

EMIS Group

Trading update

Solid H1; on track to meet FY18 expectations

In H118, EMIS traded in line with management's expectations and generated year-on-year revenue growth. All divisions saw solid performance and management expects to meet FY18 expectations. The company continues to work on developing longer-term growth plans; these will be key to reinvigorating revenue and earnings growth, which in our view will be the trigger to closing the valuation discount versus peers.

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	20.1
12/18e	165.7	36.7	45.0	46.5	26.8	19.2
12/19e	171.6	39.8	48.7	48.4	27.8	17.8
12/20e	178.5	42.9	53.1	53.2	29.0	16.3

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.

H1 trading in line; solid divisional performance

Management confirmed that trading in H118 was in line with expectations, with revenues ahead on a year-on-year basis, and unchanged expectations for FY18. The Primary Care business maintained its market share and is making progress in resolving the service level issues first announced in January. The Community business won additional contracts in H1 and the Acute business saw an improved performance in the period. The Community Pharmacy roll-out of ProScript Connect is on track and the Specialist & Care business maintained the better performance already seen in H217. Net cash grew to £32.3m by the end of H118, up from £10.5m a year ago and £14.0m at the end of FY17.

Working on longer-term growth plans

The company has ambitious plans to build a UK marketplace for healthcare, centred around its Patient business line. The upgraded Patient Access app was launched in May, which after some initial issues is now working well. The patient.info service continues to grow its audience and is increasing its focus on advertising sales. Management has been developing detailed plans for longer-term growth of the group as a whole, and we expect to hear more on this when the company reports interims on 31 August.

Valuation: Revenue and earnings growth key

Since the low of 705p reached in February, EMIS has gained 23% and is now trading only 10% below the level it was at before disclosing the service level issues in January. The company is now trading on 19.2x FY18e EPS, at a 28% discount to its peer group median. Although EMIS is more profitable than its peers, the forecast decline in earnings in FY18 is weighing on the valuation. Evidence of earnings growth resumption will be key to share price upside – in the shorter term, this could include positive news on the Scottish and English primary care procurements, and in the longer term, evidence that the investment in Patient is paying off. Strong cash generation underpins the 3% dividend yield.

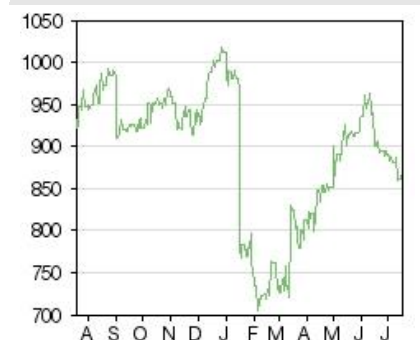
Software & comp services

17 July 2018

Price 865p
Market cap £548m

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	(4.0)	2.9	(4.1)
Rel (local)	(3.4)	(2.4)	(7.6)
52-week high/low	1,017p	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

H118 results	31 August
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EMIS Group is a research client of Edison Investment Research Limited

