Company Note

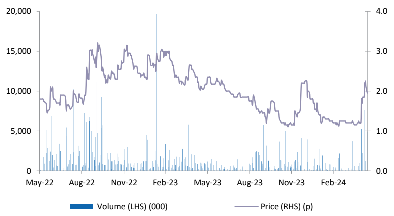
Finals

15 May 2024

CORPORATE

Current price	**1.85p**
Sector	**Financials - Investment Banking & Insurance**
Code	**ALGW.L**
AIM	**LSE Main Market**

Share Performance



% Change	1m	3m	12m
ALGW.L	+62.5	+50.0	-6.0

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**8.50**
Shares in issue (m)		**467.8**
52 weeks	High	Low
	2.70	**1.10**
Financial year end		**December**

Source: Company Data, Allenby Capital

Key Shareholders

Mark Ward	24.0%
Hargreaves Lansdown	14.4%
Interactive Investor Services	8.1%
Halifax Share Dealing	7.6%
AJ Bell Securities	7.3%

Source: Company Data, Allenby Capital

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Alpha Growth (ALGW.L)

Strategic progress underpins growth prospects

Alpha Growth plc (ALGW.L), the specialist life insurance linked longevity asset manager, continues to build its existing business organically while evaluating prospective acquisitions. In FY23 that internal growth, following two acquisitions in Q4 2022, helped stabilise operations and finances; AUM ticked up and outstanding debt was repaid, with the ongoing process of developing synergies and reducing costs. Potential new products are due for rollout later this year on receipt of regulatory approval. However, acquisitions remain the highest potential source of transformational growth near-term and the strategic focus. Timing is unpredictable as it pivots on negotiations and regulatory approval, but we expect announcements over the next 12 months to lift NAV/share and EPS as the group builds scale, grows its client base and enhances its industry/market profile. The current valuation, below NAV/cash, does not reflect the progress made; the shares are due for reappraisal and rerating this year.

- **Core strategy** ALGW seeks to build AUM/AUI scale to US$2bn by 2025. It is progressing opportunities to acquire entities with synergies to the existing businesses. The timing of transactions has been affected by issues such as rising interest rates and political tensions in Europe, but management remains optimistic that it will convert a proportion of a pipeline of prospective acquisitions this year which will materially enhance both revenue and profitability as it grows its asset base.

- **Genuine progress already secured** Acquisitions so far to date have given ALGW access to key financial centres globally in which it is fully authorised, regulated to operate, and provide services. The group's short-term cash requirements have become far more manageable since it acquired AILAC in 2022 with cash reserves of over £7m, enabling the group to self-finance its own operations. It does not expect to need any additional equity to achieve its core strategy. Both AILAC and PLAC successfully obtained credit ratings during FY23 and one of these is likely to be the vehicle used to finance acquisitions if required.

- **Valuation** We see material disparity between the current market capitalisation and intrinsic value. The valuation is underpinned by year-end cash, which should be broadly stable this year or positive if initiatives currently underway are achieved. The full impact of acquisitions, now fully integrated is not yet fully reflected in ALGW's results and with other transactions under discussion – some at an advanced stage – there's clear potential to transform the scale of the asset base and profit over the next 18 months. We expect the shares to progress on the back of additions to ALGW's portfolio and as it reports progress towards defined KPIs, notably the US$2bn by 2025 AUM target which should materially boost NAV, EPS, and underlying prospects.

Year End: December

(£'000)	August 2020	16 months 2021	Restated 2022	2023	2024E
REVENUE	0.8	2.65	3.77	5.21	5.75
EBITDA	(0.57)	(1.76)	(0.97)	(1.47)	0.06
ADJUSTED (underlying) PBT	(0.57)	(1.74)	(1.01)	(1.49)	(0.30)
ADJ. (underlying) EPS (p)	(0.30)	(0.47)	(0.21)	(0.30)	0.01
NET CASH (£m)	0.04	0.15	7.38	6.67	6.78
NAV/share (p)	0.08	0.71	1.53	1.25	1.25
EV/Revenues (x)	105	3.1	0.29	0.35	0.30

Allenby Capital acts as Nomad & Broker to Alpha Growth (ALGW).

Equity Research

FY23 results confirm evolution and positive outlook

The FY24 results will provide a better picture of the enlarged group's potential, particularly the acquisitions secured towards the end of 2022. These were fully integrated in FY23 but ALGW is yet to capture the benefit of access to new regulated markets and the roll-out of initiatives to enhance its profile amongst existing and new intermediaries and clients, whilst FY23 included a number of non-recurring costs related to the integration.

ALGW restated the way that it presents results, including FY22 comparatives, to improve clarity. Assets and liabilities in insurance companies previously listed as one line are now disaggregated into their respective asset and liability lines in the Statement of Financial Position. This provides better clarity regarding the business's inherent strengths, particularly in relation to its cash reserves.

