

# Numis

FY22 results

## Diversification mitigates market downturn

There is no real sign of an improvement in capital markets activity and therefore the near-term trading background for Numis and its peers. However, Numis is reaping the benefits of its investment in building its mergers and acquisition (M&A) activity, which delivered strongly in FY22 and has a good pipeline. The group remains committed to developing its franchise with selective investment, which should help diversify revenues further and support its growth through market fluctuations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/20	154.9	37.1	26.7	12.0	6.9	6.5
09/21	215.6	74.2	49.1	13.5	3.7	7.3
09/22	144.2	20.9	11.9	13.5	15.4	7.3
09/23e	151.8	24.0	16.8	13.5	11.0	7.3

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

## FY22 results

For a period in which London Stock Exchange Main market and AIM issuance fell by 47% and 38% respectively, Numis reported FY22 revenue of £144.2m, down 33% compared with a very strong FY21. The decline was moderated by the group's previous investment in diversification, notably in strengthening the M&A advisory capability where revenues were at a record level. Lower variable compensation drove a 16% reduction in administration costs but there was still an operational gearing effect that left pre-tax profit at £20.9m (-72%). A high effective tax rate amplified the reduction in diluted EPS to 76% (11.9p). The full-year dividend is maintained at 13.5p, supported by a strong balance sheet with a cash position of £106m.

## Continuing to look beyond near-term cycle

The outlook for FY23 is uncertain but the trends seen in H222 have continued, with limited capital markets activity and a difficult background for equities. Against this, the near-term pipeline for M&A remains good, suggesting a strong H123. On a longer view, Numis retains a strong client base and will continue to invest selectively in staff and technology to expand its capabilities and enhance its operational efficiency.

## Valuation

Our estimate for FY23 is little changed in terms of revenue and pre-tax profit but allowing for the introduction of a higher corporate tax rate trims EPS by 4%. This is not material given the tentative nature of the estimate at an early stage in the year and the uncertain outlook for capital market activity. The shares trade on a price to book ratio of 1.1x, which compares with a 10-year average of 2.1x and, using a ROE/COE model, implies the market is factoring in an ROE of 10.6%. This is similar to the level we estimate for FY23, but significantly below the five- and 10-year averages of 18% and 19%, respectively.

## Financial services

13 December 2022

**Price** **184p**
**Market cap** **£204m**

Net cash (£m) at 30 September 2022 105.7

Shares in issue 110.9m

Free float 75%

Code NUM

Primary exchange AIM

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	3.0	(23.7)	(42.4)
Rel (local)	2.2	(23.0)	(41.3)

52-week high/low 343p 170p

## Business description

Numis Corporation is one of the UK's leading independent investment banking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. At the end of September 2022, it employed 336 staff in offices in London, Dublin and New York and had 176 corporate clients.

## Next events

AGM and update 7 February 2023

## Analysts

Andrew Mitchell +44 (0)20 3077 5700

Martyn King +44 (0)20 3077 5700

[financials@edisongroup.com](mailto:financials@edisongroup.com)
[Edison profile page](#)

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## FY22 results analysis

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Exhibit 1 puts the FY22 profit and loss result in the context of the FY18–21 figures, showing how revenues have changed over a five-year period. This reflects fluctuations in market activity and the benefits from investment in diversification that has included development of M&A advisory, the international private markets team (Growth Capital Solutions within investment banking), the international equity capital markets activity, debt advisory and, within equities, an electronic trading platform and the event-driven team. Numis notes the M&A and private markets activities together accounted for more than half of investment banking revenues in FY22, while the electronic trading platform contributed 14% of institutional commission income. Our comments on the profit and loss analysis below relate to the changes between FY21 and FY22 unless stated.

Group **revenue** was 33% lower and unsurprisingly the main source of weakness was in capital markets (-62%) where macroeconomic and geopolitical concerns had a chilling effect on activity and a lower average deal fee in the absence of large transactions. Positively, this was partly offset by strength in M&A advisory (+26%) limiting the decline in investment banking revenues to 39%. The equities performance was relatively resilient in the circumstances, with a revenue decline of 18% against a 20% fall in the Numis Smaller Companies Index and reduced activity among institutional clients. Within equities, good contributions from the electronic trading product and the event-driven team helped mitigate the impact of the difficult trading background.

A comparison between the second-half year-on-year revenue decline of 30% at Numis and the 42% H123 reduction for Peel Hunt (also covering the six months to end-September) demonstrates the impact of the differences in activity mix. Peel Hunt also seeks to diversify, but at this point two of its three main activities (investment banking and execution services) contributed to the sharper revenue decline.

