

# Numis Corporation

H120 trading update

Sound H120 and opportunity post COVID-19

Numis expects to report H120 revenues c 10% higher than in H119 with revenue from investment banking slightly down and equities ahead on the back of increased market volatility. Given the impact of the pandemic we have provided indicative scenarios rather than a point estimate for FY20. Numis is strongly capitalised and has net cash of over £84m. Looking beyond the current dislocation, it is well positioned to serve its corporate client base in a period in which the need for fresh equity and a revival in corporate transactions could drive a sharp recovery in activity.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	130.1	38.3	25.9	12.0	8.3	5.6
09/18	136.0	31.6	23.0	12.0	9.4	5.6
09/19	111.6	12.4	8.1	12.0	26.6	5.6
09/20 mid-scenario**	125.5	19.4	13.9	12.0	15.6	5.6

Note: \*PBT and EPS are on a reported basis and EPS is fully diluted. \*\*Figures shown are for a mid-point in a range of scenarios: see Exhibit 6.

## H120 trading update

Numis's first half saw significant changes in market background including as it did uncertainty ahead of the pre-Brexit general election, a brief revival of corporate activity subsequently and then the escalating global impact of COVID-19. For the Investment Banking business this restricted the opportunity to complete deals and revenue was just below the H119 level. Transactions included fund-raisings for Bovis Homes, Future, Hyve and International Public Partnerships together with an advisory role to Unite in a £1.4bn acquisition; there was also an unnamed private fintech transaction. The Equities business was markedly stronger benefiting from a post-election and volatility-driven increase in trading activity. The trading book also performed well and was not held back by the loss on the Kier rights that affected H119. Overall, as noted above, H120 revenue is expected to be c 10% ahead of H119.

## Background and outlook

The rapid evolution of the pandemic and government responses suggest that a point estimate for FY20 is not appropriate and overleaf we set out illustrative scenarios for FY20 revenues, profits and earnings per share for reference. Drivers to consider for investment banking include when and how rapidly there will be a revival in corporate activity and the degree to which there will be new equity issuance to support balance sheets. On the equities side of the business, trading volumes remain at a high level but there could be a quiet period following elevated volatility.

## Valuation: Below historical price to book

The shares are currently trading on a price to book ratio of c 1.6x compared to a 10-year average of 1.9x. The return on equity is likely to be relatively depressed this year (our scenarios range from 5% to 14%) and a return to the longer-term average of 18% would warrant a higher book multiple.

### Financial services

3 April 2020

**Price** 216p

**Market cap** £227m

Net cash (£m) at end September 2019 84.2

Shares in issue 106.5m

Free float 75%

Code NUM

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (13.8) (29.6) (13.5)

Rel (local) 6.6 (0.6) 16.5

52-week high/low 306.0p 167.0p

### Business description

Numis 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. It employs c 270 staff in offices in London and New York, and at the end of September 2019 had 217 corporate clients.

### Next events

H120 results May (estimate)

### Analysts

Andrew Mitchell +44 (0)20 3681 2500

Martyn King +44 (0)20 3077 5745

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

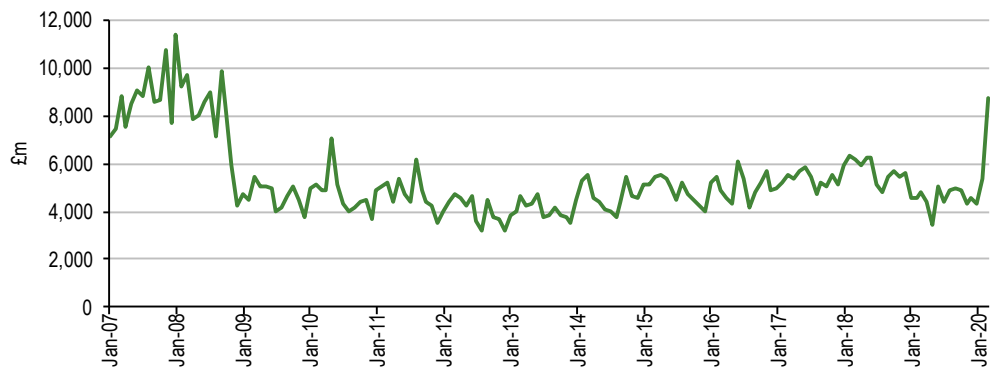
**Numis Corporation is a  
research client of Edison  
Investment Research Limited**

## Background

In this section we show a long-term history for London Stock Exchange equity trading activity and fund-raising and UK M&A activity to provide a context for the current situation.

