

# Numis Corporation

FY17 results

Advancing on all fronts

Numis made good progress across its business in FY17, started the current year at a similar pace and has a good pipeline of potential deals. Implementation of MiFID II will affect research and sales income, but the evidence so far points to a moderate rather than severe impact on this part of the business. Trading is subject to market trends but, given the strong start to the year and the further development of the firm's franchise, we have raised both our estimates and valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	112.3	32.5	22.4	12.0	14.0	3.8
09/17	130.1	38.3	25.9	12.0	12.1	3.8
09/18e	132.2	38.0	27.0	12.0	11.6	3.8
09/19e	137.1	39.4	28.3	12.0	11.1	3.8

Note: \*PBT and EPS are on a reported basis.

## FY17 results

Revenues for FY17 were up 16%, with both Corporate Broking and Advisory (+15%) and Equities (+17%) contributing strongly. The number of corporate clients increased modestly, now standing at over 200, and their average market capital has increased by 33% to £728m. The median market cap is much lower at £322m and Numis remains committed to its small- and mid-cap stronghold. Equity raised for corporate clients increased by 33%. Within Equities, market-making revenue rose 39% and the strength of the research and sales team contributed to a 12% increase in institutional commissions in the face of continuing pressure on rates. Pre-tax profit rose by 18% to £38.1m and EPS by 15.6% to 25.9p. The dividend was unchanged at 12p and under a revised dividend policy the board intends to pay a stable dividend and return surplus liquidity through share buybacks (see page 4).

## Outlook – positive start to FY18

The current year has started well in terms of corporate transactions and the Equities business revenues are running ahead of the prior year. Encouragingly, the feedback on negotiations with institutions related to MiFID II so far suggest a small impact on revenue and a high rate of client retention. This, the continued development of the corporate client base and the achievement of a smooth management succession give confidence on a longer view, even if market volatility interrupts the earnings progression at some point. Our FY18 revenue estimate is increased by 11%, feeding into a 22% increase in EPS.

## Valuation

The shares have performed well over the last year (+31%) but are not expensively rated compared with peers and, reflecting our higher estimate, our central ROE/COE-based valuation increases from 323p to 354p.

## Financial services

20 December 2017

**Price** 314p  
**Market cap** £336m

Net cash (£m) at 30 September 2017	95.9
Shares in issue	106.7m
Free float	89%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	6.7	16.8	29.1
Rel (local)	4.3	12.6	18.6
52-week high/low	315.2p	231.2p	

## Business description

Numis is one of the UK's leading independent corporate advisory and stockbroking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. It employs c 235 staff in offices in London and New York, and at the end of September 2017 had 202 corporate clients.

## Next events

Interim results	May 2018
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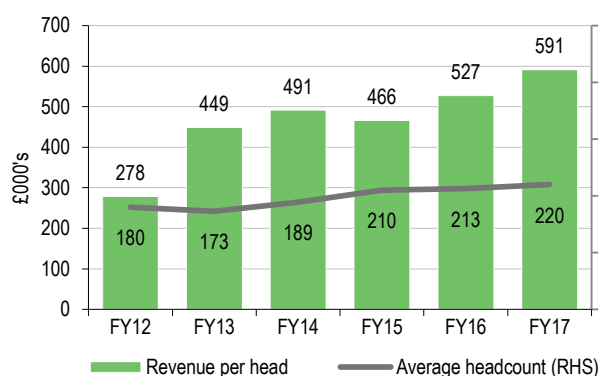
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## FY17 results: Progress across the business

In the year to end-September, Numis recorded good growth across its business with overall revenues up 16%. Revenues for both Equities and Corporate Broking and Advisory were at record levels. Pre-tax profits and earnings per share were 17% ahead. The corporate client list now stands at just over 200. Key points were as follows with comparisons against FY16:

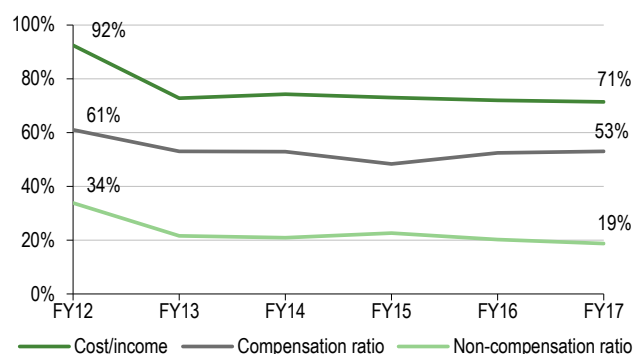
- **Revenue** increased by 16% to £130.1m.
- Staff **costs** rose 17% to £69m, reflecting variable compensation and a 3% increase in the average headcount to 220, while the year-end figure stood at 235 (see Exhibit 1). This reflected selective investment to strengthen capabilities across the company. The compensation ratio for the year was little changed at 53.0% versus 52.4%.
- Other costs increased by less than 7% and nudged down one point to 19% as a ratio of revenues, leaving the overall cost/income ratio at 71%. As shown in Exhibit 2, these ratios have been broadly stable since FY13.
- **Other operating income** (net gains on the strategic investment portfolio) was £3.4m versus £3.8m. Most of the gain this year arose from price movements on quoted holdings, which account for half of the portfolio (largely through the Numis mid-cap fund).
- **Pre-tax profit** increased by 18% to £38.1m or, excluding the portfolio gains, by 21% to £34.9m.
- **Earnings per share** increased by 16.6% to 27.4p or, on a diluted basis, by 15.6% to 25.9p.
- The full-year **dividend** of 12.0p was unchanged and Numis indicates that it has adopted a new stance on dividends and share buybacks (see below).
- The **balance sheet** remains strong, with cash increasing from £89.0m to £95.9m after spending £22.9m on share repurchases. There is an estimated regulatory capital surplus of £67m.
- The number of **corporate clients** increased by a net 3 to end the year at 202.
- **Equity capital raised** for clients was £2.5bn, compared with £1.9bn (+33%), and the 45 equity raisings included 7 IPOs. The Corporate Broking and Advisory business also carried out 37 pure advisory roles, and 17 block trades and sell-downs, with a total value of £0.9m.
- Numis's UK **equity capital markets share** (by calendar year) has risen from 2.6% in 2013 and 9.8% in 2016 to 9.9% at the end of November this year (sources: Numis, Bloomberg).

**Exhibit 1: Revenue per head and headcount**



Source: Numis, Edison Investment Research

**Exhibit 2: Cost to revenue ratios**



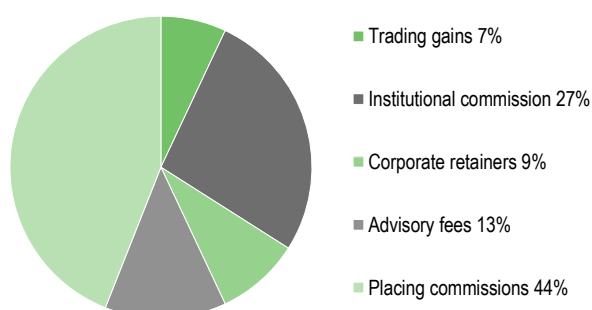
Source: Numis, Edison Investment Research

Exhibit 3 shows the segmental composition of revenue for FY17. Compared with the average for the previous five years, there are two changes: the contribution from institutional commissions is

27% compared with 33%, while placing commissions have risen from 37% to 44%. The changes reflect the particularly strong performance in corporate finance activity as the Numis franchise has expanded over the six years concerned.

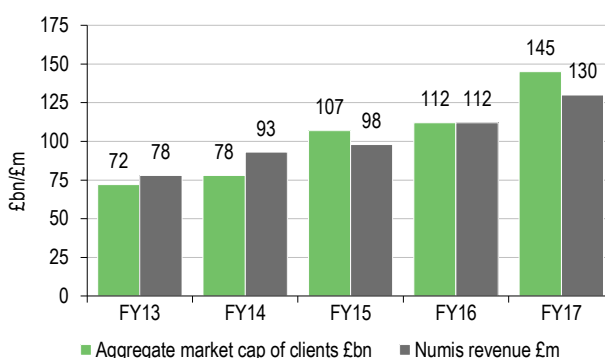
Franchise development is further illustrated in Exhibit 4, which shows the progression of total revenues for Numis and the aggregate market capital of its clients. The growth in aggregate market capital reflects both the growth in client numbers and an upward trend in the average market capital, which now stands at £726m, up 28% on the prior year. The development in corporate client base feeds into each of the business areas to a greater or lesser extent. Although the increased scale within the client base is valuable for revenue generation, Numis underlines its continuing commitment to the small cap area, which remains an area of strength for the business. This is reflected in the level of median market capital for its clients that, at £322m, is less than half the average figure.