The year-end number of **retained clients** at 176 versus 182, was affected by acquisitions of clients. This, together with other departures, more than offset the addition of 15 new clients. Numis's clients have an average market capitalisation of £1bn.

The **other operating income** line shows a net loss of £1.4m on the investment portfolio, which was valued at £18.4m at the year-end (vs £21.8m FY21). Two disposals during the year raised £8m, including the remaining holding in Oxford Nanopore Technologies (where Numis invested 13 years ago and acted for the company in its IPO at the end of FY21). The proceeds were partially reinvested in three new investments. Remaining legacy investments are being progressively sold, with the aim being to have a broadly stable number of holdings through reinvestment.

Total **administrative expenses** were 16% lower, including a 25% reduction in total staff costs mainly reflecting lower variable remuneration. The compensation ratio increased to 56.4% from 50.4% as revenue fell and the average headcount increased by 11%. The year-end headcount was 5% higher at 336, with staff additions mainly comprising junior and mid-level roles to support growth. Non-staff costs increased by 8%, some of which related to establishment of the Dublin office.

This left **operating profits** 75% lower and the operating margin, before other income at 7.4% vs 31.4%. Net finance income was positive in part because of net foreign exchange gains of £3.4m and **pre-tax profit** was 72% lower. The tax charge at 34% was boosted by a number of factors, including increased tax exposure on share schemes related to the lower Numis share price and tax on investment portfolio disposal gains. As a result diluted **EPS** was down 76%.

The board has proposed a 7.5p final **dividend** giving a total of 13.5p, in line with the prior year and a level that the board sees as sustainable across market cycles while still investing in the business.

**Exhibit 1: Five-year profit and loss analysis**

£m unless stated	FY18	FY19	FY20	FY21	FY22	% change y-o-y
Net trading gains	9.6	4.0	16.0	19.8	12.8	(35)
Institutional income	37.9	33.3	37.2	41.0	37.3	(9)
<b>Equities</b>	<b>47.5</b>	<b>37.3</b>	<b>53.2</b>	<b>60.7</b>	<b>50.1</b>	<b>(18)</b>
Corporate retainers	12.4	13.4	13.5	12.5	12.4	(1)
Advisory	17.3	12.6	11.1	30.9	39.0	26
Capital markets	58.8	48.4	77.0	111.5	42.7	(62)
<b>Investment banking</b>	<b>88.6</b>	<b>74.3</b>	<b>101.7</b>	<b>154.9</b>	<b>94.2</b>	<b>(39)</b>
<b>Total revenue</b>	<b>136.0</b>	<b>111.6</b>	<b>154.9</b>	<b>215.6</b>	<b>144.2</b>	<b>(33)</b>
Other operating income	1.7	(2.2)	0.3	8.7	(1.4)	(116)
<b>Total income</b>	<b>137.8</b>	<b>109.4</b>	<b>155.2</b>	<b>224.3</b>	<b>142.8</b>	<b>(36)</b>
Total staff costs	(75.3)	(64.5)	(86.0)	(108.6)	(81.3)	(25)
Non-staff costs	(31.0)	(33.0)	(32.4)	(39.2)	(42.4)	8
<b>Total administrative expenses</b>	<b>(106.3)</b>	<b>(97.5)</b>	<b>(118.4)</b>	<b>(147.9)</b>	<b>(123.7)</b>	<b>(16)</b>
<b>Operating profit / loss</b>	<b>31.4</b>	<b>11.9</b>	<b>36.8</b>	<b>76.4</b>	<b>19.1</b>	<b>(75)</b>
Finance income/expense	0.2	0.6	0.3	(2.3)	1.8	(178)
<b>Pre-tax profit</b>	<b>31.6</b>	<b>12.4</b>	<b>37.1</b>	<b>74.2</b>	<b>20.9</b>	<b>(72)</b>
Effective tax rate (%)	15.7	25.0	15.4	22.0	34.3	
<b>Attributable profit</b>	<b>26.7</b>	<b>9.3</b>	<b>31.4</b>	<b>57.8</b>	<b>13.7</b>	<b>(76)</b>
Diluted EPS (p)	23.0	8.1	26.7	49.1	11.9	(76)
Dividend (p)	12.0	12.0	12.0	13.5	13.5	0
Operating margin before other income (%)	21.8	12.6	23.6	31.4	14.2	
Return on equity (%)	19.3	6.6	21.2	33.6	7.4	

