

EMIS Group

Returning to business as usual

H121 trading update

Software & comp services

EMIS has reported that H121 trading was slightly ahead of board expectations. The mix of business is returning to pre-COVID-19 levels and the company continues to focus on investing in its technology roadmap. While H121 performance was positive, we maintain our forecasts for FY21–23 pending H121 results, which are scheduled for 9 September.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	EMIS adj. dil EPS** (p)	DPS (p)	P/E (x)
12/19	159.5	41.0	53.5	51.1	31.2	22.4
12/20	159.5	43.4	56.4	50.4	32.0	21.2
12/21e	164.1	43.8	56.2	53.2	34.0	21.3
12/22e	172.7	46.5	59.7	57.4	35.0	20.0

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.

Return to business as usual in H121

Management noted it saw a return to business as usual in H121, despite the ongoing pandemic, and trading was slightly ahead of board expectations. Revenue and adjusted operating profit for H121 were ahead of both H120 and H119. EMIS Health saw lower margin hardware and connectivity-related sales revert to more normal levels compared to the high levels in H120 and continued to invest in its technology roadmap through H121. EMIS Enterprise saw double-digit growth year-on-year in both recurring and non-recurring revenues. This division is home to Pinnacle software, which is being used for the NHS vaccine rollout in England.

Confident outlook

EMIS closed H121 with net cash of £48.0m, down from £53.0m at the end of FY20 after settling the £7.3m deferred VAT payable, but up from £44.1m at the end of H120. Management confirmed its confidence in the outlook for the company. We maintain our forecasts, pending H121 results on 9 September.

Valuation: At a discount to peers

Compared to a global group of healthcare software peers, EMIS trades at a discount on all valuation metrics. EMIS generates significantly higher operating profit margins but with slightly slower revenue growth, generates lower earnings growth. Its dividend yield is significantly ahead of the group. Key to closing the discount will be evidence that revenue growth is returning to the company's medium-term goal of mid- to high single digits, in turn driving stronger earnings growth. We note that EMIS has good visibility (recurring revenue was 82% in FY20) and a strong balance sheet with no debt.

13 July 2021

Price 1,196p

Market cap £757m

Net cash (£m) at end H121	48.0
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.8	2.4	9.7
Rel (local)	0.8	(1.0)	(8.9)
52-week high/low		1,258p	960p

Business description

EMIS is a software supplier to the UK healthcare market, with two divisions. EMIS Health supplies integrated care technology to the NHS, including primary, community, acute and social care. EMIS Enterprise is a business-to-business software provider to the healthcare market, including medicines management, partner businesses, patient-facing services and healthcare analytics.

Next events

Interim results	9 September 2021
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Exhibit 1: Financial summary

