Numis Corporation

H1 results & outlook

Franchise strength and development

Financial services

The drag on revenues from scarce market-wide primary equity issuance was substantially mitigated by progress in most other areas, reflecting the breadth and strength of the franchise that has been built. Numis is positive on H2 revenues and expects a pick-up in IPO activity. Less positively, cost pressure is greater than we had expected and prospectively from the implementation of MiFID II. Strategically, Numis looks well placed to navigate industry change, has successfully completed a major succession in leadership, and continues to offer absolute and relative value.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
09/15	98.0	26.1	18.3	11.5	14.9	4.2
09/16	112.3	32.5	22.4	12.0	12.2	4.4
09/17e	116.9	30.1	20.6	12.0	13.2	4.4
09/18e	119.5	30.8	21.0	12.5	13.0	4.6

Note: PBT and EPS are on a reported basis.

First half results (to 31 March 2017)

Numis ran two IPOs in H117 versus 10 in the prior year period, but made progress in secondary commissions, trading, secondary issuance and corporate retainers. Still, revenues fell 8%, although an increased contribution (£1.4m vs £0.2m in H116) from the strategic investment portfolio limited the total income decline to 5%. Costs were similar to H216, but rose compared with H116, taking the cost to income ratio up by 10 percentage points to 81%. Some of the cost pressure is likely to prove structural as MiFID II implementation approaches. Pre-tax profits declined to £10.5m (H116: £16.8m) with fully diluted EPS of 7.6p (11.6p). DPS was unchanged at 5.5p but share repurchases substantially increased. The assumption of higher costs reduces our FY17-18 EPS estimates by 5-6%.

Outlook

Entering H217, Numis has already booked more than £10m in transaction fees and, based on its pipeline, expects a pick-up in IPO activity, as market conditions remain generally benign despite the inevitable economic and geopolitical uncertainties. Numis has strengthened its franchise in recent years, evidenced by growth in number and size of corporate clients, a broad and well-regarded research and sales offering, and expanded M&A capability, which are all positive features as the industry prepares to enter the post-MiFID II environment. Numis also continues to innovate and sees good potential for its Venture Broking operation, focused on the funding needs of fast-growing private companies.

Valuation: Absolute and relative value

Assuming a slightly lower sustainable ROE of 19% (was 20%), our central valuation, derived using an ROE/COE model, reduces to 318p (was 340p) or 362p (was 384p) if we assume a capital return of £25m (see page 10). A peer comparison shows that Numis remains cautiously valued, both in the context of quoted UK brokers and a broader spread of investment banking and other intermediary or advisory businesses.

22 May 2017

Price	**272.75p**
Market cap	**£309m**

Net cash (£m) at 31 March 2017	71.2
Shares in issue	113.2m
Free float	58.5%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	3.9	1.8	26.6
Rel (local)	(0.5)	(1.2)	3.3
52-week high/low		286.2p	180.5p

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 over 200 staff in offices in London and New York, and has 199 corporate clients.

Next events

Interim dividend payment	Early July 2016

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Edison profile page

Numis Corporation is a research client of Edison Investment Research Limited

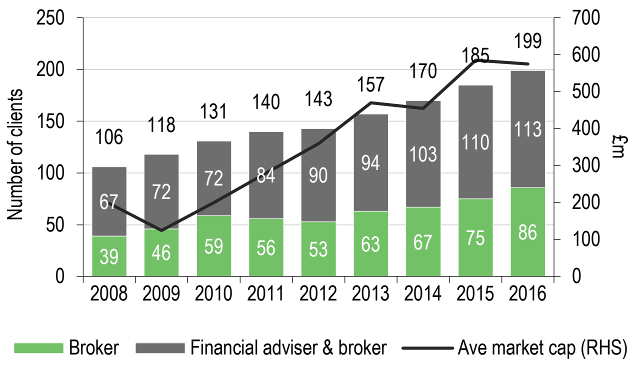
Franchise strength and development

Numis was established in the late 1980s, listed on the AIM market of the LSE in 1996, and has grown over the years to become one of the UK's leading corporate advisory and stockbroking groups. With more than 215 employees working out of offices in London and New York, it offers a full range of research, execution, equity capital markets, corporate broking and advisory services to corporates and their investors.

The number and quality of corporate clients has grown steadily to just under 200 corporate clients (Exhibit 1), with an average market capitalisation of c £640m, while the company has not forsaken its traditional strength in small-cap broking, with the median market cap being £276m. The most recent Adviser Rankings guide ranks Numis in second place in both the stockbroker and financial adviser categories. Meanwhile Numis has begun to build a presence in the unquoted space with its venture broking team, which works with companies from seed capital stage through to IPO.

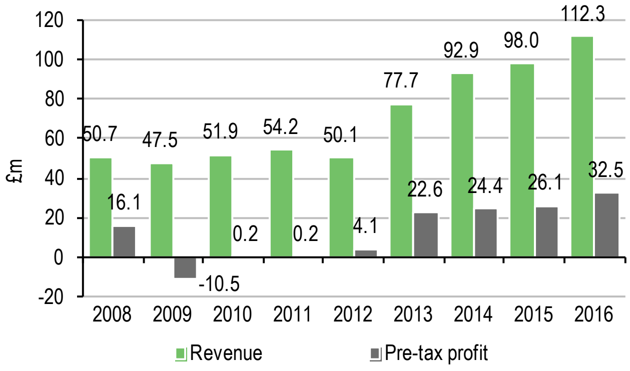
Profitability was maintained through the financial crisis when adjusted to exclude fair value losses incurred on investments in FY09. Revenue and profitability have subsequently expanded in tandem with ongoing growth in the client base (Exhibit 2) and improving markets.

Exhibit 1: Corporate client numbers



Source: Numis

Exhibit 2: Revenue and normalised pre-tax profit

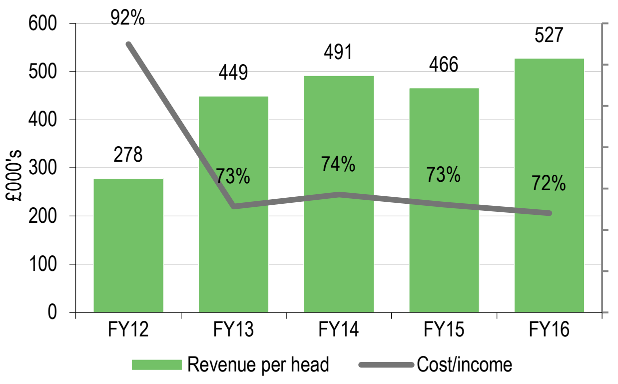


Source: Numis, Edison Investment Research. Note: Year-end September.