With a relatively small executive team, ALGW's primary focus is acquisitions, with a target to build AUM/AUI to US$2bn in 2025 vs US$0.6bn at the end of FY23. This is the most accessible catalyst for a transformational shift in shareholder value in the short term.

Exhibit 1: Summary interims

Year ended	31 Dec 2023	31 Dec 2022	% Change
Income statement			
Continuing operations			
Revenue from owned insurance companies	4.731	3.425	+38.1%
Revenue from contracts with clients	0.449	0.347	+29.6%
Other income	0.026		
Total revenue	5.207	3.772	+38.1%
Net movement on DAC/AVIF	(0.053)	(0.017)	+216.4%
Interest expense and investment costs	(0.021)	(0.028)	-23.0%
Bargain purchase		4.106	
Expenses in managing owned insurance companies	(2.813)	(2.337)	+20.4%
Operating expenses	(3.811)	(2.403)	+58.6%
Profit before tax	**(1.491)**	**3.093**	**-148.2%**
Tax	0.135	0.085	
Profit after tax	**(1.356)**	**3.179**	**-142.7%**
Earnings per share			
Basic	(0.2p)	0.7p	-128.6%
Fully diluted	(0.2p)	0.7p	-128.6%
NAV/share	1.2p	1.5p	-20.5%

Source: Company

FY23 results confirmed ongoing discussions with a number of potential acquisition targets and management optimism that these will lead to significant growth in AUM and positive cash flows in the short to medium term. The full year figures show ALGW has invested significantly to progress further acquisitions and to capitalise on the potential of subsidiaries purchased and integrated over the last two years.

Exhibit 2: Breakdown of expenses incurred

	2023	2022
Directors' fees	0.445	0.641
Audit fees payable to Company auditors	0.075	0.063
Other audit fees	0.196	0.174
Costs relating to acquisitions		0.159
Amortisation of right of use assets	0.015	0.078
Professional and consultancy fees	0.287	0.152
Gain on lease	(0.148)	
Other expenses	2.941	1.137
Operating expenses	3.811	2.403

Source: Company

Outlook - underlying cashflow stabilising

The FY23 statement refers to several ongoing projects which could, if successful, move the group to a cash flow positive basis. Prospects are supported by new business flows, an example of which is a new $20m life policy issued by PLAC in December 2023, and significant inflows (over US$5m) into the Alpha Alternatives Fund. The company sees these as initial steps towards organic growth in AUM, which will supplement major contributions from acquisitions.

ALGW built fundamental strengths in FY23 as it built on its complementary mix of financial and insurance products and services. Its primary focus was to integrate the two businesses acquired towards the end of 2022 and seek further acquisitions to move towards the stated $2Bn AUM/AUA goal.

The acquisition of AILAC towards the end of 2022 has eased the group's short-term cash needs and it has adopted new KPIs in line with the medium-term strategy. These track growth in AUM and the surplus of the group's net current assets over the business's regulatory capital requirements.

Exhibit 3: KPIs

	2023	2022
AUM	$619.1m	$586.8m
Surplus net current assets	£2.7m	£3.7m

Source: Company

Management projects that cashflow will be neutral in the current year. In FY23, it paid off all remaining short-term debt and received one-off profits on termination of a sub-lease. It also bought out the 5% minority interest in its two life assurance subsidiaries in exchange for c. 12.7m ordinary shares.

End FY23 cash was £7.4m. That excludes amounts held within unit-linked life policies (FY22 restated: £8.0m). There was no material debt at the year-end other than amounts borrowed to finance policy holder loans, all of which is backed by assets in the life policies.

The group is not subject to any regulatory capital requirements, but its insurance subsidiaries have minimum solvency requirements. Of £5.7m total capital at end FY23 (FY22: £6.6m) c. £0.75m (FY22: £0.75m) is required for regulatory capital purposes. It seeks to maintain sufficient capital to meet all operational and regulatory needs. It does not currently have any debt other than to finance policyholder loans but may use short-term facilities to cover due diligence costs ahead of an anticipated acquisition.

A full review of AILAC operations identified opportunities to reduce overheads and identify a new product opportunity now under discussion with regulators. Management sees this niche product as attractive to prospects known to the existing team and has identified an insurance management group in Guernsey which would be well placed to manage it.

Business Strategy

The core near term strategy is to secure acquisitions that build AUM and operational capacity and invest in existing business to increase the breadth of advisory services offered to existing and prospective clients. The latter comprises holders of US market Senior Life Settlements (SLS) Assets. ALGW regards longevity assets as attractive as they generate uncorrelated returns, while its insurance business can provide tax efficient opportunities for policyholders to grow their savings.