The first chart shows the average daily value traded on the London Stock Exchange Main Market order book. This highlights the increased level of trading that Numis references in its trading statement. Looking back to the period around the financial crisis, the period of elevated volatility and activity was quite extended before subsiding to the lower level that prevailed for 10 years.

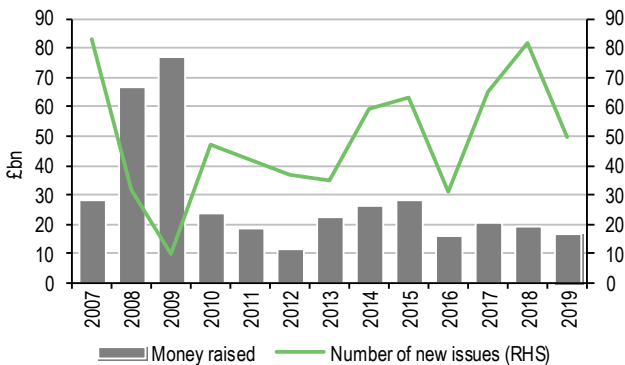
**Exhibit 1: LSE order book, average daily value traded**



Source: London Stock Exchange (Main Market)

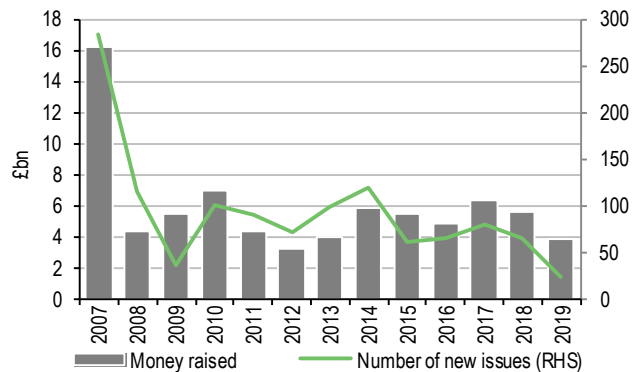
The next two charts show Main Market and AIM equity fund-raising and the number of new issues. Unsurprisingly, recent fund-raising has been subdued, particularly on the AIM market. The level of new and further issues appears likely to remain limited while current levels of uncertainty persist. However, once market confidence begins to return there could be high levels of issuance as companies seek to strengthen balances sheets or revive corporate plans put on hold.

**Exhibit 2: Main market money raised and new issues**



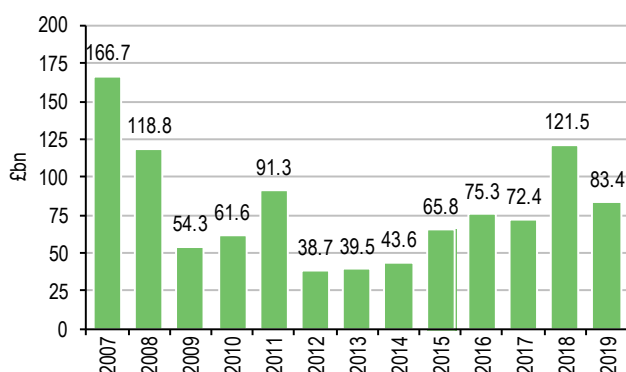
Source: London Stock Exchange

**Exhibit 3: AIM money raised and new issues**

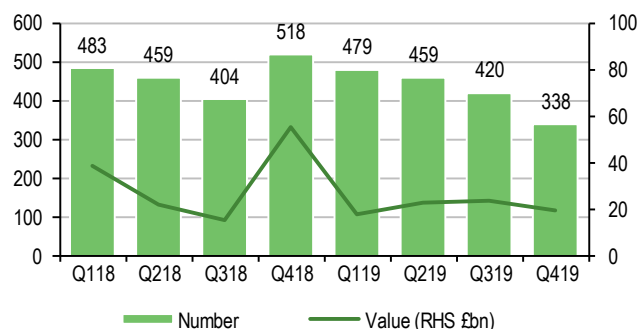


Source: London Stock Exchange

Finally, looking at M&A activity, Exhibits 4 and 5 show UK M&A activity since 2007 and, on a quarterly basis, since 2018. Transaction numbers and value had already reduced in 2019 and, as with equity issuance, look set to decline significantly with the onset of the current crisis. Some planned transactions may well be permanently discarded in light of industry changes and the macroeconomic situation but other opportunities are also likely to open up once corporate activity returns, potentially creating a very busy period for Numis's Investment Banking business.