	£'000s	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Year end 31 December									
PROFIT & LOSS									
Revenue		158,712	160,354	149,710	159,507	159,453	164,139	172,741	182,448
Cost of Sales		(14,151)	(14,674)	(14,236)	(15,407)	(20,335)	(15,387)	(16,751)	(18,549)
Gross Profit		144,561	145,680	135,474	144,100	139,118	148,752	155,990	163,899
EBITDA		52,288	49,222	48,919	55,632	53,536	55,740	59,069	61,938
Operating Profit (before amort. of acq. intang, SBP and except.)		38,897	34,895	32,991	40,794	43,020	43,440	46,169	49,038
EMIS adjusted operating profit		38,753	37,406	35,890	39,273	39,266	41,100	44,429	47,298
Amortisation of acquired intangibles		(6,639)	(6,717)	(6,202)	(7,317)	(6,824)	(5,557)	(3,812)	(3,268)
Exceptionals		(6,714)	(16,988)	1,657	(5,360)	1,802	0	0	0
Share-based payments		(473)	(550)	(766)	(1,290)	(1,440)	(1,440)	(1,440)	(1,440)
Operating Profit		25,071	10,640	27,680	26,827	36,558	36,443	40,918	44,330
Net Interest		(237)	(299)	(180)	(498)	(501)	(500)	(500)	(500)
Profit Before Tax (norm)		39,159	35,192	33,426	41,038	43,377	43,798	46,527	49,396
Profit Before Tax (FRS 3)		25,333	10,937	28,115	27,071	36,915	36,801	41,276	44,688
Tax		(5,208)	(2,074)	(5,355)	(5,022)	(6,794)	(6,992)	(7,842)	(10,502)
Profit After Tax (norm)		32,175	27,989	26,447	33,697	35,658	35,476	37,687	40,011
Profit After Tax (FRS3)		20,125	8,863	22,760	22,049	30,121	29,809	33,433	34,186
Average Number of Shares Outstanding (m)		62.8	62.9	63.0	62.9	62.9	63.0	63.0	63.0
EPS - normalised & diluted (p)		49.4	43.1	40.4	53.5	56.4	56.2	59.7	63.3
EPS - EMIS adjusted & diluted (p)		49.2	47.0	45.0	51.1	50.4	53.2	57.4	57.7
EPS - FRS 3 (p)		30.4	12.8	36.1	36.0	48.1	47.3	53.1	54.3
Dividend (p)		23.4	25.8	28.4	31.2	32.0	34.0	35.0	36.0
Gross Margin (%)		91.1%	90.8%	90.5%	90.3%	87.2%	90.6%	90.3%	89.8%
EBITDA Margin (%)		32.9%	30.7%	32.7%	34.9%	33.6%	34.0%	34.2%	33.9%
Operating Margin (before GW and except.) (%)		24.5%	21.8%	22.0%	25.6%	27.0%	26.5%	26.7%	26.9%
BALANCE SHEET									
Fixed Assets		133,292	122,979	117,920	101,089	105,518	101,319	98,765	96,756
Intangible Assets		110,953	100,844	96,807	82,345	85,295	80,238	76,326	72,959
Tangible Assets		22,187	22,037	21,000	18,399	19,870	19,870	20,370	20,870
Other fixed assets		152	98	113	345	353	1,211	2,069	2,927
Current Assets		46,088	56,900	53,107	67,278	87,170	91,659	108,099	126,598
Stocks		1,815	1,633	1,264	657	613	613	613	613
Debtors		39,970	40,148	36,223	33,047	29,993	33,727	35,495	37,489
Cash		4,303	13,991	15,620	31,099	53,008	53,763	68,435	84,939
Current Liabilities		(56,158)	(65,131)	(60,169)	(55,700)	(63,370)	(55,645)	(58,509)	(61,741)
Creditors		(51,425)	(65,131)	(60,169)	(55,060)	(62,380)	(54,655)	(57,519)	(60,751)
Lease liabilities		0	0	0	(640)	(990)	(990)	(990)	(990)
Short term borrowings		(4,733)	0	0	0	0	0	0	0
Long Term Liabilities		(9,080)	(6,734)	(8,199)	(8,469)	(10,180)	(8,340)	(6,831)	(7,436)
Long term borrowings		0	0	0	0	0	0	0	0
Lease liabilities		0	0	0	(3,294)	(5,891)	(5,380)	(4,869)	(4,358)
Other long term liabilities		(9,080)	(6,734)	(8,199)	(5,175)	(4,289)	(2,960)	(1,962)	(3,078)
Net Assets		114,142	108,014	102,659	104,198	119,138	128,994	141,525	154,176
CASH FLOW									
Operating Cash Flow		43,657	48,834	49,873	50,059	64,138	46,280	60,166	63,176
Net Interest		(324)	(356)	(214)	(93)	(54)	(500)	(500)	(500)
Tax		(7,655)	(8,139)	(5,830)	(4,466)	(11,684)	(8,322)	(8,840)	(9,385)
Capex		(12,084)	(11,342)	(12,767)	(13,119)	(9,491)	(11,800)	(12,300)	(12,300)
Acquisitions/disposals		(1,790)	329	(9,269)	5,152	(953)	(2,000)	0	0
Financing		881	571	906	(2,369)	1,324	(500)	(500)	(500)
Dividends		(14,006)	(15,476)	(21,070)	(18,745)	(19,860)	(20,893)	(21,842)	(22,475)
Net Cash Flow		8,679	14,421	1,629	16,419	23,420	2,266	16,184	18,015
Opening net debt/(cash)		9,109	430	(13,991)	(15,620)	(31,099)	(53,008)	(53,763)	(68,435)
Finance leases initiated		0	0	0	(940)	(1,511)	(1,511)	(1,511)	(1,511)
Other		0	0	0	0	0	(0)	0	0
Closing net debt/(cash)		430	(13,991)	(15,620)	(31,099)	(53,008)	(53,763)	(68,435)	(84,939)

Source: EMIS, Edison Investment Research

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