Exhibit 4: Group structure

Alpha Growth Management	Alpha International Life Assurance	Alpha Longevity Management	Providence Life Assurance Company	Havelet Assignment Company
Registered investment manager of registered Fund	Provides unit linked life insurance policies	Registered investment manager of private life settlement fund	Provider of private placement life insurance	Manager of litigation settlement funds for claimants & attorneys

Source: Company

Acquisitions completed to date have evolved the strategy and increased the emphasis on fund management and insurance, the group's two main revenue generators and the most promising basis for substantial future growth. In both areas, the principal strategy is to build assets under management and administration.

Target acquisitions will help grow advisory fees, specifically focused on businesses that offer appropriate solutions to a broader audience of potential investors and customers. Although the majority of ALGW's assets and liabilities comprise insurance businesses, its consolidated financial statements are prepared on the basis that the policies are investment contracts since this is the commercial nature of the policies, with substantially all insurance risk reinsured. The group outsources substantially all product administration and aims to enhance profitability through the sector knowledge of the executive team.

Group structure

The asset management business is currently focused on two funds:

- **BlackOak Alpha Growth**, a private fund that invests in life settlements
- **Alpha Alternative Assets Fund**, a US registered fund that invests in securities backed by longevity assets such as life and structured settlements and combination of the two

ALGW's life insurance business provides private placement life and variable annuities and insurance wrapped/unit linked policies to an international client base. It comprises two entities:

- **Providence Life Assurance Company** located in Bermuda, principally focused on the US market
- **Alpha International Life Assurance Company** located in Guernsey and principally focused on the European market.

Exhibit 5: Group structure

Subsidiary	Description	Other details
Alpha Growth Management	US-registered investment adviser based in Florida. Manages Alpha Alternative Assets Fund. Specialist team collaborates exclusively with private wealth managers, family offices, and financial advisors.	Alpha Alternative Assets Fund is an interval fund with two classes of shares quoted on NASDAQ. Expertise in uncorrelated esoteric assets with a focus on high-yield potential investments. An accessible institutional approach and low barrier to entry provides access to institutional-level investment opportunities to a wider range of investors through low minimums.
Alpha International Life Assurance Company (Guernsey) Ltd	Provides insurance linked savings and life insurance policies to international clients. Licensed by the Guernsey Financial Services Commission.	Tax efficient savings plans via life insurance policies/linked savings. Specialised financial tools blend security of insurance coverage with investment growth potential.
Alpha Longevity Management Ltd	Delivers comprehensive life settlement fund management services. Oversees the Blackoak Alpha Growth Fund. Registered in Bermuda as an investment manager under the Bermuda Monetary Authority.	The Blackoak Alpha Growth Fund currently provides a proven track record investing in US life settlements
Providence Life Assurance Company Ltd	Regulated wealth management products aimed at high net-worth clients. Core competency is delivery of bespoke life insurance solutions, including Private Placement Life Insurance (PPLI) and Private Placement Variable Annuities (PPVA). Regulatory oversight by the Bermuda Monetary Authority.	PPLI and PPVA are advanced financial instruments designed to offer asset protection, investment flexibility, and significant tax benefits. It enables tax-deferred growth of investments and provides opportunities for tax-free income streams, which optimises a portfolio's long-term performance.
Havelet Assignment Company	An independent assignment firm. Offers tax-efficient periodic payment solutions for attorneys to organise receipt of contingency fees, including personal injury cases. Also helps claimants manage their qualified and non-qualified settlements tax-effectively. All assets assigned to Havelet's variable investment strategies are held in the US, in segregated client accounts with well-known and highly respected investment firms as custodians.	Distinct from domestic, non-qualified assignment companies, Havelet can access reduced withholding tax on dividends and Barbados-US Treaty benefits which deliver tax savings of up to 30%. Clients can customise deferral and payment terms and elect for lump sum and/or non-regular distributions.

Source: Company

Exhibit 6: Consolidated Statement of Comprehensive Income

Year end 31 December (£000s)	2022	2023 (Restated)	2024E (No acquisition)
Revenue from Owned Insurance Companies	3,424,875	4,731,056	
Revenues from Contracts with Clients	346,787	449,415	
Other income	0	26,314	
Total revenue	**3,771,662**	**5,206,785**	**5,725,000**
Cost of Sales Owned Insurance Companies	0	0	
Cost of Sales on Contracts with Clients	0	0	
Gross profit	**3,771,662**	**5,206,785**	**5,725,000**
Net movement on deferred acquisition costs/AVIF	(16,729)	(52,931)	
Expenses in managing owned insurance companies	(2,336,898)	(2,813,214)	(3,485,000)
Operating expenses	(2,403,021)	(3,810,655)	(2,180,000)
EBITDA (underlying)	**(984,986)**	**(1,470,015)**	**60,000**
Bargain purchase	4,106,000	0	
Interest expense	(27,838)	(21,422)	
Adj. PBT	**(1,012,824)**	**(1,491,437)**	**60,000**
Profit before taxation	**3,071,754**	**(1,491,437)**	**60,000**
Taxation	85,402	135,182	
Loss for the period	**3,157,156**	**(1,356,255)**	**60,000**
Forex	192,270	10,436	
	3,349,426	**(1,345,819)**	**60,000**
Earnings per share			
Adjusted (underlying) EPS (p) - Basic	(0.21)	(0.30)	0.01

