

EMIS Group

Contract news

Loss of Welsh GP business

EMIS has been informed that it has not been selected as a preferred vendor for the NHS Wales Primary Care framework agreement. The 195 GP practices currently using EMIS Web, which generate annual revenues of c £2m at below group average operating margins, will need to transition to a new supplier over the course of FY19 and FY20. We estimate that this could have a less than 0.5% impact on FY19 EPS and less than 1% on an ongoing basis once all practices have transitioned. So soon after the news regarding issues in the customer support process, this is clearly disappointing. However, the financial impact is marginal and confirms that EMIS is focused on profitability when winning or retaining business.

Year end	Revenue (£m)	PBT* (£m)	Dil EPS* (p)	EMIS adj. dil. EPS** (p)	DPS (p)	P/E (x)	Yield (%)
12/16	158.7	39.2	49.4	49.2	23.4	15.7	3.0
12/17e	165.0	37.0	45.7	46.8	25.8	17.0	3.3
12/18e	173.7	38.3	47.1	48.7	26.8	16.4	3.5
12/19e	183.5	43.0	53.0	54.6	27.8	14.6	3.6

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.

Not chosen for NHS Wales GP framework agreement

EMIS currently supplies 195 GP practices in Wales, 4% of its total GP estate in the UK. NHS Wales has undertaken a procurement process for its GP software framework agreement and has just announced that it has not selected EMIS to be on this framework. This means that GP practices currently using EMIS software will need to transition to a new supplier over the course of 2019 and 2020. While obviously disappointing news, the company viewed the contract as carrying disproportionate risk for the revenues on offer.

Modest financial impact starting in FY19

The company noted that revenues from Welsh practices currently stand at c £2m per annum, at a profit margin significantly below the group average. Even if all practices transitioned away in 2019, we would still expect a revenue contribution of c £1m in FY19 and, at an operating margin of 15% (our estimate; group margin was 22.1% in H117), this would equate to a reduction in EMIS adjusted EPS of 0.4%. Once fully transitioned away, we estimate net income would be lower by c £240k per annum. We maintain our forecasts pending FY17 results on 14 March.

Valuation: Reflects uncertainty

The stock is trading on a P/E multiple of 16.4x FY18e and 14.6x FY19e normalised EPS. On EMIS-adjusted forecasts, the stock is trading at a P/E of 15.9x FY18e and 14.2x FY19e, which is at a discount to international healthcare software peers and UK software companies. Further clarity that the scale and cost of the customer support issues are contained should provide support to the share price.

Software & comp services

30 January 2018

Price 774p
Market cap £490m

Net cash (£m) at end FY17	14.0
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(21.2)	(17.6)	(8.4)
Rel (local)	(21.0)	(19.4)	(15.2)
52-week high/low	1017p	767p	

Business description

EMIS is a clinical software supplier to the primary care market in the UK (supplying over 50% of UK GP practices), a software supplier to UK pharmacies, and through several acquisitions also supplies specialist and acute care software.

Next events

FY17 results	14 March 2018
--------------	---------------

Analysts

Katherine Thompson	+44 (0)20 3077 5730
Dan Ridsdale	+44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

