – EV/NOPLAT, 2026E

Mid-term growth rate	6%	8%	10%	12%
Discount rate	(x)	(x)	(x)	(x)
10%	28.5	28.9	29.4	29.9
12%	21.3	21.6	22.0	22.4
15%	15.4	15.7	15.9	16.2

Source: Hardman & Co Research

At our central value, it would trade on 15.7x EV/NOPLAT for FY26E and 9.2x for FY27E.

And at a more conventional P/E ratio:

DCF sensitivity table – PER, 2026E

Mid-term growth rate	6%	8%	10%	12%
Discount rate	(x)	(x)	(x)	(x)
10%	32.1	32.5	33.0	33.4
12%	25.6	25.9	26.2	26.5
15%	20.3	20.5	20.7	20.9

Source: Hardman & Co Research

At our central value, it would trade on 20.5x PER for FY26E and 12.1x FY27E.

As with any DCF equity valuation, we would say it is more useful to look at the assumptions behind the outcome and ask whether they appear reasonable and where the risk mostly lies.

Upside potential

Our 2027E is more than just an estimate looking out two years, it is also an illustration of what could be readily achieved in 2026E with a reasonably favourable wind. If we were to publish a range of forecasts, our FY26E would be towards the bottom of the range and the FY27E would be the top end of our FY26E range. Using the upper-end forecast and our central value of 18.3p per share, then Cavendish would be trading on an EV/NOPLAT for 2026E (upper estimate) of 9.2x and an adjusted PER of 12.1x.

Directors

Lisa Gordon (Non-executive Chair)

Lisa has 30 years of board experience, in both Executive and Non-Executive roles at both listed and private companies. She was appointed Non-Executive Chair of Cavendish in September 2023.

John Farrugia (Joint CEO)

John was appointed to the board as Joint Chief Executive Officer in September 2023. He graduated with a degree in Economics from the University of London in 2000. He started his career within the technology M&A division of DC Advisory (formerly Close Brothers) and subsequently Strata Technology Partners before moving to Cavendish in 2008.

Julian Morse (Joint CEO)

Julian was appointed to the board as Joint Chief Executive Officer in September 2023, having served as an Executive Director of Cenkos since May 2020 and, as Chief Executive Officer from May 2021. Prior to becoming Chief Executive Officer, Julian was head of the Cenkos Growth Companies Team. He led that team from 2016 and was one if its founding members, having joined Cenkos in 2006. Julian has over 28 years' experience in the City and was previously a Director at Beeson Gregory and Evolution Securities.

Ben Procter (CFO)

Ben was appointed to the board in September 2023. Ben is an experienced finance professional, having led teams in Finance, Risk, Technology & Operations, during his 25-year career at UBS.

Mark Astaire (Non-executive director)

Mark has more than 35 years of investment banking experience having held several senior leadership positions, including Chairman of Corporate Broking at Barclays and Head of Corporate Broking at Bank of America Merrill Lynch. Mark was also a member of the Takeover Panel. He was appointed to the board in December 2023.

Jeremy Miller (Non-executive director)

Jeremy has more than 30 years' investment banking experience working for leading financial services firms. He held senior roles at Centerview Partners, Simon Robertson Associates, Dresdner Kleinwort Wasserstein and James Capel. Prior to 1985, he qualified as a Chartered Accountant with KPMG and had been seconded to The Takeover

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