Exhibit 3 shows that on an annual basis revenue per head has broadly doubled since FY12 (it was £245k in the first six months of 2017) and data collated by Numis show that it leads quoted and unquoted UK brokers on this basis, while being second only to Goldman Sachs among investment banks.

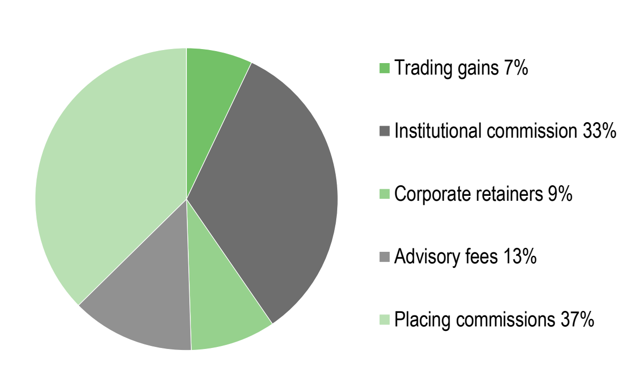
From FY13 the cost income ratio has been held at or below 74%, enabling increased revenues to flow through to profits and cash flow, although, as we explain below, we forecast a slight uptick to 75% in the current year. Analysing revenues over the last five years (Exhibit 4) so as to even out the inevitable changes in mix from one period to another, corporate broking and advisory accounted for 59% of the total, including 37% for placing commissions, while institutional income contributed 41%, with most of this coming from commissions (33% of total revenue). Although IPO-related fees are an important but relatively volatile source of income we would highlight the diversity of revenue streams. IPO-related fees, within placing commissions, totalled £71.6m during the period, or c 17% of the total core revenues.

Exhibit 3: Revenue per head and cost income ratio



Source: Numis, Edison Investment Research

Exhibit 4: Revenue analysis (five years to FY16)



Source: Numis, Edison Investment Research

Board changes: Succession plans effected

The basis for Numis Corporation was Hemsley & Co, started by former Numis CEO Oliver Hemsley in 1989. As part of the group's planned management succession, it was announced in May 2016 that Mr Hemsley would step back from the CEO role, with Alex Ham and Ross Mitchinson taking on joint CEO roles effective from September 2016. Having successfully handed over the reins, it has now been announced that while Oliver Hemsley will stand down from the board and from his remaining executive responsibilities, with immediate effect, he will remain as an adviser for at least another 12 months. Management biographies are shown on page 14.

In addition to recent changes in the executive team, in March 2017 Alan Carruthers succeeded Gerald Corbett as non-executive chairman. He has more than 27 years of equity markets experience, holding senior positions at leading financial services firms including Morgan Stanley and Cazenove.

The changes that have been effected over the past year or so appear to reflect a considered succession process and in our view the continuity provided through internal appointments to the joint CEO roles and the continued presence of established executive directors (Lorna Tilbian, Simon Denyer and Marcus Chorley) make it unlikely that there will be marked changes to Numis's approach or strategy.

2017 interim results

Numis has recently published interim results for the six months to 31 March 2017. The weakness of completed IPO activity during the period had a negative impact on revenues, although the impact was substantially mitigated by growing institutional commissions and a positive impact from trading gains. More than £10m in deal fees were booked in the first five weeks of H2 and based on its pipeline management expects IPO activity to pick up. Costs faced upwards pressure from a range of factors during the half year, at least some of which are likely to persist. Key points were as follows:

- Core revenues of £52.4m were 8% lower than the record high half-yearly £56.8m recorded in H116. Other operating income was substantially higher at £1.4m (H116: £0.2m), limiting the decline in total income to 5%.
- Staff numbers were largely unchanged, generating revenue per head of £245k (H116 £267k), which management believes to be favourable in an industry context.

- Administrative costs increased to £43.3m, taking the cost income ratio to 81% (H116: 71%). Staff costs were 58% of revenues (H116: 50%), with the increase wholly attributable to the increase in share-based payment charges, which in part reflect the impact of the share price increase during the period. Non-staff costs were 23% of revenues (H116: 20%), with the increase in part driven by the increase in customer trading activity, which requires more expenses on brokerage, clearing and exchange fees. The implementation of MiFID II is likely to maintain upwards pressure.
- Profit before tax was £10.5m (H116: £16.8m) and the pre-tax margin was 20% (H116: 29%).
- Statutory, fully diluted earnings per share were 7.6p (H116: 11.6p) and the declared interim dividend per share was unchanged at 5.5p.
- The cash balance (£71m) was at a similar level to H116, but c £18m lower than at the FY16 year end. The reduction in cash since FY16 in part reflects seasonal operation factors as well as payment of the FY16 final dividend. In addition to dividends paid, share repurchases for treasury and by the employee benefit trust rose to £5.3m (£2.3m in H116 and £6.7m for FY16 as a whole). In combination with dividends, this represents the highest ever outflow to shareholders during a six-month period.
- The number of corporate clients was unchanged from the FY16 year end (199) with gains offsetting natural attrition (eg from M&A). The net impact was to further increase the average market cap of the client base.
- Capital raised for clients was £0.7bn (H116: £1.2bn). Primary equity issuance was weak but secondary issuance increased on the prior year period.
- Numis's UK equity capital markets ranking (by calendar year, and sourced from Numis, Bloomberg) has risen further year-to-date. Having moved from 14th in 2013 to third in 2016, between January and May 2017 it has taken the number one slot, in part reflecting the completion of pipeline transactions since the end of H117.

Exhibit 5 sets out the segmental analysis of total income, comprising core revenue as well as other income (the return on Numis's portfolio of quoted and unquoted investments) over recent years. In H117 net institutional income, comprising trading gains and institutional commissions, grew 31% compared with the same period in H116. We would consider the H117 trading gain to be a better than average result compared with a weaker than average result recorded in H116. Institutional commissions have faced headwinds from long-term downward pressure on rates, but were up 15% compared with H116 and Numis reports that it has not yet seen a significant change in behaviour of institutional clients ahead of MiFID II (see page 7 for discussion). The contribution to institutional commissions from trading in the shares of corporate clients has become increasingly important in recent years and accounted for 60% of the total in FY16 compared with 44% in FY13: an encouraging feature given the continued growth in the client base. In H117, amid the overall growth in institutional commissions the share fell back slightly to 52%.