**Exhibit 3: Revenue analysis FY17**



Source: Numis

**Exhibit 4: Revenue versus client market capital**



Source: Numis

Exhibit 5 shows the development of segmental revenues over the past five years. FY17 trading income showed further strong progress (+39% versus FY16) after a marked step-up in FY16. Numis indicates that the FY17 result was achieved with only a limited increase in capital usage. While institutional commission rates remained under pressure in the run up to MiFID, commission income was up 12%, which can be seen as a reflection of a relatively favourable market background in terms of market levels, a contribution from block trades (on the buyer side) and the strength of the Numis institutional franchise.

Corporate retainers, which we see as a relatively sticky source of income, grew by 20%, reflecting a 5% rise in the average corporate client count together with the benefit of progressive fee increases. The level of advisory fees was stable, but taking pure M&A advisory activity within this (excluding some fees related to capital raisings) the increase would have been 16%.

**Exhibit 5: Revenue analysis**

£m	2013	2014	2015	2016	2017	Change FY17/FY16
Net trading gains	8.5	7.7	4.1	6.5	9.0	39%
Institutional commissions	28.8	31.9	29.3	31.9	35.8	12%
<b>Net Institutional Income</b>	<b>37.2</b>	<b>39.6</b>	<b>33.4</b>	<b>38.4</b>	<b>44.8</b>	<b>17%</b>
Corporate retainers	6.9	7.8	8.9	9.6	11.6	20%
Advisory fees	6.0	9.0	17.9	16.3	16.5	1%
Placing commissions	27.5	36.5	37.7	48.0	57.2	19%
<b>Corporate related</b>	<b>40.4</b>	<b>53.3</b>	<b>64.6</b>	<b>73.9</b>	<b>85.3</b>	<b>15%</b>
<b>Total revenue</b>	<b>77.7</b>	<b>92.9</b>	<b>98.0</b>	<b>112.3</b>	<b>130.1</b>	<b>16%</b>

Source: Numis

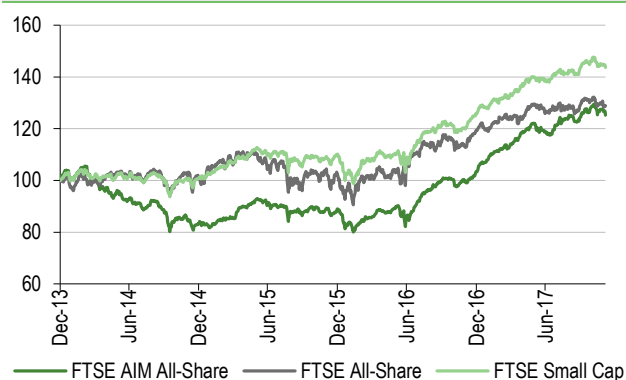
## Dividend and share buyback policy

Numis has indicated an adjustment in its dividend and share buyback policy. Under this, the aim is to pay a stable ordinary dividend (unchanged at 12p for FY17) with consideration given to investing in the business platform, investing in selective growth opportunities and returning surplus cash to shareholders, subject to liquidity and capital requirements and market conditions. The group intends to buy back shares over the medium term to at least offset any prospective dilution from unvested share awards and potentially to reduce the share count further in order to enhance shareholder returns.

## Background and outlook

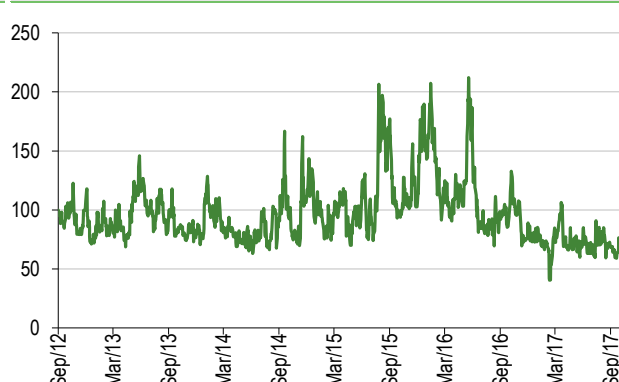
The UK equity market provided a relatively favourable background for equity issuance during Numis's FY17, with indices following an upward trend for most of the period (Exhibit 6) while volatility was also comparatively low despite unsettling macro developments (Exhibit 7). Explanations put forward for this pattern include the resilience of the UK economy, sterling weakness and the continuation of historically low policy rates.

