

EMIS Group

Acquiring blockchain expertise

EMIS has announced two investments: the acquisition of the remaining 21.1% minority interest in Rx Systems and the acquisition of Dovetail Digital, a healthcare blockchain technology start-up. This gives EMIS full control of the community pharmacy business and a head start in the use of blockchain to provide secure access to patient data. These investments have consumed c £9.5m in cash. The net effect of these acquisitions is an increase in our normalised EPS forecasts of 0.6% in FY18 and 2.4% in FY19 and FY20.

Year end	Revenue (£m)	PBT* (£m)	Dil EPS* (p)	EMIS adj. dil. EPS** (p)	DPS (p)	P/E (x)
12/17	160.4	35.2	43.1	47.0	25.8	21.1
12/18e	170.4	36.9	45.4	47.0	28.4	20.0
12/19e	176.8	39.3	49.8	49.5	29.8	18.2
12/20e	184.1	42.5	54.5	54.6	31.4	16.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **EMIS adjusted EPS – cash accounts for development costs, and excludes exceptional items and amortisation of acquired intangibles.

Acquiring remaining 21.1% of Rx Systems

Having acquired 78.9% of Rx Systems in 2010, EMIS has just acquired the remaining 21.1% from Phoenix Medical Supplies for £8m in cash. This gives EMIS full control of the community pharmacy business. Phoenix owns the 500+-strong Rowlands Pharmacy chain and we expect the chain will continue to use EMIS software. Rx paid a £19m dividend just prior to this, and we have reflected the £4m outflow to minority shareholders.

Exploring the use of blockchain for healthcare

EMIS has acquired Dovetail Digital for £2.5m in initial consideration (£1.5m cash paid and £1m equity to be issued subject to hitting milestones) and up to £2.5m contingent consideration. Dovetail has designed blockchain-based software that gives patients full control of their healthcare records, delivering secure exchange of data between different health services and new digital technologies involved in patient care. The software is currently being trialled by the NHS. We have reflected minimal revenues and a cost base of c £1m per annum. We expect to learn more about how this technology will fit into the wider roadmap when the company presents its growth plans at its Capital Markets Day on 29 November.

Valuation: Growth strategy key to upside

EMIS is trading on 20.0x FY18e EPS and 18.2x FY19e EPS, at a 26% and 22% discount respectively to its peer group average. Although EMIS is more profitable than its peers, it lags in terms of revenue and earnings growth. Evidence of an acceleration of earnings growth will be key to share price upside – in the shorter term, this could include positive news on the English primary care procurement and, in the longer term, evidence that the investment in Patient is paying off as well as more information on the growth strategy. Strong cash generation underpins the 3% dividend yield.

Acquisitions

Software & comp services

6 November 2018

Price 909p
Market cap £576m

Net cash (£m) at end H118	32.3
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(9.6)	(0.1)	(4.5)
Rel (local)	(6.7)	7.7	1.8
52-week high/low	1,050p	705p	

Business description

EMIS is a clinical software supplier to the primary, community and acute care markets in the UK, as well as providing software to the community pharmacy and specialist ophthalmology markets. Its Patient business provides medical and well-being information as well as transactional services to patients.

Next events

Capital Markets Day	29 November 2018
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Changes to estimates

Exhibit 1: Forecast changes

£000s	FY18e				FY19e				FY20e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	170,420	170,420	0.0%	6.3%	176,280	176,780	0.3%	3.7%	183,644	184,144	0.3%	4.2%
Normalised operating profit	36,360	36,360	0.0%	4.2%	39,429	38,999	-1.1%	7.3%	42,630	42,180	-1.1%	8.2%
Reported operating profit	28,642	28,642	0.0%	169.2%	31,711	31,281	-1.4%	9.2%	35,151	34,701	-1.3%	10.9%
EMIS adjusted operating profit	37,336	37,336	0.0%	-0.2%	39,257	38,797	-1.2%	3.9%	42,689	42,207	-1.1%	8.8%
Normalised EPS (p)	45.2	45.4	0.6%	5.5%	48.7	49.8	2.4%	9.6%	53.2	54.5	2.4%	9.4%
Reported EPS (p)	35.9	36.2	0.8%	182.8%	39.0	40.2	3.0%	11.0%	43.8	45.1	2.9%	12.2%
EMIS adjusted EPS (p)	46.7	47.0	0.6%	-0.1%	48.4	49.5	2.3%	5.3%	53.3	54.6	2.3%	10.2%
Net cash/(debt)	17,796	4,196	-76.4%	-70.0%	24,693	10,686	-56.7%	154.7%	37,838	23,454	-38.0%	119.5%

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'000s	2014	2015	2016	2017	2018e	2019e	2020e
Year end 31 December								
PROFIT & LOSS								
Revenue		137,639	155,898	158,712	160,354	170,420	176,780	184,144
Cost of Sales		(12,782)	(12,955)	(14,151)	(14,674)	(15,934)	(16,847)	(17,807)
Gross Profit		124,857	142,943	144,561	145,680	154,486	159,933	166,337
EBITDA		47,645	51,964	52,288	49,222	50,722	53,751	57,268
Operating Profit (before amort. of acq. intang. SBP and except.)		34,787	37,123	38,897	34,895	36,360	38,999	42,180
EMIS adjusted operating profit		32,639	36,553	38,753	37,406	37,336	38,797	42,207
Amortisation of acquired intangibles		(6,269)	(6,509)	(6,639)	(6,717)	(6,718)	(6,718)	(6,479)
Exceptionals		873	(18,500)	(6,714)	(16,988)	0	0	0
Share-based payments		(270)	(684)	(473)	(550)	(1,000)	(1,000)	(1,000)
Operating Profit		29,121	11,430	25,071	10,640	28,642	31,281	34,701
Net Interest		(543)	(449)	(237)	(299)	(50)	(300)	(300)
Profit Before Tax (norm)		34,206	36,625	39,159	35,192	36,946	39,335	42,516
Profit Before Tax (FRS 3)		28,540	10,932	25,333	10,937	29,228	31,617	35,037
Tax		(5,719)	(5,558)	(5,208)	(2,074)	(5,583)	(6,323)	(6,657)
Profit After Tax (norm)		27,617	29,801	32,175	27,989	29,557	31,468	34,438
Profit After Tax (FRS3)		22,821	5,374	20,125	8,863	23,645	25,294	28,380
Average Number of Shares Outstanding (m)		62.8	62.7	62.8	62.9	63.0	63.0	63.0
EPS - normalised & diluted (p)		42.8	46.0	49.4	43.1	45.4	49.8	54.5
EPS - EMIS adjusted & diluted (p)		39.4	45.1	49.2	47.0	47.0	49.5	54.6
EPS - FRS 3 (p)		35.3	7.2	30.4	12.8	36.2	40.2	45.1
Dividend (p)		18.4	21.2	23.4	25.8	28.4	29.8	31.4
Gross Margin (%)		90.7%	91.7%	91.1%	90.8%	90.7%	90.5%	90.3%
EBITDA Margin (%)		34.6%	33.3%	32.9%	30.7%	29.8%	30.4%	31.1%
Operating Margin (before GW and except.) (%)		25.3%	23.8%	24.5%	21.8%	21.3%	22.1%	22.9%
BALANCE SHEET								
Fixed Assets		166,415	143,546	133,292	122,979	118,035	117,201	109,270
Intangible Assets		139,397	121,383	110,953	100,844	94,264	86,344	78,427
Tangible Assets		24,313	22,032	22,187	22,037	23,037	29,487	28,837
Other fixed assets		2,705	131	152	98	734	1,370	2,006
Current Assets		37,221	39,800	46,088	56,900	48,317	64,393	78,997
Stocks		1,550	1,206	1,815	1,633	1,633	1,633	1,633
Debtors		28,732	33,893	39,970	40,148	42,488	44,074	45,910
Cash		6,939	4,701	4,303	13,991	4,196	18,686	29,454
Current Liabilities		(67,665)	(63,819)	(56,158)	(65,131)	(58,329)	(62,506)	(65,026)
Creditors		(54,763)	(51,960)	(51,425)	(65,131)	(58,329)	(60,506)	(63,026)
Short term borrowings		(12,902)	(11,859)	(4,733)	0	0	(2,000)	(2,000)
Long Term Liabilities		(21,063)	(12,481)	(9,080)	(6,734)	(5,020)	(9,716)	(4,361)
Long term borrowings		(5,854)	(1,951)	0	0	0	(6,000)	(4,000)
Other long term liabilities		(15,209)	(10,530)	(9,080)	(6,734)	(5,020)	(3,716)	(361)
Net Assets		114,908	107,046	114,142	108,014	103,002	109,372	118,879
CASH FLOW								
Operating Cash Flow		44,856	42,711	43,657	48,834	40,580	54,342	57,952
Net Interest		(445)	(422)	(324)	(356)	27	(223)	(300)
Tax		(5,247)	(6,896)	(7,655)	(8,139)	(6,168)	(7,628)	(12,012)
Capex		(15,161)	(14,058)	(12,084)	(11,342)	(13,000)	(13,000)	(13,000)
Acquisitions/disposals		(9,959)	(4,587)	(1,790)	329	(9,500)	0	0
Financing		(1,578)	492	881	571	(577)	(577)	(500)
Dividends		(10,792)	(14,532)	(14,006)	(15,476)	(21,157)	(18,424)	(19,373)
Net Cash Flow		1,674	2,708	8,679	14,421	(9,795)	14,491	12,768
Opening net debt/(cash)		13,491	11,817	9,109	430	(13,991)	(4,196)	(10,686)
HP finance leases initiated		0	0	0	0	0	(8,000)	0
Other		0	0	0	0	0	0	0
Closing net debt/(cash)		11,817	9,109	430	(13,991)	(4,196)	(10,686)	(23,454)
Source: EMIS, Edison Investment Research								

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