Exhibit 5: Analysis of income

£m	FY12	FY13	FY14	FY15	FY16		H116	H216	H117	H117/H116
Net Trading gains	3.4	8.5	7.7	4.1	6.5		1.8	4.7	5.0	180.7%
Institutional commissions	21.4	28.8	31.9	29.3	31.9		16.1	15.9	18.4	14.9%
Net Institutional Income	**24.8**	**37.2**	**39.6**	**33.4**	**38.4**		**17.8**	**20.6**	**23.4**	**31.4%**
Corporate retainers	6.1	6.9	7.8	8.9	9.6		4.5	5.1	5.6	25.0%
Advisory fees	8.3	6.0	9.0	17.9	16.3		8.5	7.7	6.9	-19.1%
Placing commissions	10.9	27.5	36.5	37.7	48.0		25.9	22.1	16.5	-36.6%
Total revenue	**50.1**	**77.7**	**92.9**	**98.0**	**112.3**		**56.8**	**55.6**	**52.4**	**-7.7%**
Other operating income	2.8	3.6	0.0	-2.0	3.8		0.2	3.6	1.4	823.7%
Total Income	**52.9**	**81.2**	**92.9**	**96.0**	**116.1**		**56.9**	**59.2**	**53.8**	**-5.4%**

Source: Numis

Corporate broking and advisory revenues fell by 26% in H117 compared with H116, primarily due to the weakness in IPO activity (placing commissions) in the last six months. As we discuss in the following section, the UK market as a whole has seen a slow pace of primary equity issuance, although Numis notes that the impact has been partially mitigated by an increase in non-primary activity compared with H116, which it attributes to the improving quality of its client base.

In H117 Numis carried out two IPOs (H116: 10), 18 secondary fund raises (H116: 17), 17 advisory mandates (H116: 14) primarily in M&A, and nine block trades. Building out the corporate advisory business remains a core focus for management.

Corporate retainers increased by 8% reflecting the addition of new clients and increases in fee levels, both factors that will continue to flow through to revenues in FY17.

Other operating income captures earnings on the £32.3m strategic investment portfolio, of which £17.1m represents fairly liquid quoted investments and £15.2m unquoted investments. The contribution to total income was £1.4m including net fair value uplifts of c £1.2m (mainly generated by the unquoted investments) plus dividend income.

Market background and outlook

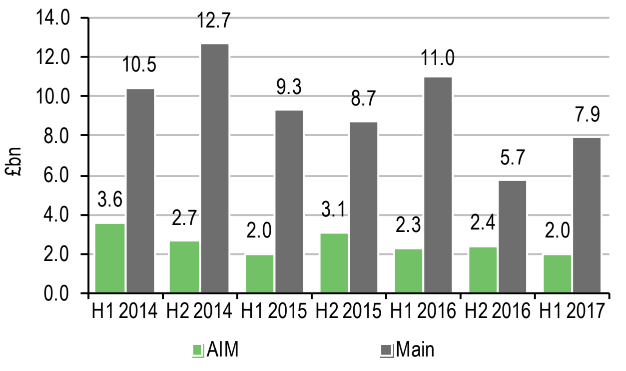
The first half results cover the six months to 31 March 2017, during which time equity market indices advanced (with small- and mid-cap stocks outperforming large caps) and trading volumes increased, but equity issuance remained relatively muted and lower than the same period last year. We review the data below to provide context for Numis's past performance and future prospects. The H1 revenue performance at Numis broadly reflects these market trends, with strength in Equity revenues and subdued CB&A revenues. It is also important to note, however, that the prospects for Numis in any period will also depend very much on the work of the various teams in the firm and activity levels in its specific corporate and institutional client base.

Market background: Issuance lagging market advance

Exhibits 6 and 7 show the value of equity issuance on the AIM and LSE Main markets, on a six monthly basis, beginning with the six-month period to 31 March 2014 (H114) and ending with the most recent data to 31 March 2017 (H117). Exhibit 6 shows that Main market issuance increased in H117 but remained noticeably below the level of the same period last year. AIM issuance shows less variability but remains muted.

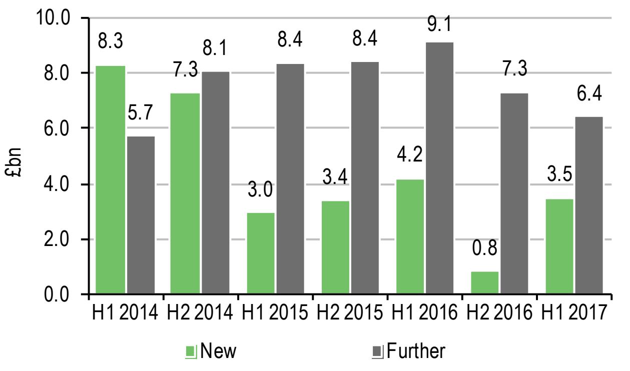
Exhibit 7 shows that the increase in issuance in H117 was driven by new issuance, which recovered from a very depressed period in H216 (covering the EU referendum vote in the UK and the run-up to the US elections) but remains below H116.

Exhibit 6: AIM and Main market issuance



Source: LSE. Note: To end March (H1) and September (H2).

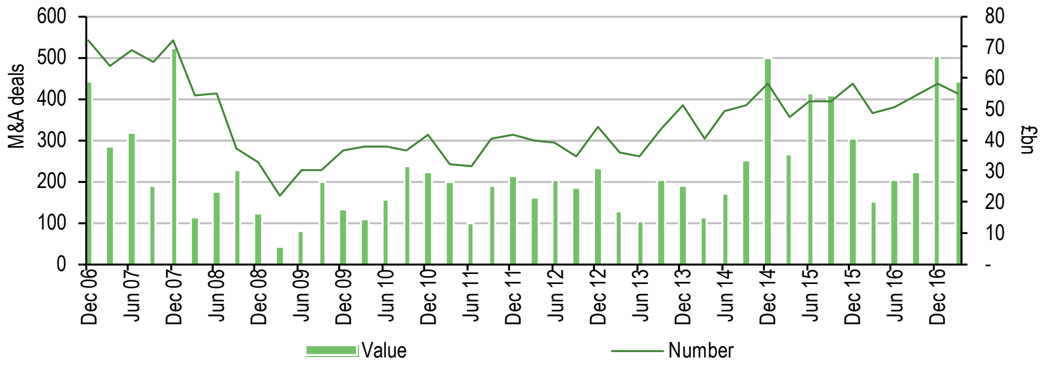
Exhibit 7: New and further issuance – AIM and Main



Source: LSE. Note: To end March (H1) and September (H2).