Source: Alpha Group accounts/Allenby forecasts

Exhibit 7: Consolidated Statement of Financial Position

Year end 31 December (£000s)	2022	2023	2024E
Assets			
Cash and cash equivalents	8,033,180	7,420,418	7,525,000
Short term investments	345,836	360,430	350,000
Trade and other receivables	13,806,729	13,928,139	11,970,000
Loans to policyholders	6,718,811	10,178,506	10,178,506
Deferred tax asset	508,288	617,887	617,887
Right of use assets	183,672	143,422	0
Intangible assets	1,508,890	1,488,520	1,438,520
Total	**31,105,406**	**34,137,322**	**32,079,913**
Assets backing unit-linked and contractual liabilities			
Cash and cash equivalents - assets backing	17,458,191	10,950,357	10,950,357
Financial assets	414,046,964	423,770,659	440,721,485
Total current assets	**431,505,155**	**434,721,016**	**451,671,842**
Total assets	**462,610,561**	**468,858,338**	**483,751,755**
Liabilities			
Trade and other payables	4,825,998	5,375,795	5,375,795
Policy claims payable	12,260,000	12,705,096	10,705,000
Short term loans	6,714,911	10,174,784	10,174,784
Lease liabilities	238,483	170,386	106,738
Provisions	443,000	0	0
Total equity	24,482,392	28,426,061	26,362,317
Unit-linked and contractual liabilities			
Unit-linked liabilities	424,441,781	427,809,449	444,760,000
Structured settlements	7,063,374	6,911,565	6,911,565
Total liabilities	**455,987,547**	**463,147,075**	**478,033,882**
Net Assets	**6,623,014**	**5,711,263**	**5,717,873**

Source: Alpha Group accounts/Allenby forecasts

Exhibit 8: Consolidated Statement of Cash Flows

Year end 31 December (£000s)	2022	2023	2024E
Cash flow from operating activities			
Loss before interest and taxation	3,121,014	(1,496,329)	(354,000)
Adjustments for:			
Services settled by way of payment in shares/options	334,800	108,816	360,000
Amortisation of intangible assets and right of use assets	99,970	64,430	50,000
Gain on disposal of sublease	0	(147,805)	0
Bargain purchase	(4,106,000)	0	0
Other non-cash movements	132,632	(451,301)	0
Operating cash flows before movement in working capital	(417,584)	(1,922,189)	56,000
Changes in working capital			
Increase in trade and other receivables	(174,225)	(121,410)	2,040,000
Increase/(decrease) in trade and other payables	(218,705)	910,701	0
Increase/(decrease) in short term loans	(392)	179	0
Increase in policy claims	3,585	445,096	(2,000,000)
(Increase)/decrease in short term investments	64,804	(14,594)	10,430
(Increase)/decrease in financial assets backing unit-linked liabilities	8,220,038	(9,723,695)	(16,950,826)
Increase/(decrease) in unit linked liabilities and structured settlements	(3,776,520)	3,215,859	16,950,828
Net cash used in operating activities	**3,701,001**	**(7,210,053)**	**106,432**
Cash flows from investing activities			
Cash acquired on purchase of subsidiary	9,570,493	0	0
Net cash from investing activities	**9,570,493**	**0**	**0**
Cash flows from financing activities			
Repayment of leasing liabilities	(30,627)	(68,097)	(63,648)
Sublease of premises including interest	0	171,439	63,422
Interest paid on leasing liabilities and loans	(27,838)	(31,422)	0
Loan finance	350,000	(350,000)	0
Other interest received	0	23,147	0
Net proceeds from share issues net of issue costs	(16,161)	344,390	0
Net cash generated from financing activities	275,374	89,457	(226)
Increase/(decrease) in cash and cash equivalents	13,546,868	(7,120,596)	106,206
Cash and cash equivalents at beginning of period	11,944,503	25,491,371	18,370,775
Cash and cash equivalents at end of period	**25,491,371**	**18,370,775**	**18,476,981**
Cash and cash equivalents presented within assets	8,033,180	7,420,418	7,526,624
Cash and cash equivalents presented within assets backing unit-linked liabilities	17,458,191	10,950,357	10,950,357
Cash and cash equivalents at end of period	**25,491,371**	**18,370,775**	**18,476,981**

Source: Alpha Group accounts/Allenby forecasts

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