Source: Numis, Edison Investment Research

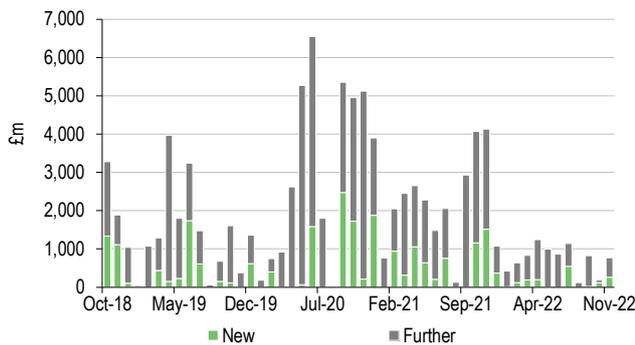
The group remains committed to mitigating the dilutive impact of share awards and during FY22 £8.2m and £3.4m were spent in buying back shares for treasury and the employee benefit trust, respectively.

The group has continued to pursue its **five strategic pillars**, which remain in place.

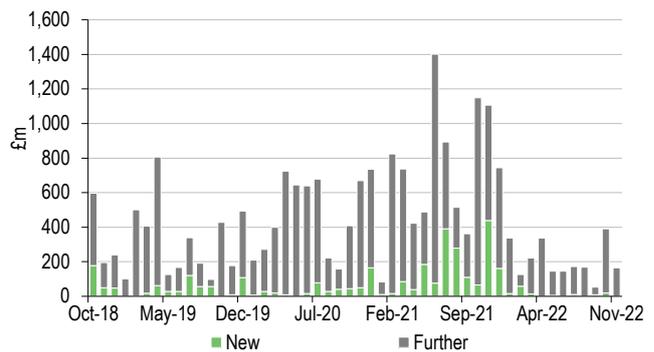
1. Build the size and quality of the corporate franchise. This underpins transaction opportunities for the capital markets and advisory teams. While M&A has provided a particular headwind to the client count in FY22, client recruitment has continued and quality remains a focus.
2. Become the leading UK equities platform by growing market share in both equities and equity capital markets.
3. Diversify into new products and markets. Here the aim is to increase advisory and private markets revenues further. Investment in Dublin and the United States should help attract non-UK equity capital market clients and facilitate a broadening of the institutional investor client base.
4. Maintain operating and capital discipline. While costs have increased with growth, the move to a new London office and the opening of the Dublin office the compensation ratio has been managed within the 50–60% target range.
5. Deliver shareholder returns through revenue growth, with greater diversity of income and control over the share count resulting in EPS growth and lower volatility through the market cycle.

## Background

Here we briefly review the market background for Numis. The first two charts show the very subdued level of equity issuance on both the Main Market and AIM markets for most of calendar 2022. Numis suggests that market uncertainty and unfavourable macroeconomic conditions are likely to affect the investment banking industry for some time, but we note that the period of reduced activity is already quite extended and that a return to greater stability could prompt quite a sharp recovery in activity based on prior market cycles.

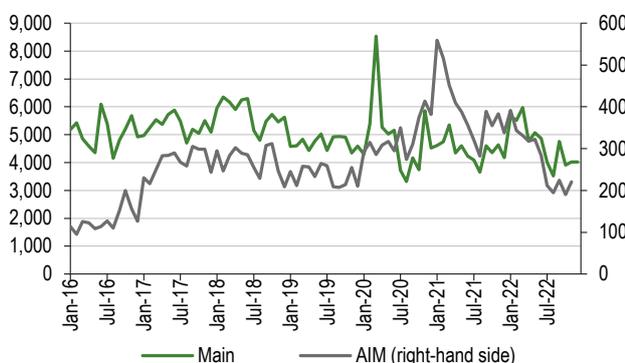
**Exhibit 2: LSE Main Market issuance (money raised)**


Source: London Stock Exchange (last data November)

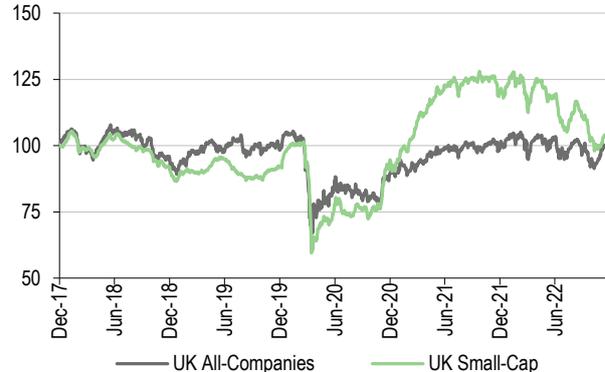
**Exhibit 3: LSE AIM issuance (money raised)**