As an indicator on mergers and acquisitions activity, Exhibit 8 shows figures for UK transactions announced and collected by Bloomberg (in this case deals up to £7bn as these are somewhat more relevant to Numis). The data, especially by value and less so by the number of transactions, is relatively volatile but presents a broad pattern of post-crisis recovery in activity. However, early-mid 2016 was a period of relative weakness, particularly in terms of value. The six months to 31 March 2017 has confirmed a recovery from that weakness with the number of announced transactions increasing by 7% on the preceding six months, while the value of announced transactions increased to £125bn from £56bn, the highest quarterly levels seen since 2014.

Exhibit 8: UK M&A transactions by value and number

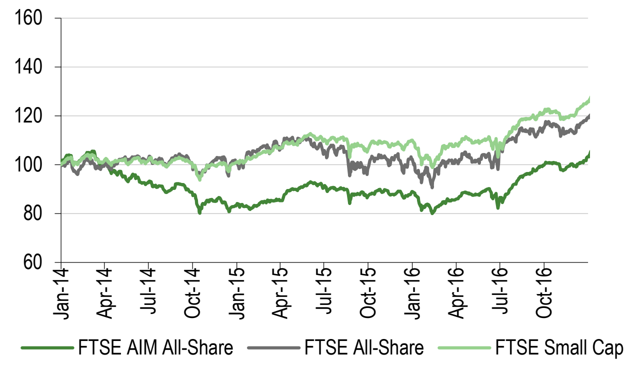


Source: Bloomberg. Note: Quarterly figures (to 31 March 2017) for deals up to £7bn in value.

Recent equity market trends as captured by the FTSE All-Share, FTSE AIM All-Share and FTSE Small Cap indices are shown in Exhibit 9. The advance that began after the EU referendum vote has continued during the early months of 2017 and the particular strength of the FTSE AIM All-Share and FTSE Small Cap indices in recent months is notable.

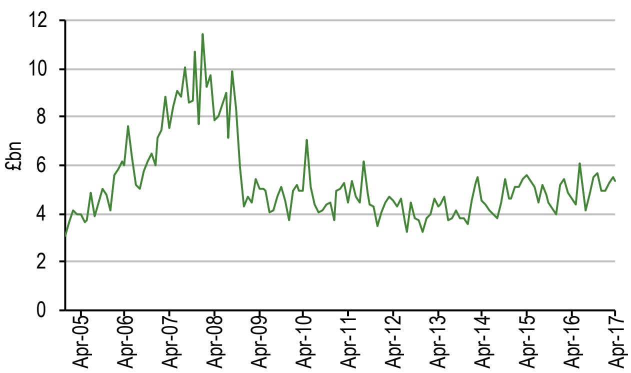
Although the value of equity trading on the London Stock Exchange order book has been largely range bound in the post-crisis period, the modest uptrend that began in 2012 has continued. The average daily value traded on the LSE order book in the six months to 31 March 2017 was c 8% higher than in the preceding six-month period.

Exhibit 9: FTSE AIM, All-Share and Small Cap indices



Source: Thomson Datastream. Note: Total return series.

Exhibit 10: Average daily value traded LSE order book



Source: London Stock Exchange

Outlook: Pipeline delivering and expected IPO recovery

As always the market faces a range of political and economic uncertainties, and the implementation of regulatory change in the form of MiFID II (research unbundling) draws near. The latter, if it reduces research budgets, could well be a negative for the industry as a whole but there are a number of mitigating factors for Numis, which continues to see positive development in its franchise with both corporate clients and institutions. While relatively small currently, the venture broking activities have the potential to become a significant contributor to the group. We discuss these issues briefly below and the changes to our estimates in the following section, including a sensitivity analysis around our central estimate for the current year.

For the second half of the current year, Numis reports that trading began well with the completion of 10 fund raises that generated more than £10m of fees during the first five weeks, while the H117 run rate of Equities revenue was maintained. Management believes that the increasing quality of the client base over recent years (in part evidenced by the increasing average market cap of the client base) adds consistency to the volume of deal flow and expects to benefit from an improvement in the IPO market.

Looking to the coming months and beyond, the recently called general election in the UK, against the backdrop of the triggering of Article 50 and the commencement of formal Brexit negotiations, creates some additional uncertainties. There are early indications that Brexit negotiations will be tough although the reality may prove less challenging economically, meaning a more amenable background for corporate activity and helping to maintain equity market levels. As a clearer picture emerges it is possible that corporate developments that have been deferred may return, providing a more active environment for Numis and other market participants. Overseas, the new US administration is still in the process of shaping both its domestic and foreign policies, with some notable areas of worldwide geopolitical tension. Meanwhile, the US Federal Reserve continues to signal a progressive tightening of monetary policy in coming months. Given the performance of markets, any one of these issues has the capacity to generate swings in sentiment, although the medium-term economic growth outlook remains robust according to most forecasters. In its half-yearly World Economic Outlook, the IMF said it now envisaged the British economy expanding by 2% in 2017, making it the second fastest-growing advanced economy after the US.

The implications of research unbundling mandated in **MiFID II** and due to be implemented in national legislation in January 2018 remain a potential sensitivity for Numis, as for other brokers. The need for asset managers to pay for or arrange research payment accounts for research and establish quality criteria together with other pressures on active asset managers' profit margins (see FCA market study) could all have negative implications for a segment of institutional commission income (see Edison white paper for a discussion of the future of research). Management has held more than 150 face-to-face meetings with clients and believes that the quality and breadth of its research and sales offering, which it plans to maintain post-MiFID II, as well as the strength of its corporate franchise leave it well prepared for the changes. Numis research analysts cover c 370 stocks across 16 sectors in addition to c 400 investment companies covered by the Investment funds research team. The sales team services more than 440 active institutional clients in the UK, Europe, US and Australia. The teams are well regarded and Numis was ranked number one UK Small & Mid Cap Brokerage in the 2016 Thomson Reuters Extel survey for the fourth year running. Not directly impacted by MiFID II, c 25% of secondary commissions are generated in the US, while the significant element of commissions that comes from brokership stocks is an additional advantage.