**Exhibit 4: UK M&A transaction value 2007–19**


Source: ONS. Note: Total of inbound, outbound and domestic.

**Exhibit 5: UK M&A value and volume 2018 and 2019**


Source: ONS, Edison Investment Research

## Financials

As noted on the first page, the uncertainty of the current market background means that we are showing a range of potential outcomes in place of a point forecast for FY20. Our scenario analysis is set out in Exhibit 6. As far as revenue is concerned the H120 trading statement points to a first half figure of c £61m (H119: £55.7m). The full year outcome will depend on the degree to which the strength in Equities is maintained and whether there is window for strengthening in Investment Banking activity before the September year end. Revenues for our scenarios are similar to those shown in our December [note](#) reflecting the resilient performance seen in the first half. Note that for the other operating income line we have assumed a neutral position (no positive or negative impact from the investment portfolio) and there would appear to be some downside risk here. Conservatively we have allowed for somewhat higher cost ratios (mid-scenario values are similar to FY19) and earnings as a result are c 8% lower than previously shown. Further details of the middle scenario are shown in the financial summary (Exhibit 8).

**Exhibit 6: Illustrative scenario analysis for FY20**

£m unless stated	Lower	Mid	Higher
Revenue	108.5	125.5	134.0
Other operating income (investment portfolio)	0.0	0.0	0.0
<b>Total income</b>	<b>108.5</b>	<b>125.5</b>	<b>134.0</b>
Non-staff costs*	(35.6)	(35.6)	(35.6)
Staff costs	(65.1)	(71.1)	(74.4)
<b>Operating profit</b>	<b>7.8</b>	<b>18.8</b>	<b>24.0</b>
Net finance income	0.6	0.6	0.6
<b>Pre-tax profit</b>	<b>8.3</b>	<b>19.4</b>	<b>24.5</b>
Tax	(1.6)	(3.7)	(4.7)
<b>Net profit</b>	<b>6.7</b>	<b>15.7</b>	<b>19.9</b>
EPS (p)	6.0	13.9	17.6
DPS (p)	12.0	12.0	12.0
Return on equity	5%	11%	14%
Total cost/revenue	93%	85%	82%
Total staff cost/revenue	60%	57%	56%

Source: Edison Investment Research. \*Note: non-staff costs include an assumed c £2m of one-off costs related to London office move.

As a reminder, on non-staff costs we have allowed for a modest underlying increase but added approaching £2m for potential one-off costs associated with the move to a new London office with the lease beginning near the end of FY20 and relocation expected to take place in H221. Disruption related to COVID-19 may affect these timings. The 50,000 square foot office will be c 60% larger than the existing one, providing capacity for growth over the term of the 15-year lease. Including the effect of implementation of IFRS 16, Numis expects this will increase ongoing costs from FY21 by

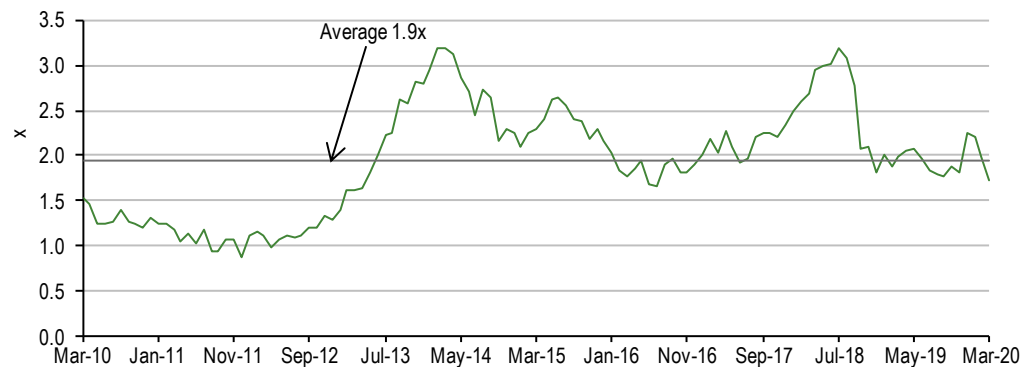
£3m. In addition to this there will be fitout costs that we estimate could be in the region of £7–9m (based on a Cushman and Wakefield cost report). These costs will be amortised over the lease term (c £0.6m pa) and in cash terms would be broadly balanced by the benefit of a three-year rent-free period (we estimate c £9m in total).