Source: London Stock Exchange (last data November)

Trading activity (Exhibit 4) previously peaked with the onset of the pandemic in March 2020 (Main Market) and subsequently on AIM when there was a rotation into higher risk/small-cap stocks. That rotation was also evident in the relative performance of the CBOE All-Companies and Small-Cap indices. Recent activity levels have been subdued, particularly for AIM. The equity indices (Exhibit 5) fell in reaction to the attack on Ukraine and its economic repercussions. More recently there has been some recovery but further volatility seems quite likely given the continuing macroeconomic uncertainty. In these circumstances, Numis's consistency in pursuing its strategy and willingness to invest selectively to hire key staff when market conditions are difficult seem likely to support growth through market cycles.

**Exhibit 4: LSE average daily value traded (£m)**


Source: London Stock Exchange (Main Market order book and AIM)

**Exhibit 5: UK equity indices**


Source: Refinitiv, CBOE indices

## Financials

Exhibit 6 gives headline figures for the actual result versus estimate for FY22 and revised estimates for FY23. The changes for FY23 are modest. We have factored in higher interest income reflecting the increase in base rate and expectation of further increases and also allowed for a higher facility fee for a larger credit facility (see below). We adjust for the reintroduction of a 25% corporation tax rate during the year and this is the main reason for a 4% reduction in our EPS estimate.

**Exhibit 6: Estimate changes**

	Revenue (£m)			PBT (£m)			Fully diluted EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/22e/a	144.1	144.2	0.1%	22.1	20.9	-5.4%	21.0	11.9	-43.3%	13.5	13.5	0.0%
09/23e	152.0	151.8	-0.1%	23.7	24.0	1.1%	17.5	16.8	-4.3%	13.5	13.5	0.0%

Source: Edison Investment Research. Note: For FY22 'old' is our estimate and 'new' actual result.

A segmental breakdown of our revenue estimate is given in Exhibit 7. Here we have a virtually unchanged estimate for total revenue but have assumed a larger contribution from advisory than before and less from capital markets. Given the current market background, we assume the first half for capital markets will remain subdued while the strong advisory pipeline suggests that at least the first half will remain strong. The second-half outlook is less certain, but we have assumed some improvement in capital markets which accounts for the increase for the year as a whole in that activity and for group as a whole.

<b>Exhibit 7: Revenue analysis</b>				
<b>£000</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>
Net trading gains	16,003	19,754	12,764	13,000
Institutional income	37,192	40,957	37,314	35,000
<b>Equities</b>	<b>53,195</b>	<b>60,711</b>	<b>50,078</b>	<b>48,000</b>
Corporate retainers	13,536	12,471	12,395	12,320
Advisory	11,146	30,884	39,023	39,500
Capital markets	77,022	111,516	42,733	52,000
<b>Investment banking</b>	<b>101,704</b>	<b>154,871</b>	<b>94,151</b>	<b>103,820</b>
<b>Total revenue</b>	<b>154,899</b>	<b>215,582</b>	<b>144,229</b>	<b>151,820</b>

Source: Edison Investment Research

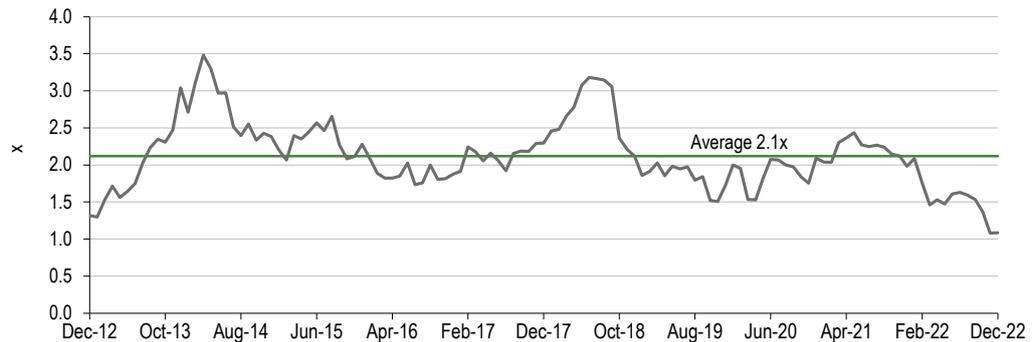
At the end of September, cash stood at £105.7m vs £111.5m at end-H122 and £134.1m at the end of FY21. The average daily cash position in FY22 was £110m with a variance between high and low cash positions of £106m. The £28.2m reduction in cash in FY22 reflected an operating cash inflow of £23.8m before a negative working movement of £22.6m (working capital items are typically volatile subject to movements in trade receivables and payables and timing of fee receipts and variable compensation payments). Net of this, the operating cash inflow was £1.2m. Dividend payments and share purchases absorbed £27.1m and other items a further £2.3m. To provide a longer-term view, in the last five years net operating cash flow has averaged £33.7m per year, share purchases and dividends £28.0m and cash has increased by an average of £2.1m.