It is noteworthy that as some asset managers may already begin to anticipate MiFID II changes, Numis's institutional commissions continued to increase in H117 despite a continuation of the general pressure on commissions that has been a feature of the industry for some time.

Numis formally launched its **Venture Broking** operation in 2015, focusing on advising fast-growing private companies, and working with seed, venture capital and growth, listed and private equity investors. Recognising that there is a growing pool of investors for unlisted securities and an increasing number of private companies that wish to access capital without the necessity of undertaking an IPO, it continues to develop its ability to conduct private placements as an exciting growth area. From the perspective of investors such as family offices and sovereign wealth funds, there is greater interest in direct private investments in order to avoid the fee drag that would otherwise be incurred on investments through private equity funds. In FY16 Numis participated in £128m private placement for Skyscanner and in H117 (November 2016) it took part in a £150m private placement in Accelerated Digital Ventures and helped raise private funding for Oxford Science & Innovation. Given Numis's traditional strength in the small- and mid-cap segment and its ability to call on a broad sectoral research expertise, this appears to be an area with considerable promise in its own right that should also feed into IPO and corporate deal flow in due course. Entering H217 there is a strong pipeline of transactions.

Financials

Changes in our estimates are summarised in Exhibit 11. We have increased our revenue forecasts for both FY17 and FY18 recognising management's comments about the strength of its pipeline, the expected recovery in IPO activity, and continuing positive trends in other revenue lines. A breakdown of the changes by activity is shown in Exhibit 12. Our PBT and EPS estimates are lowered for both years as a result of increased costs, with the reduction in the latter cushioned by a reduction in the assumed effective tax rate. Partly reflecting the lower earnings estimates but also reflecting the increased focus on distributions via share repurchases that was evident in H117, we no longer assume an increase in DPS in FY17 with a knock-on impact to FY18.

Exhibit 11: Estimate revisions

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/17e	113.1	116.9	3.4%	31.7	30.1	-5.1%	21.3	20.6	-3.1%	12.5	12.0	-4.0%
09/18e	115.1	119.5	3.8%	32.7	30.8	-6.0%	21.9	21.0	-4.3%	13.0	12.5	-3.8%

Source: Edison Investment Research

For FY17, our estimate for net institutional revenue, both trading gains and institutional commissions, increases although we prudently assume that H217 will be slightly lower than H117 and that full year FY18 will be lower than FY17. Although we expect a recovery on placing commissions in H217 along with an improvement in advice fees and further growth in corporate retainers, our FY17 CB&A revenue estimate is overall lower but with little change for FY18.

We also show total income, including the other operating income earned from the strategic investment portfolio, in Exhibit 12. Our previous estimate was for a "normalised gain" of £700k for both the FY17 and FY18 years. Not only was H117 much stronger than this, we note the increase in the share price of Randall & Quilter (Numis 5.8% stake) since 31 March as well as the positive performance from the Numis-managed FP Numis Mid Cap in which it has a c £10m seed investment. As a result we have also significantly increased our H217 expectation.

Exhibit 12: Revenue and total income estimate changes

£m	Old		New		Change	
	09/17e	09/18e	09/17e	09/18e	09/17e	09/18e
Net trading gains	6.0	6.0	9.0	7.0	50.0%	16.7%
Institutional commissions	32.0	32.0	35.9	35.0	12.3%	9.4%
Net institutional income	**38.0**	**38.0**	**44.9**	**42.0**	**18.2%**	**10.5%**
Corporate retainers	10.8	11.6	11.6	12.0	7.2%	3.1%
Advisory fees	18.3	18.5	15.9	18.5	-12.9%	0.0%
Placing commissions	46.0	47.0	44.5	47.0	-3.4%	0.0%
Total revenue	**113.1**	**115.1**	**116.9**	**119.5**	**3.4%**	**3.8%**
Other operating income	0.7	0.7	3.0	0.7	327.3%	0.0%
Total income	**113.8**	**115.8**	**119.9**	**120.2**	**5.4%**	**3.8%**

Source: Edison Investment Research

There were a range of factors putting upwards pressure on costs in H117 and some of these are likely to be recurring. Together with the assumption of higher revenues these lead us to increase our forecasts for total administrative costs by c 9% and c 8% in each of FY17 and FY18 respectively. This includes an upwards adjustment to staff costs in respect of share-based payments (in part due to the impact of a higher share price) and upwards adjustments to non-staff costs in both FY17 and FY18. In H117 share based payment charges increased to £4.9m from £2.5m in H116. In addition to the share price effect on employers' national insurance costs, there was upwards pressure from previously announced five-year performance based awards to the co-CEO's as part of the succession arrangements with some similar knock-on impacts resulting from changes to management tiers below. We have increased our estimate of share based payment costs to £11.0m in FY17 (was £6.3m) but anticipate that this may represent a high point as vestings in later years outstrip new awards. For FY18 we assume a decline to £10.0m, still higher than our previous £6.4m assumption. In aggregate, H117 administrative costs increased to £43.3m, taking the cost income ratio to 81% (H116: 71%). While the revenue mix shift towards a higher proportion of trading and secondary broking activity in H1 also resulted in an increase in brokerage, clearing, and exchange fee expenses, the more structural impact on costs stems from ongoing investment in technology and systems with a need to commit additional resources to the implementation of MiFID II. Our forecast cost/income ratio for both FY17 and FY18 increases to 75% from 72% previously.

Sensitivity to equity market developments and corporate confidence make forecasts for brokers' earnings more than usually tentative. So in Exhibit 13 we show an updated scenario analysis showing the impact of alternative total income assumptions, 15% higher or lower than our central case.

Although the low case would still leave total income slightly above the FY15 level (£96.0m) and clearly above the levels seen before this, it should be remembered that the number of corporate clients has increased significantly (Exhibit 1) over the years. The scenarios indicate that while the cost/income ratio flexes higher on lower total income and lower on higher total income, variable compensation does moderate operational gearing.