**Exhibit 6: FTSE AIM, All-Share and Small Cap indices**



Source: Thomson Datastream. Note: total return series

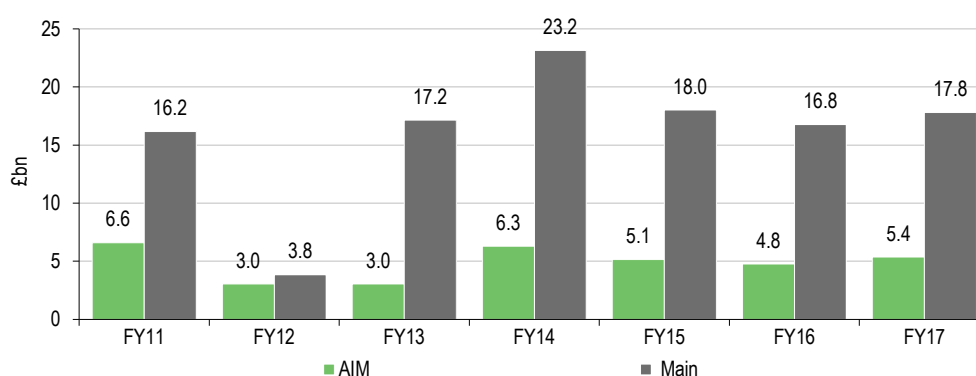
**Exhibit 7: FTSE 100 volatility index**



Source: Thomson Datastream

The result has been a strengthening in equity fund-raising (see below) with the value of issuance on the London Stock Exchange Main market up by 6% and AIM by 13% compared with the prior year period. New issuance for both markets was up 27%, while further issuance (over 70% of the total) was only marginally ahead (+2%).

**Exhibit 8: AIM and Main market value of issuance**



Source: LSE. Note: for year to end September.

While low volatility tends to moderate secondary trading activity, the average daily value of trading on the Main market increased by 6% and for the AIM market there was a substantial (88%) rise for FY17 versus FY16.

Numis reports that it has made a strong start to the current year. There have been 11 fund-raising to date, including the IPOs of Sabre Insurance Group (£575m) and Ero Copper (C\$110m), and placings for Hilton Food Group, IP Group, RWS Group, Keywords Studios and Clinigen Group (all to finance M&A). The run rate of revenues in the Equities business is reported as being ahead of the daily rate for FY17.

This is encouraging, but as usual the macro background has considerable uncertainty and a rise in volatility could have an impact on sentiment and the pace of corporate and institutional investor activity. Alternatively, continuation of economic resilience and better than feared progress in the second stage of Brexit negotiations could ease realisation of the promising pipeline of potential transactions that Numis reports.

With **MiFID II** coming into force in January 2018, the implications of research unbundling for institutional commissions remains a prominent potential sensitivity for Numis, as for other brokers. Numis remained in discussion with institutional clients at the time of the results release and indicated that institutional retention following the process was likely to be very high. The equities team includes 39 analysts covering 17 sectors and c 370 companies, while institutions are also served by 30 salespeople, 10 sales traders and 14 UK market makers. The research team is well-ranked in institutional surveys. Based on current trends, there seems likely to be a modest negative effect on sales and research-related revenues as a result of MiFID II implementation, with reductions in payments from some institutions mitigated to some extent by new payments from private client brokers and the potential for higher execution flow as broker lists are trimmed.

Numis continues to develop its ability to conduct **private placements**. The Venture Broking team focuses on advising fast-growing private companies and works with a growing pool of seed, venture capital and growth, listed and private equity investors. The team seek to identify promising companies that it can advise and help introduce to potential investors. This area should continue to increase its contribution to revenue over time while providing a source of potential IPO candidates and new corporate clients as its network expands.

## Management succession largely complete

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A process of management transition is almost complete following the announcement in May 2016 that Oliver Hemsley would step down as CEO. Alex Ham and Ross Mitchinson took on the role of joint CEOs in September 2016. Oliver Hemsley stepped down from the board in May 2017, although he will remain as an adviser until at least May 2018. There has also been a handover of the non-executive chairman's role, with Alan Carruthers replacing Gerald Corbett in March this year. Still to take place at the beginning of 2018 is the succession in the finance director role, with Andrew Holloway taking over from Simon Denyer. A summary of board changes is shown in Exhibit 9.