Numis remains financially strong with no debt drawn and cash and cash equivalents above the year-end level of £84.2m.

## Valuation

Given the substantial uncertainties surrounding estimates we focus on price to book value as a valuation measure at this point. Exhibit 7 shows where this stands relative to a 10-year history with a current value of 1.6x compared with an average of c 1.9x.

**Exhibit 7: 10-year history of the price to book value ratio for Numis**



Source: Refinitiv, Edison Investment Research

We use an ROE/COE valuation model to infer the ROE assumption required to match the 216p share price at time of writing: this gives a value of 13.9% (based on the FY19 NAV of 132p and assuming a cost of equity of 10% and growth of 4%). Our scenarios show ROEs between 5% and 14% for FY20, but on a medium-term view, with a return to more favourable market conditions and as benefits from the investment in staff made in FY18 are realised, a return in line with or above the five-year historical average of 18% still does not appear an unrealistic outcome in subsequent years.

**Exhibit 8: Financial summary**

£'000s	2015	2016	2017	2018	2019	Mid scenario 2020e
Year end 30 September						
<b>PROFIT &amp; LOSS</b>						
Revenue	97,985	112,335	130,095	136,047	111,610	125,525
Administrative expenses (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(94,603)	(85,432)	(93,600)
Share based payment	(4,104)	(6,229)	(10,454)	(10,583)	(10,914)	(12,000)
EBITDA	28,863	29,986	36,015	30,861	15,264	19,925
Depreciation	(882)	(1,126)	(1,226)	(1,113)	(1,124)	(1,100)
Amortisation	(111)	(125)	(89)	(49)	(44)	(30)
Operating Profit (before amort. and except).	27,870	28,735	34,700	29,699	14,096	18,795
Net finance income	190	37	188	212	550	560
Other operating income	(1,978)	3,759	3,431	1,733	(2,210)	0
Profit before tax	26,082	32,531	38,319	31,644	12,436	19,355
Tax	(4,533)	(6,132)	(7,942)	(4,967)	(3,110)	(3,677)
Profit after tax (FRS 3)	21,549	26,399	30,377	26,677	9,326	15,678
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	115.8	114.8	113.2
EPS - basic (p)	19.5	23.5	27.4	25.1	8.8	15.1
EPS - diluted (p)	18.3	22.4	25.9	23.0	8.1	13.9
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	135.0	131.7	133.1
ROE (%)	19%	22%	23%	19%	6.6%	11.4%
EBITDA margin (%)	29.5%	26.7%	27.7%	22.7%	13.7%	15.9%
Operating margin (before GW and except.) (%)	28.4%	25.6%	26.7%	21.8%	12.6%	15.0%
<b>BALANCE SHEET</b>						
Fixed assets	6,724	5,522	6,147	8,215	6,832	6,202
Current assets	279,114	312,462	407,850	533,033	326,641	326,690
Total assets	285,838	317,984	413,997	541,248	333,473	332,892
Current liabilities	(170,319)	(188,895)	(280,371)	(398,112)	(195,319)	(195,319)
Long term liabilities	0	(12)	0	0	0	0
Net assets	115,519	129,077	133,626	143,136	138,154	137,573
<b>CASH FLOW</b>						
Operating cash flow	6,467	48,735	43,369	45,830	(2,748)	28,108
Net cash from investing activities	(3,632)	84	(198)	(1,014)	(77)	200
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(29,035)	(24,646)	(28,258)
Net cash flow	(14,675)	29,239	6,812	15,781	(27,471)	49
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)
FX effect	(252)	172	38	40	0	0
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(84,251)

Source: Company data, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by Numis Corporation and prepared and issued by Edison, in consideration of a fee payable by Numis Corporation. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

**Copyright:** Copyright 2020 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2020. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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  
1,185 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