EMIS Group EMIS Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December							
PROFIT & LOSS							
Revenue		137,639	155,898	158,712	164,955	173,684	183,534
Cost of Sales		(12,782)	(12,955)	(14,151)	(15,440)	(17,229)	(18,665)
Gross Profit		124,857	142,943	144,561	149,515	156,455	164,868
EBITDA		47,645	51,964	52,288	50,275	52,003	56,679
Operating Profit (before amort. of acq. intang. SBP and except.)		34,787	37,123	38,897	36,562	37,790	42,366
EMIS adjusted operating profit		32,639	36,553	38,753	37,275	38,795	43,377
Amortisation of acquired intangibles		(6,269)	(6,509)	(6,639)	(6,718)	(6,718)	(6,718)
Exceptionals		873	(18,500)	(6,714)	(14,000)	0	0
Share-based payments		(270)	(684)	(473)	(1,000)	(1,000)	(1,000)
Operating Profit		29,121	11,430	25,071	14,844	30,072	34,648
Net Interest		(543)	(449)	(237)	(150)	(50)	0
Profit Before Tax (norm)		34,206	36,625	39,159	37,012	38,340	42,966
Profit Before Tax (FRS 3)		28,540	10,932	25,333	15,294	30,622	35,248
Tax		(5,719)	(5,558)	(5,208)	(3,059)	(6,124)	(7,050)
Profit After Tax (norm)		27,617	29,801	32,175	29,610	30,672	34,373
Profit After Tax (FRS3)		22,821	5,374	20,125	12,235	24,498	28,198
Average Number of Shares Outstanding (m)		62.8	62.7	62.8	62.9	62.9	62.9
EPS - normalised & diluted (p)		42.8	46.0	49.4	45.7	47.1	53.0
EPS - EMIS adjusted & diluted (p)		39.4	45.1	49.2	46.8	48.7	54.6
EPS - FRS 3 (p)		35.3	7.2	30.4	18.2	37.5	43.3
Dividend (p)		18.4	21.2	23.4	25.8	26.8	27.8
Gross Margin (%)		90.7%	91.7%	91.1%	90.6%	90.1%	89.8%
EBITDA Margin (%)		34.6%	33.3%	32.9%	30.5%	29.9%	30.9%
Operating Margin (before GW and except.) (%)		25.3%	23.8%	24.5%	22.2%	21.8%	23.1%
BALANCE SHEET							
Fixed Assets		166,415	143,546	133,292	125,361	116,930	108,399
Intangible Assets		139,397	121,383	110,953	102,122	92,991	83,860
Tangible Assets		24,313	22,032	22,187	23,087	23,787	24,387
Other fixed assets		2,705	131	152	152	152	152
Current Assets		37,221	39,800	46,088	50,103	58,431	79,259
Stocks		1,550	1,206	1,815	1,815	1,815	1,815
Debtors		28,732	33,893	39,970	41,126	43,302	45,758
Cash		6,939	4,701	4,303	7,162	13,314	31,686
Current Liabilities		(67,665)	(63,819)	(56,158)	(50,925)	(53,518)	(56,445)
Creditors		(54,763)	(51,960)	(51,425)	(50,925)	(53,518)	(56,445)
Short term borrowings		(12,902)	(11,859)	(4,733)	0	0	0
Long Term Liabilities		(21,063)	(12,481)	(9,080)	(9,080)	(9,080)	(9,080)
Long term borrowings		(5,854)	(1,951)	0	0	0	0
Other long term liabilities		(15,209)	(10,530)	(9,080)	(9,080)	(9,080)	(9,080)
Net Assets		114,908	107,046	114,142	115,459	112,763	122,134
CASH FLOW							
Operating Cash Flow		44,856	42,711	43,657	43,619	43,421	57,149
Net Interest		(445)	(422)	(324)	(50)	50	100
Tax		(5,247)	(6,896)	(7,655)	(7,402)	(7,668)	(8,593)
Capex		(15,161)	(14,058)	(12,084)	(12,500)	(12,500)	(12,500)
Acquisitions/disposals		(9,959)	(4,587)	(1,790)	0	0	0
Financing		(1,578)	492	881	(500)	(500)	(500)
Dividends		(10,792)	(14,532)	(14,006)	(15,575)	(16,651)	(17,284)
Net Cash Flow		1,674	2,708	8,679	7,592	6,152	18,372
Opening net debt/(cash)		13,491	11,817	9,109	430	(7,162)	(13,314)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	0	0
Closing net debt/(cash)		11,817	9,109	430	(7,162)	(13,314)	(31,686)
Source: EMIS, Edison Investment Research							

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by EMIS Group and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "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.