Exhibit 1: 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	165,748	171,567	178,455
Cost of Sales		(12,782)	(12,955)	(14,151)	(14,674)	(14,984)	(15,784)	(16,668)
Gross Profit		124,857	142,943	144,561	145,680	150,765	155,783	161,788
EBITDA		47,645	51,964	52,288	49,222	50,562	52,532	55,901
Operating Profit (before amort. of acq. intang. SBP and except.)		34,787	37,123	38,897	34,895	36,200	39,230	42,263
EMIS adjusted operating profit		32,639	36,553	38,753	37,406	37,156	39,028	42,304
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	28,482	31,512	34,784
Net Interest		(543)	(449)	(237)	(299)	(50)	0	0
Profit Before Tax (norm)		34,206	36,625	39,159	35,192	36,746	39,826	42,859
Profit Before Tax (FRS 3)		28,540	10,932	25,333	10,937	29,028	32,108	35,380
Tax		(5,719)	(5,558)	(5,208)	(2,074)	(5,806)	(6,422)	(6,722)
Profit After Tax (norm)		27,617	29,801	32,175	27,989	29,397	31,861	34,715
Profit After Tax (FRS3)		22,821	5,374	20,125	8,863	23,222	25,686	28,658
Average Number of Shares Outstanding (m)		62.8	62.7	62.8	62.9	62.9	62.9	62.9
EPS - normalised & diluted (p)		42.8	46.0	49.4	43.1	45.0	48.7	53.1
EPS - EMIS adjusted & diluted (p)		39.4	45.1	49.2	47.0	46.5	48.4	53.2
EPS - FRS 3 (p)		35.3	7.2	30.4	12.8	35.3	39.0	43.6
Dividend (p)		18.4	21.2	23.4	25.8	26.8	27.8	29.0
Gross Margin (%)		90.7%	91.7%	91.1%	90.8%	91.0%	90.8%	90.7%
EBITDA Margin (%)		34.6%	33.3%	32.9%	30.7%	30.5%	30.6%	31.3%
Operating Margin (before GW and except.) (%)		25.3%	23.8%	24.5%	21.8%	21.8%	22.9%	23.7%
BALANCE SHEET								
Fixed Assets		166,415	143,546	133,292	122,979	114,899	107,879	100,762
Intangible Assets		139,397	121,383	110,953	100,844	91,764	83,844	75,927
Tangible Assets		24,313	22,032	22,187	22,037	23,037	23,937	24,737
Other fixed assets		2,705	131	152	98	98	98	98
Current Assets		37,221	39,800	46,088	56,900	60,639	76,479	95,173
Stocks		1,550	1,206	1,815	1,633	1,633	1,633	1,633
Debtors		28,732	33,893	39,970	40,148	41,324	42,774	44,492
Cash		6,939	4,701	4,303	13,991	17,682	32,072	49,049
Current Liabilities		(67,665)	(63,819)	(56,158)	(65,131)	(55,758)	(57,715)	(60,032)
Creditors		(54,763)	(51,960)	(51,425)	(65,131)	(55,758)	(57,715)	(60,032)
Short term borrowings		(12,902)	(11,859)	(4,733)	0	0	0	0
Long Term Liabilities		(21,063)	(12,481)	(9,080)	(6,734)	(5,190)	(3,647)	(2,226)
Long term borrowings		(5,854)	(1,951)	0	0	0	0	0
Other long term liabilities		(15,209)	(10,530)	(9,080)	(6,734)	(5,190)	(3,647)	(2,226)
Net Assets		114,908	107,046	114,142	108,014	114,589	122,996	133,677
CASH FLOW								
Operating Cash Flow		44,856	42,711	43,657	48,834	40,013	53,039	56,500
Net Interest		(445)	(422)	(324)	(356)	50	100	100
Tax		(5,247)	(6,896)	(7,655)	(8,139)	(6,221)	(7,965)	(8,143)
Capex		(15,161)	(14,058)	(12,084)	(11,342)	(13,000)	(13,000)	(13,000)
Acquisitions/disposals		(9,959)	(4,587)	(1,790)	329	0	0	0
Financing		(1,578)	492	881	571	(500)	(500)	(500)
Dividends		(10,792)	(14,532)	(14,006)	(15,476)	(16,651)	(17,284)	(17,980)
Net Cash Flow		1,674	2,708	8,679	14,421	3,691	14,389	16,977
Opening net debt/(cash)		13,491	11,817	9,109	430	(13,991)	(17,682)	(32,072)
HP finance leases initiated		0	0	0	0	0	0	0
Other		0	0	0	0	0	0	0
Closing net debt/(cash)		11,817	9,109	430	(13,991)	(17,682)	(32,072)	(49,049)
Source: EMIS, Edison Investment Research								

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