The co-CEOs and FD-designate have been at Numis for between eight and 12 years, while most other senior members of the executive team have similar tenure, pointing to continuity while introducing fresh leadership for the next stage in the development of Numis.

**Exhibit 9: Prospective board composition and changes**

Board members	Role	Date of joining
<b>Prospective board following announced changes</b>		
<b>Executive directors</b>		
Alex Ham	Co-CEO	Sep-16
Ross Mitchinson	Co-CEO	Sep-16
Andrew Holloway	CFO	Jan-18
<b>Independent non-executive directors</b>		
Alan Carruthers	Chairman	Mar-17
Geoffrey Vero		Apr-03
Robert Sutton		May-14
Catherine James		May-14
<b>Prospective and recent board departures</b>		<b>Date stood/standing down</b>
Oliver Hemsley	Founder and former CEO remains as adviser at least until May 2018	May-17
Marcus Chorley	Chairman of equities stepping down from board but remains in current role	Sep-17
Lorna Tilbian	Head of media sector – leaving company December 2017	Sep-17
Simon Denyer	Group finance director and company secretary – leaving company	Jan-18
Source: Edison Investment Research, Numis Corporation		

## Financials

With the strong trading seen in H217 continuing at a similar rate at the beginning of the current year, we have materially increased our revenue and profit estimates for FY18. We have also introduced an estimate for FY19. In both cases, the normal caveats relating to the sensitivity to market conditions should be borne in mind. Changes in the key figures from our estimates are shown in Exhibit 10 and further details can be seen in the financial summary (Exhibit 13).

The continued progress in building the corporate client base and the early indication of only moderately negative effects from MiFID II on institutional commissions are encouraging signs for Numis's longer-term growth through market cycles.

**Exhibit 10: Estimate revisions**

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/17e/a	129.0	130.1	0.8%	36.5	38.3	5.0%	25.0	25.9	3.6%	12.0	12.0	0.0%
09/18e	119.5	132.2	10.6%	30.8	38.0	23.7%	22.1	27.0	22.2%	12.5	12.0	-4.0%
09/19e		137.1	N/A		39.4	N/A		28.3	N/A		12.0	N/A

Source: Edison Investment Research. Note: for FY17, the 'old' column is our estimate and 'new' is actual.

Operating cash flow benefited from increased profits and a net realisation of £4.5m from the investment portfolio but, when compared with last year, this was more than offset by broadly unchanged market-making positions in contrast to the significant inflow seen in FY16. As a result, net cash flow from operating activities was somewhat lower at £43.4m, compared with £48.7m for FY16, but this still left room for share repurchases of £22.9m, dividend payments of £13.5m and an increase in cash from £89.0m to £95.9m.

The investment portfolio of strategic investments stood at £28.1m at the year-end, including £14.1m of unquoted investments, £12.4m in the Numis mid-cap fund and £1.6m in listed equities. Net gains on these investments are shown under the other operating income line (£3.4m). The intention is to manage the unlisted investments more actively as Numis looks to provide initial capital and to act as an introducer to follow-on investors, rather than being a longer-term holder itself.

Numis indicates that its qualifying capital stands at £126.7m, while it has an estimated capital requirement including buffer of £60m, leaving a substantial regulatory capital surplus of £67m.

## Valuation

We have updated our comparative valuation table below. It includes UK brokers together with a selection of US and European investment banks and advisory firms. The businesses are significantly differentiated but provide a qualified peer group for comparison. In terms of P/Es, Numis is towards the lower end of the range, while both its return on equity and price to book are above average.