Exhibit 13: Illustrative estimate scenarios 2017e

£000s	Downside	Base	Upside
Total income	101,897	119,879	137,861
Non staff costs	(26,140)	(26,140)	(26,140)
Staff costs	(54,100)	(63,754)	(68,652)
o/w share based payment costs	(10,975)	(10,975)	(10,975)
Total recurring costs	(80,240)	(89,894)	(94,792)
Operating profit before variable staff cost & share based payment costs	52,633	70,615	88,597
Operating profit	21,658	29,985	43,069
Investment income	100	100	100
Pre-tax profit	21,758	30,085	43,169
Tax	(4,134)	(5,822)	(8,202)
Net profit	17,624	24,263	34,967
EPS (p)	15.0	20.6	29.8
DPS declared (p)	8.72	12.00	17.29
Payout ratio	58%	58%	58%
Reported ROE	13%	18%	25%
Cost/income ratio	79%	75%	69%
Total staff costs as % revenue	53%	53%	50%
Edison estimated fixed staff costs	(34,099)	(34,099)	(34,099)
Edison estimated variable staff costs	(20,001)	(29,655)	(34,553)
Variable staff costs % of pre-bonus profit	38%	42%	39%
Average number of shares, fully diluted (m)	117.4	117.4	117.4

Source: Edison Investment Research

Net assets increased modestly in H117 compared with the FY16 year end with payment of the FY16 final dividend (£7.3m) representing a substantial part of the half-year earnings. The cash balance (£71m) was at a similar level to H116 but c £18m lower than at the FY16 year end.

Operational cash flow in H117 was reduced by lower cash based revenues and seasonal expense items as well as an increase in the cash margin placed in respect of secondary trading activities. In addition to dividends paid, Numis increased the cash outflow to shareholders via share repurchases for treasury and the employee benefit trust to £5.3m (£2.3m in H116 and £6.7m for FY16 as a whole). In combination with dividends this represents the highest ever outflow to shareholders during a six-month period.

Taking a longer view, between the end of FY12 and the end of FY16, Numis's cash balance increased by more than £50m after paying dividends totalling nearly £45m and buying back shares to the value of almost £48m. Net cash flow from operating activities fluctuated over the period but averaged £25m per annum.

Numis continues to hold a surplus of capital in excess of its reported Pillar I capital requirement of £30m. The board continues to consider options for further capital returns and the accelerated share repurchase activity in FY16 and H117 should be seen in this context. In our valuation discussion we use £25m as an indicative figure for **surplus capital/cash**. This allows for the group's likely desire to maintain liquidity as well as capital buffers to cater for market fluctuations and swings in collateral requirements for clearing purposes.

Valuation

Exhibit 14 updates our comparison of the key valuation metrics for Numis, other quoted UK brokers and, given the smaller size and different profile of each of these, a range of US and European investment banks, UK quoted auctioneers, interdealer brokers and estate agents on the argument that these all provide intermediary and or advisory services. While the comparability of some of these businesses is arguable, the cross-sectoral list does provide a broader background against which to consider the valuation.

Among the UK brokers, Numis is one of four reporting profits in the last financial year (one of three for which there are consensus forecasts), earns the highest historic return on equity (despite its cash balances) and trades on an above-average price to book. The historic yield is an attractive 4.4%, second only to Cenkos, although prospectively Edison forecasts a full payout of earnings by the latter in the form of dividends and a prospective dividend yield of 10% (DPS 10p in FY17). Looking outside the UK brokers, Numis trades on a prospective P/E ratio discount to US and European investment banks, auctioneers, interdealer brokers and estate agents.

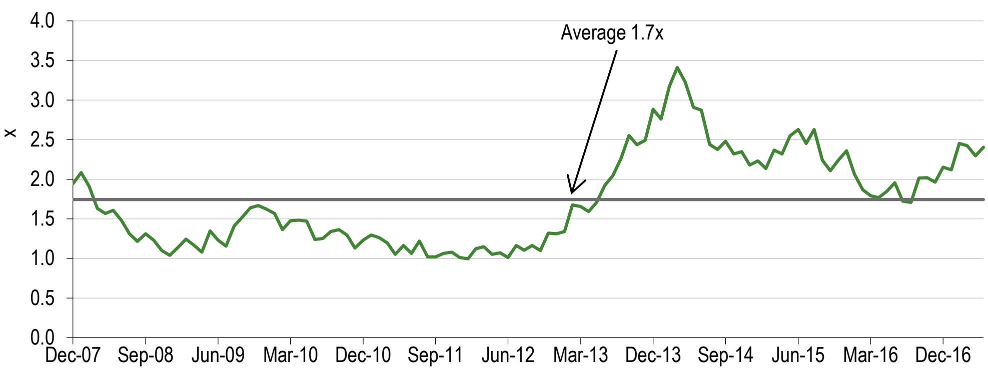
Exhibit 14: Peer comparison

	Price (p)	Market cap (£m)	Last reported P/E (x)	Current P/E (x)	Historic yield (%)	Price to book (x)	ROE (%)
UK brokers							
Numis	**271.0**	**310**	**11.5**	**10.4**	**4.4**	**2.4**	**17.4**
Arden	32.0	6	loss		0.0	0.9	-6.3
Cenkos	96.5	55	20.5	8.6	6.2	2.0	10.0
Panmure Gordon	99.0	15	12.8			0.9	6.2
Shore Capital	252.5	54	41.7	19.3	2.0	0.9	2.2
WH Ireland	125.0	34	loss			2.8	-22.3
UK brokers average (positive results only)			**21.7**	**12.8**	**4.2**	**1.7**	**8.9**
US European IB and advisory							
Bank of America	22.7	174,135	14.4	12.5	1.1	0.9	7.1
Evercore	69.8	2,204	25.5	13.6	1.8	5.1	37.3
Goldman Sachs	215.2	68,448	13.0	11.4	1.2	1.1	10.6
Greenhill	21.6	490	11.3	15.4	8.4	2.3	20.3
JP Morgan	84.0	229,527	13.5	12.5	2.2	1.3	10.4
Moelis	35.4	1,643	19.3	17.4	9.5	7.0	21.6
Morgan Stanley	41.3	58,798	13.9	12.0	1.7	1.1	9.1
Stifel	44.3	2,334	38.2	13.4		1.2	4.5
Credit Suisse	14.0	23,046	loss	16.9	5.0	0.7	-4.2
Deutsche Bank	16.7	29,711	loss	15.1	1.0	0.4	-2.2
UBS	16.1	47,624	loss	12.0		1.2	7.1
US, European IB/average (positive results only)			**18.6**	**13.8**	**3.5**	**2.0**	**14.2**
Auctioneers average (positive results only)			**34.0**	**24.0**	**2.4**	**3.5**	**13.4**
Interdealer brokers average			**28.4**	**12.6**	**4.6**	**2.6**	**8.3**
Estate agents average			**19.4**	**15.3**	**2.1**	**2.0**	**10.5**

Source: Bloomberg. Note: Priced at 18 May 2017.

By way of historical perspective, Exhibit 15 shows that the current ratio of price to historical book value for Numis, at 2.4x, is trading somewhere between its 10-year average of 1.7x and the high of 3.2x. Reflecting market conditions as well as the continued development of the Numis franchise, ROE in recent years has been above the level prevailing earlier in the 10-year period.

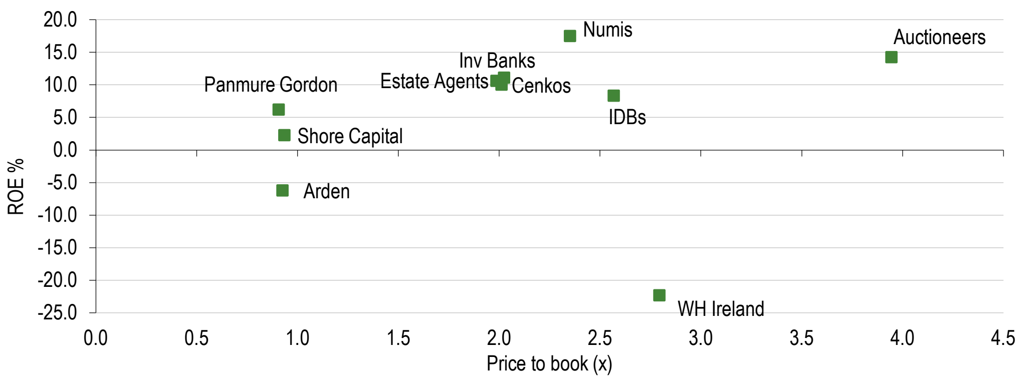
Exhibit 15: Historical price to book ratio for Numis



Source: Thomson Datastream, Edison Investment Research

In Exhibit 16 we show a comparison of returns on equity and price to book, including both the UK peers and the sectors included in the comparison above. Other things being equal, a position towards the top left of the chart indicates a favourable valuation indicator, combining low P/BV with a high ROE, while a position towards the bottom right indicates a less favourable combination of higher P/BV and low ROE. The inclusion of the two companies recording losses makes for a wider than normal dispersion, but among the companies and sectors with a positive return on equity Numis appears in line or towards the attractive segment of the grouping, given its relatively high return.

Exhibit 16: Comparing return on equity and price to book ratio



Source: Bloomberg, Edison Investment Research. Note: Priced at 18 May 2017.

Recognising that our revised estimates indicate a c 17-18% ROE for next two years, we have slightly reduced our assumption for the long-term sustainable return on equity to 19% from 20%. This allows for an ROE improvement beyond FY18 as MiFID II implementation costs recede and is in line with the average (actual and forecast) level for the years FY15-18. Our other assumptions are unchanged, including a cost of equity assumption of 10%, and growth beyond the forecast period of 5%. The indicative central value implied by the ROE/COE model reduces to 318p (was 340p) when applied to the FY16 year-end NAV per share of 113.5p. If we allow for a one-off return of excess capital of £25m, this results in a return on remaining equity of 24% and after adding back the capital return would take the central value to 362p (was 384p). A sensitivity table (Exhibit 17) shows the values that result when using different growth rates and returns on equity (in this case excluding a return of capital).

Exhibit 17: ROE/COE valuation output variations (value per share, p)

Growth rate (right) Return on equity	2.0%	4.5%	5.0%	5.5%	6.0%
12%	142	155	159	164	170
16%	199	237	250	265	284
19%	241	299	**318**	340	369
24%	312	402	431	467	511
28%	369	485	522	567	624

Source: Edison Investment Research

In terms of share price performance, Numis has outperformed the UK broker average over 12 months, but a 10% rise year-to-date (the FTSE All Share Index rose c 5% over the same period) has lagged the peer group. The share price of Panmure Gordon has been boosted by the recently agreed take-over approach by Atlas Merchant Capital (the private equity vehicle of Bob Diamond) and QInvest, the Qatari investment bank that already owned a 43% stake. The Cenkos share price has been recovering strongly from a weak 2016 that saw it dealing with an FCA investigation in tandem with uncertain markets.

Exhibit 18: Share price performance (%)	1 month	3 months	1 year	YTD	From 12m high
Numis	**3.2**	**1.1**	**25.8**	**10.3**	**-6.7**
Arden	-5.9	-8.6	20.8	-4.5	-9.9
Cenkos	-8.1	0.0	-33.4	34.0	-35.2
Panmure Gordon	1.0	58.4	62.3	72.2	-2.5
Shore Capital	2.0	8.6	-20.5	12.2	-20.5
WH Ireland	-7.4	0.4	35.9	2.5	-12.9
UK broker average	**-2.5**	**10.0**	**15.1**	**21.1**	**-14.6**
US European IB and advisory					
Bank of America	0.0	-7.3	56.5	2.9	-11.9
Evercore	-8.2	-13.2	41.3	1.6	-16.2
Goldman Sachs	0.5	-14.1	39.1	-10.1	-15.7
Greenhill	-20.9	-27.9	12.5	-22.2	-33.6
JP Morgan	-0.6	-6.9	32.4	-2.7	-10.7
Moelis	-6.2	-5.9	39.0	4.3	-11.4
Morgan Stanley	-1.7	-10.5	55.2	-2.2	-12.7
Stifel	-5.6	-19.6	26.7	-11.3	-21.7
Credit Suisse	2.2	-4.1	10.6	0.5	-10.0
Deutsche Bank	10.2	3.1	25.6	8.8	-6.0
UBS	8.6	5.0	12.8	6.2	-6.0
US, European IB/advisory average	**-1.5**	**-9.0**	**28.2**	**-3.2**	**-14.2**
Auctioneers average	**5.0**	**7.0**	**26.8**	**6.9**	**-8.7**
Interdealer brokers average	**5.6**	**3.7**	**40.0**	**18.7**	**-3.7**
Estate agents average	**0.0**	**2.4**	**-22.2**	**10.2**	**-33.7**

Source: Bloomberg. Note: Priced at 18 May 2017.

Sensitivities

As we discuss in the financial section above, in common with other brokers Numis's financial performance in any period is highly sensitive to equity market developments and corporate confidence. We illustrate the sensitivity of earnings to changes in revenue in Exhibit 13.

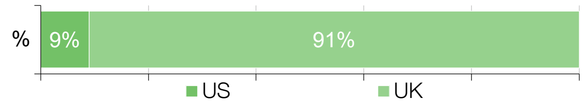
The diversity of the client base, revenue streams, and sector coverage all provide a level of protection to the business and we note that adjusting for fair value losses incurred on investments in 2009 Numis remained profitable through the financial crisis.

While regulation has been an increasing burden on all financial companies we see no specific risks to Numis. In terms of MiFID II, as we note on page 8, Numis appears to be well-prepared for the 2018 introduction, while the quality and breadth of its research and sales offering and the strength of its corporate franchise suggest that it is relatively well-placed to deal with the changes.

Exhibit 19: Financial summary

£000s	2014	2015	2016	2017e	2018e
Year end 30 September					
PROFIT & LOSS					
Revenue	92,862	97,985	112,335	116,888	119,500
Other operating income	49	(1,978)	3,759	2,991	700
Total income	92,911	96,007	116,094	119,879	120,200
Cost of Sales (excl. amortisation and depreciation)	(63,982)	(65,018)	(76,120)	(77,617)	(78,247)
Share based payment	(4,575)	(4,104)	(6,229)	(10,975)	(10,000)
EBITDA	24,305	28,863	29,986	28,296	31,253
Depreciation	(384)	(882)	(1,126)	(1,214)	(1,214)
Amortisation	(77)	(111)	(125)	(88)	(88)
Op. profit (incl. share-based payouts pre-except.)	23,844	27,870	28,735	26,994	29,951
Net finance income	477	190	37	100	100
Other operating income	49	(1,978)	3,759	2,991	700
Profit Before Tax	24,370	26,082	32,531	30,085	30,751
Tax	(4,311)	(4,533)	(6,132)	(5,415)	(5,535)
Profit after tax (FRS 3)	20,059	21,549	26,399	24,263	24,756
Average diluted number of shares outstanding (m)	117.2	117.6	118.0	117.5	118.2
EPS - basic (p)	18.7	19.5	23.5	21.8	22.1
EPS - diluted (p)	17.1	18.3	22.4	20.6	21.0
Dividend per share (p)	10.50	11.50	12.00	12.00	12.50
NAV per share (p)	97.7	102.0	113.5	123.8	133.3
ROE (%)	18%	19%	22%	18%	17%
EBITDA margin (%)	26.2%	29.5%	26.7%	24.2%	26.2%
Operating margin (before GW and except.) (%)	25.7%	28.4%	25.6%	23.1%	25.1%
BALANCE SHEET					
Fixed assets	4,337	6,724	5,522	5,580	4,778
Current assets	425,910	279,114	312,462	327,298	338,432
Total assets	430,247	285,838	317,984	332,878	343,210
Current liabilities	(320,170)	(170,319)	(188,895)	(192,835)	(192,835)
Long term liabilities	0	0	(12)	(11)	(11)
Net assets	110,077	115,519	129,077	140,032	150,364
CASH FLOW					
Operating cash flow	21,164	6,467	48,735	30,288	30,658
Net cash from investing activities	323	(3,632)	84	(119)	(100)
Net cash from (used in) financing	(17,958)	(17,510)	(19,580)	(25,158)	(24,424)
Net cash flow	3,529	(14,675)	29,239	5,011	6,134
Opening net (cash)/debt	(71,205)	(74,518)	(59,591)	(89,002)	(93,838)
Fx effect	(216)	(252)	172	(175)	0
Closing net (cash)/debt	(74,518)	(59,591)	(89,002)	(93,838)	(99,972)

Source: Edison Investment Research, Numis Corporation accounts

Contact details	Revenue by geography
The London Stock Exchange Building, 10 Paternoster Square, London, UK EC4M 7LT +44 (0)20 7260 1000 www.numiscorp.com	

Management team

Co-CEO: Alex Ham	Co-CEO: Ross Mitchinson
Alex together with Ross Mitchinson is jointly responsible for Numis's strategic development as well as the day-to-day management of the main trading entity, Numis Securities (NSL). Alex joined Numis in August 2005 and after a short stint as an equity research analyst, joined the corporate broking team where he has played a critical role in building and developing Numis's retained corporate client base and equity capital markets capability. He was appointed head of corporate broking & advisory in May 2015 and co-CEO in September 2016.	Ross is jointly responsible for Numis's strategic development as well as the day-to-day management of the main trading entity, Numis Securities. Ross joined Numis in October 2008 and was appointed head of sales in 2014 and head of equities in 2015. He has been a board member of NSL since 2012. Ross held positions at both UBS and Kaupthing Singer & Friedlander prior to joining Numis.
Executive Director: Lorna Tilbian	**Group Finance Director: Simon Denyer**
Lorna is an executive director and heads the media and banking franchise, having previously worked as a highly rated media analyst. She acquired a stake in the newly launched Numis in 2001 after stints at Sheppards (1984-88), SG Warburg (director, 1988-95) and WestLB Panmure (executive director, 1995-2001). Lorna appears in Campaign's A List 2017, currently sits on the advisory panel of Tech City UK's Future Fifty programme and has served as a cabinet ambassador (an ambassador for Creative Britain) for the DCMS. Lorna is also a non-executive director of Jupiter UK Growth Investment Trust and ProVen VCT.	Simon is a chartered accountant. He spent five years with Price Waterhouse before moving to the banking arm of Schroders, where he spent five years performing a number of finance and risk roles. Simon then moved to Citigroup, where he spent a further six years in the investment banking arm before joining Numis in 2006.
Executive Director: Marcus Chorley	
Marcus joined Numis in 2008 and is chairman of equities. Marcus held positions at Warburg's and UBS from 1991-2006, was MD head of Euro Mid-caps and then head of sales at Kaupthing Singer & Friedlander until 2008.	

Principal shareholders	(%)
Nortrust Nominees	9.4%
Oliver A Helmsley	6.2%
Aviva	5.9%
Unicorn UK Income Fund	5.2%
The Capital Group Companies Inc	5.0%
Lorna M Tilbian	5.0%
Edward H Farquhar	3.6%
Marcus J Chorley	3.1%
Kabouter Management LLC	3.0%
BlackRock Investment Management (UK) has reduced its interest below 5%.	

Companies named in this report

Cenkos (CNKS), Share Capital Group (SGR), Panmure Gordon (PMR), Arden Partners (ARDN), WH Ireland (WHI)