Numis has refinanced its revolving credit facility, increasing it from £35m to £50m at a lower margin and with greater financial flexibility. The company expects this to remain undrawn for most of the year but it does provide scope for normal business activities that generate substantial variance in cash balances, as highlighted above.

Numis continues to operate with capital significantly in excess of its regulatory requirements. A new regulatory capital regime applied from January 2022 and Numis indicates that its Pillar 1 requirement will be lower under this regime but, for a transitional period, the requirement remains unchanged until the Financial Conduct Authority has completed its review of Numis's internal assessment.

## Valuation

The chart below shows a 10-year history of the price to book ratio for Numis. The current value is 1.1x, compared with the 10-year average of 2.1x. The implied ROE required to match the share price at the time of writing (185p) would be 10.6% (using a ROE/COE model with a discount rate of 10%). This is above the depressed FY22 level of 7.4% but significantly below longer-term averages (five and 10 years, 18% and 19%, respectively) and highlights the caution built into the current valuation.

**Exhibit 8: 10-year history of the price to book value ratio for Numis**


Source: Refinitiv, Edison Investment Research

Exhibit 9 shows a peer comparison table including UK investment banks/brokers and US and European investment banks and advisory firms. Comparisons are heavily qualified by the differences between the activities of the companies, the absence of consensus estimates for the UK companies and inconsistent year-ends. Nevertheless, we note that Numis offers a yield of 7.3%, and its P/E ratio for the year to September 2022 is lower than the consensus current year P/E for US/European investment banks and advisory firms, almost all of which have December year-ends. Most companies in the peer table have price to book values below 2x.

**Exhibit 9: Peer comparison**

	Price (local)	Market cap (£m)	Last reported P/E (x)	Current P/E (x)	Yield (%)	ROE (%)	Price to book (x)
<b>UK brokers</b>							
<b>Numis</b>	<b>184</b>	<b>206</b>	<b>15.4</b>	<b>11.0</b>	<b>7.3</b>	<b>7.4</b>	<b>1.1</b>
Cenkos	46	26	7.6	N/A	9.3	13.0	0.9
FinnCap	15	27	4.2	N/A	11.7	13.8	0.8
Peel Hunt	84	102	N/A	N/A	N/A	N/A	1.1
WH Ireland	28	17	11.8	N/A	N/A	8.4	1.1
<b>UK peer average</b>			<b>7.8</b>	<b>N/A</b>	<b>10.5</b>	<b>11.7</b>	<b>1.0</b>
<b>US, European IB and advisory</b>							
Bank of America	32.7	262,574	9.2	10.3	2.4	12.2	1.0
Evercore	109.0	4,234	6.2	10.0	2.4	66.1	3.1
Goldman Sachs	363.2	122,985	6.1	10.6	1.8	23.0	1.3
Greenhill	9.9	176	5.7	84.7	2.0	N/A	N/A
Jefferies Financial	36.3	8,317	5.9	11.5	2.2	N/A	0.8
JP Morgan	134.2	393,665	8.7	11.5	2.8	19.0	1.5
Moelis	42.4	2,907	7.8	17.2	4.0	N/A	5.4
Morgan Stanley	91.1	154,003	11.3	14.2	2.3	15.0	1.7
PJT Partners	78.6	3,142	17.7	19.2	0.3	137.2	16.0
Stifel Financial	61.0	6,486	8.6	10.1	1.0	18.1	1.5
Credit Suisse	3.1	12,385	N/A	N/A	3.1	N/A	0.2
Deutsche Bank	10.0	20,679	7.3	5.6	2.0	5.2	0.4
UBS	18.1	63,828	8.8	8.6	2.8	12.4	1.0
<b>US, European IB and advisory average</b>			<b>8.6</b>	<b>17.8</b>	<b>2.2</b>	<b>34.2</b>	<b>2.8</b>

Source: Refinitiv. Note: Priced at 12 December 2022. P/Es are for financial years therefore not all same period end.