**Exhibit 11: Peer comparison**

	Price (local)	Market cap (£m)	Last reported PER (x)	Current PER (x)	Yield (%)	Price to book (x)	ROE (%)
<b>UK brokers</b>							
Numis	314.0	340	11.5	11.6	3.8	2.6	23.1
Arden	53.5	17	loss	N/A	0.0	1.8	-14.8
Cenkos	108.5	62	23.1	8.8	5.5	2.2	10.0
Shore Capital	207.5	45	34.6	15.8	2.4	0.8	2.3
WH Ireland	120.0	33	loss	N/A	0.0	2.4	-6.9
<b>UK brokers average</b>			<b>23.0</b>	<b>12.1</b>	<b>2.4</b>	<b>2.0</b>	<b>2.7</b>
<b>US, European IB and advisory</b>							
Bank of America	29.5	229,257	18.6	16.2	0.8	1.2	7.6
Evercore	90.2	2,600	32.9	17.1	1.4	7.3	40.5
Goldman Sachs	256.5	74,998	15.5	13.4	1.0	1.3	10.6
Greenhill	19.5	381	10.2	N/A	9.3	2.0	8.1
JP Morgan	106.5	275,812	17.1	15.4	1.8	1.6	10.8
Moelis	47.7	2,386	26.1	20.4	7.0	7.6	25.4
Morgan Stanley	52.9	71,417	17.8	14.9	1.3	1.4	9.5
Stifel	60.3	3,082	52.0	17.3	0.0	1.5	7.8
Credit Suisse	17.6	33,920	loss	23.8	3.8	1.0	-3.3
Deutsche Bank	16.8	30,661	loss	17.5	1.0	0.5	-0.8
UBS	18.4	52,849	loss	14.4	0.0	1.2	7.7
<b>US, European IB and advisory average</b>			<b>23.8</b>	<b>17.1</b>	<b>2.5</b>	<b>2.4</b>	<b>11.3</b>

Source: Bloomberg. Note: priced at 20 December 2017.

For our ROE/COE model, we have used assumptions of an ROE of 21% (equivalent to the 2014-18e average), a cost of equity of 10% and growth of 4%. Applying these to the FY17 NAV gives a central value of 354p (323p previously, with the increase reflecting a higher ROE and NAV base). The sensitivity of this valuation to changing growth and ROE assumptions is illustrated in Exhibit 12.

**Exhibit 12: ROE/COE valuation output variations (value per share, p)**

Growth rate (right) Return on equity	2.0%	3.0%	4.0%	5.0%	6.0%
12.0%	156	161	167	175	188
16.0%	219	232	250	275	313
21.0%	297	321	<b>354</b>	400	469
24.0%	344	375	417	475	563
28.0%	406	447	500	575	688

Source: Edison Investment Research



**Exhibit 13: Financial summary**

£000s	2015	2016	2017	2018e	2019e
Year end 30 September					
<b>PROFIT &amp; LOSS</b>					
Revenue	97,985	112,335	130,095	132,157	137,063
Other operating income	(1,978)	3,759	3,431	2,000	2,000
Total income	96,007	116,094	133,526	134,157	139,063
Cost of Sales (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(84,962)	(89,617)
Share based payment	(4,104)	(6,229)	(10,454)	(10,100)	(9,000)
EBITDA	28,863	29,986	36,015	37,095	38,446
Depreciation	(882)	(1,126)	(1,226)	(1,230)	(1,230)
Amortisation	(111)	(125)	(89)	(33)	0
Operating Profit	27,870	28,735	34,700	35,832	37,216
Net finance income	190	37	188	195	205
Other operating income	(1,978)	3,759	3,431	2,000	2,000
Profit Before Tax	26,082	32,531	38,319	38,027	39,421
Tax	(4,533)	(6,132)	(7,942)	(7,887)	(8,249)
Profit after tax (FRS 3)	21,549	26,399	30,377	30,140	31,171
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	111.5	110.0
EPS - basic (p)	19.5	23.5	27.4	28.7	30.1
EPS - diluted (p)	18.3	22.4	25.9	27.0	28.3
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	138.9	154.3
ROE (%)	19%	22%	23%	22%	20%
EBITDA margin (%)	29.5%	26.7%	27.7%	28.1%	28.0%
Operating margin (before GW and except.) (%)	28.4%	25.6%	26.7%	27.1%	27.2%
<b>BALANCE SHEET</b>					
Fixed assets	6,724	5,522	6,147	5,384	4,654
Current assets	279,114	312,462	407,850	421,338	435,922
Total assets	285,838	317,984	413,997	426,722	440,576
Current liabilities	(170,319)	(188,895)	(280,371)	(280,371)	(280,371)
Long term liabilities	0	(12)	0	0	0
Net assets	115,519	129,077	133,626	146,351	160,205
<b>CASH FLOW</b>					
Operating cash flow	6,467	48,735	43,369	36,203	36,091
Net cash from investing activities	(3,632)	84	(198)	(200)	(190)
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(27,515)	(26,317)
Net cash flow	(14,675)	29,239	6,812	8,488	9,584
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(104,340)
FX effect	(252)	172	38	0	0
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(104,340)	(113,924)

Source: Edison Investment Research

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