**Exhibit 10: Financial summary**

£'000s	2017	2018	2019	2020	2021	2022	2023e
Year end 30 September							
<b>PROFIT &amp; LOSS</b>							
Revenue	130,095	136,047	111,610	154,899	215,582	144,229	151,820
Administrative expenses (excl. amortisation and depreciation)	(83,626)	(94,603)	(85,432)	(105,327)	(133,651)	(112,275)	(116,530)
Share based payment	(10,454)	(10,583)	(10,914)	(9,961)	(9,634)	(6,345)	(6,600)
<b>EBITDA</b>	<b>36,015</b>	<b>30,861</b>	<b>15,264</b>	<b>39,611</b>	<b>72,297</b>	<b>25,609</b>	<b>28,690</b>
Depreciation	(1,226)	(1,113)	(1,124)	(3,016)	(4,416)	(4,794)	(4,858)
Amortisation	(89)	(49)	(44)	(105)	(158)	(302)	(260)
Operating Profit	34,700	29,699	14,096	36,490	67,723	20,513	23,572
Net finance income	188	212	550	263	(2,288)	1,775	400
Non recurring items	0	0	0	0	0	0	0
Other operating income	3,431	1,733	(2,210)	310	8,715	(1,432)	0
<b>Profit before tax</b>	<b>38,319</b>	<b>31,644</b>	<b>12,436</b>	<b>37,063</b>	<b>74,150</b>	<b>20,856</b>	<b>23,972</b>
Tax	(7,942)	(4,967)	(3,110)	(5,713)	(16,303)	(7,153)	(5,487)
<b>Profit after tax (FRS 3)</b>	<b>30,377</b>	<b>26,677</b>	<b>9,326</b>	<b>31,350</b>	<b>57,847</b>	<b>13,703</b>	<b>18,485</b>
Average diluted number of shares outstanding (m)	117.2	115.8	114.9	117.3	117.7	115.0	110.2
EPS - basic (p)	27.4	25.1	8.8	29.9	54.2	12.4	17.3
<b>EPS - diluted (p)</b>	<b>25.9</b>	<b>23.0</b>	<b>8.1</b>	<b>26.7</b>	<b>49.1</b>	<b>11.9</b>	<b>16.8</b>
Dividend per share (p)	12.00	12.00	12.00	12.00	13.50	13.50	13.50
NAV per share (p)	125.0	135.0	131.6	150.0	163.3	166.4	170.5
ROE (%)	23%	19%	6.6%	21.2%	33.6%	7.4%	10.0%
EBITDA margin (%)	27.7%	22.7%	13.7%	25.6%	33.5%	17.8%	18.9%
Operating margin (%)	26.7%	21.8%	12.6%	23.6%	31.4%	14.2%	15.5%
<b>BALANCE SHEET</b>							
Fixed assets	6,147	8,215	6,832	12,639	52,641	46,487	40,467
Current assets	407,850	533,033	326,641	509,034	683,319	576,308	579,740
Total assets	413,997	541,248	333,473	521,673	735,960	622,795	620,207
Current liabilities	(280,371)	(398,112)	(195,319)	(361,397)	(509,654)	(396,665)	(396,665)
Long term liabilities	0	0	0	(2,643)	(39,580)	(40,909)	(39,351)
Net assets	133,626	143,136	138,154	157,633	186,726	185,221	184,191
<b>CASH FLOW</b>							
Operating cash flow	43,369	45,830	(2,748)	65,953	58,330	1,174	31,913
Net cash from investing activities	(198)	(1,014)	(77)	(474)	(9,191)	(1,133)	(808)
Net cash from (used in) financing	(36,359)	(29,035)	(24,646)	(24,451)	(39,857)	(28,240)	(27,673)
<b>Net cash flow</b>	<b>6,812</b>	<b>15,781</b>	<b>(27,471)</b>	<b>41,028</b>	<b>9,282</b>	<b>(28,199)</b>	<b>3,432</b>
Opening net (cash)/debt	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(134,125)	(105,653)
FX effect	38	40	0	(13)	(374)	(273)	0
<b>Closing net (cash)/debt</b>	<b>(95,852)</b>	<b>(111,673)</b>	<b>(84,202)</b>	<b>(125,217)</b>	<b>(134,125)</b>	<b>(105,653)</b>	<b>(109,085)</b>

Source: Company data, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia