

# Numis Corporation

H118 results

Strong H1 and franchise remains robust

Numis has made good progress in the first half of 2018 with particularly strong revenues in corporate broking and advisory and a resilient result from the equities activity. Investment in people and platforms to support future growth and our expectation of lower portfolio gains restrains our earnings estimates for the moment but healthy deal pipelines, continued growth in the corporate client base and the strong balance sheet are positive indicators for the future, subject to market fluctuations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	112.3	32.5	22.4	12.0	19.6	2.7
09/17	130.1	38.3	25.9	12.0	17.0	2.7
09/18e	144.5	37.8	26.2	12.0	16.8	2.7
09/19e	147.7	38.6	27.3	12.0	16.1	2.7

Note: \*PBT and EPS are diluted on a reported basis.

## H118 results

Overall revenues were up 42% compared with H117 and just 5% below the particularly strong second half last year. Capital markets showed the strongest advance from the prior year period at +94% closely followed by advisory, +86%. Equities revenues were virtually unchanged, reflecting a moderate reduction in trading profit and a slight increase in institutional income. The implementation of MiFID II in Numis's second quarter has so far been navigated without obvious adverse impact and the institutional client base is reported as being materially unchanged: an important feature for corporate clients. While costs did increase significantly (+27%) reflecting both variable compensation and investment in new staff, the operating margin increased and pre-tax profits rose 87% to £19.5m.

## Outlook: Pipelines strong, M&A promising

Market levels have recovered close to where they started the calendar year and volatility has subsided from the spike seen earlier. If sustained, together with the strong pipeline of transactions Numis itself reports, this could produce positive surprises versus estimates in the remainder of the year (see page 4 for details of estimate changes). The outlook for M&A activity appears particularly promising as Numis indicates that more of its clients are looking to pursue their strategies through corporate deals and have the liquidity to support this. In the first half Numis benefited from higher average deal fees, reflecting both higher average size and increased seniority in syndicates, features that both tend to confirm further strengthening of its franchise. Even if these measures fluctuate in future periods, continuation of a positive trend would contribute to growth through market cycles.

## Valuation

The shares have risen by 57% over the last 12 months, but the P/E still does not look particularly stretched in comparison to a broad peer group. The price to book is above average but this is paired with an above-average ROE. On our assumptions a ROE/COE model implies that the market is factoring in a sustainable ROE of c 24%, which does not seem overly aggressive (page 5).

## Financial services

17 May 2018

**Price** 440.0p  
**Market cap** £471m

Net cash (£m) at 31 March 2018	82.5
Shares in issue	107.1m
Free float	89%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	17.3	31.3	63.9
Rel (local)	9.6	24.0	58.6
52-week high/low	440.0p	231.2p	

## 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 c 255 staff in offices in London and New York, and at the end of March 2018 had 208 corporate clients.

## Next events

Trading update	End July
End FY18 trading update	Early October

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## H118 results

The results for H118 (to end March) were characterised by a very strong performance from the corporate broking and advisory activities compared with H117. Equity revenues were virtually unchanged in a period that included the initial implementation of MiFID II. There was evidence of continued strengthening of the Numis franchise in an increase in the corporate client count and a rise in the average fee per corporate transaction. The H118 P&L figures are set out in Exhibit 1 which puts them in the context of the first and second half of last year together with the annual results between FY13 and FY17. Selected points from the results are highlighted below with comparisons against H117 unless stated.

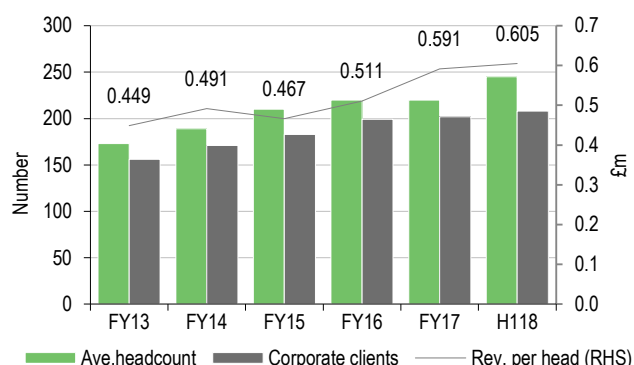
- Within **equities** revenue, institutional was slightly ahead despite the advent of MiFID II in the second quarter, which that has generally intensified pressure on institutional broker lists. Numis reports successful implementation with limited impact on business and in particular no material change in the composition of its institutional client base.
- **Corporate broking and advisory** revenues increased by 75.7%. The transaction volume was little changed from H117 but there was a material increase in the average fee reflecting both larger transactions and more senior roles in syndicates. Transactions included the Catco Reinsurance equity raising (\$546m) and Sabre Insurance Group IPO (£575m admission).
- **Total revenue** increased by 41.5%, outpacing both staff and non-staff costs (+32.1% and 13.6% respectively) allowing the **operating margin** to increase from 17.3% to 26.0%. This was despite **continued investment** in the business in both selective recruitment to support increased scale and future growth (average headcount +14% - see below for more detail) and spending to strengthen the IT platform and address regulatory change.
- **Pre-tax profit** was 86.6% higher and **EPS** (diluted) increased by 93.6% helped by an unusually low tax rate in the period, which we believe is unlikely to be repeated.
- The **corporate client count** increased from 201 at end FY17 to 208 and the average and median market cap stands at c £711m and £322m respectively.
- The interim **dividend** was unchanged at 5.5p/share while share buybacks increased from £5.3m to £9.7m.

**Exhibit 1: Profit and loss progression**

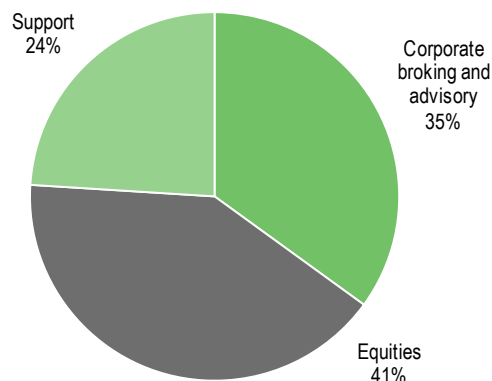
£m unless stated	FY13	FY14	FY15	FY16	FY17	H117	H217	H118	H118/H117	H118/H217
Net trading gains	8.5	7.7	4.1	6.5	9.0	5.0	4.1	4.6	-8.8%	12.5%
Institutional commissions	28.8	31.9	29.3	31.9	35.8	18.4	17.3	18.7	1.5%	8.1%
<b>Equities</b>	<b>37.2</b>	<b>39.6</b>	<b>33.4</b>	<b>38.4</b>	<b>44.8</b>	<b>23.4</b>	<b>21.4</b>	<b>23.3</b>	<b>-0.7%</b>	<b>8.9%</b>
Corporate retainers	6.9	7.8	8.9	9.6	11.6	5.6	6.0	6.1	9.0%	2.7%
Advisory fees	6.0	9.0	17.9	16.3	14.4	6.3	8.0	11.7	84.9%	46.4%
Placing commissions / capital markets	27.5	36.5	37.7	48.0	59.4	17.0	42.4	33.0	94.2%	-22.1%
<b>Corporate broking and advisory</b>	<b>40.4</b>	<b>53.3</b>	<b>64.6</b>	<b>73.9</b>	<b>85.3</b>	<b>29.0</b>	<b>56.3</b>	<b>50.9</b>	<b>75.7%</b>	<b>-9.7%</b>
<b>Total revenue</b>	<b>77.7</b>	<b>92.9</b>	<b>98.0</b>	<b>112.3</b>	<b>130.1</b>	<b>52.4</b>	<b>77.7</b>	<b>74.1</b>	<b>41.5%</b>	<b>-4.6%</b>
Other operating income	3.6	0.0	(2.0)	3.8	3.4	1.4	2.0	0.4	-72.3%	-79.9%
<b>Total income</b>	<b>81.2</b>	<b>92.9</b>	<b>96.0</b>	<b>116.1</b>	<b>133.5</b>	<b>53.8</b>	<b>79.7</b>	<b>74.5</b>	<b>38.5%</b>	<b>-6.5%</b>
Staff costs	(41.2)	(49.1)	(47.4)	(58.9)	(69.0)	(30.3)	(38.7)	(40.0)	32.1%	3.2%
Non-staff costs	(18.0)	(19.9)	(22.7)	(24.7)	(26.4)	(13.1)	(13.3)	(14.9)	13.6%	11.7%
<b>Total administrative expenses</b>	<b>(59.2)</b>	<b>(69.0)</b>	<b>(70.1)</b>	<b>(83.6)</b>	<b>(95.4)</b>	<b>(43.3)</b>	<b>(52.1)</b>	<b>(54.8)</b>	<b>26.5%</b>	<b>5.3%</b>
<b>Operating profit / loss</b>	<b>22.1</b>	<b>23.9</b>	<b>25.9</b>	<b>32.5</b>	<b>38.1</b>	<b>10.5</b>	<b>27.6</b>	<b>19.7</b>	<b>87.9%</b>	<b>-28.7%</b>
Finance income/expense	0.6	0.5	0.2	0.0	0.2	(0.0)	0.2	(0.2)	658.3%	-185.8%
<b>Pre-tax profit</b>	<b>22.6</b>	<b>24.4</b>	<b>26.1</b>	<b>32.5</b>	<b>38.3</b>	<b>10.5</b>	<b>27.9</b>	<b>19.5</b>	<b>86.6%</b>	<b>-29.9%</b>
Tax	(4.6)	(4.3)	(4.5)	(6.1)	(7.9)	(1.6)	(6.3)	(2.7)	66.0%	-56.9%
Effective tax rate	20.1%	17.7%	17.4%	18.8%	20.7%	15.6%	22.6%	13.9%		
<b>Attributable profit</b>	<b>18.1</b>	<b>20.1</b>	<b>21.5</b>	<b>26.4</b>	<b>30.4</b>	<b>8.8</b>	<b>21.5</b>	<b>16.8</b>	<b>90.4%</b>	<b>-22.0%</b>
<b>Diluted EPS (p)</b>	<b>15.6</b>	<b>17.1</b>	<b>18.3</b>	<b>22.4</b>	<b>25.9</b>	<b>7.6</b>	<b>18.3</b>	<b>14.6</b>	<b>93.6%</b>	<b>-20.2%</b>

Source: Numis, Edison Investment Research

The company has, as noted, increased headcount over the period, making selected hires of senior staff to enhance capabilities in certain areas of the business (particularly in equities) and at a mid-tier level (corporate broking and advisory). Among those reported as joining are: Ulick Burke, who joins as a director in the equities team having been head of UK institutional sales at Bank of America Merrill Lynch; Richard Paige, an industrials analyst and previously head of Barclays' UK mid-cap research; and Tintin Stormont, a technology analyst who was a partner at N+1 Singer. The progression of average headcount revenues per head and the number of corporate clients is shown in Exhibit 2 with the split by activity at the end of FY17 given in Exhibit 3.

**Exhibit 2: Expanding headcount to service clients**


Source: Numis, Edison. Note: H118 Rev. per head annualised.

**Exhibit 3: Staff by area of activity**


Source: Numis, Edison Investment Research

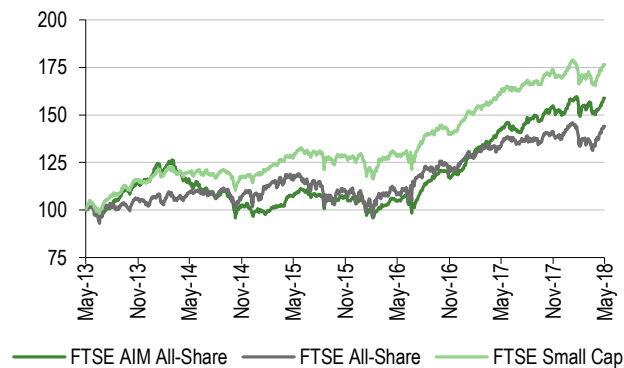
Numis reported a strong cash position, even after share buybacks, at £82.5m compared with £71.2m at the end of H117 (seasonally lower than the end FY17 level of £95.9m). Since the period end the cash position has been further strengthened because the company has decided to close the Numis Mid Cap Fund and the £12.5m proceeds from its liquidation were received in April. The decision reflected a judgement that the performance had not been sufficiently strong (over three years broadly in line with its benchmark) to justify marketing the fund to third party investors.

At the half-year end, the remainder of the strategic investments were mainly unquoted and these holdings were valued at £13.9m, with limited overall movement since the end of FY17 (£13.5m) including a net movement on acquisitions and disposals of £0.3m and a value uplift of £0.7m. The aim remains to recycle some of the older portfolio investments (for instance the long-term holding in Randall & Quilter has been sold) and to focus on early stage investments, which can benefit from access to Numis business network. The expectation is that the number of strategic investments will not change significantly over the medium term.

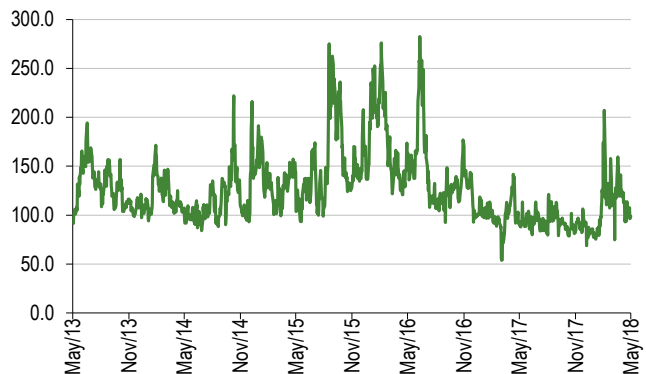
## Prospects: Looking for M&A activity to pick up

Recent equity market trends are shown in Exhibits 4 and 5. Evident here is the medium-term strength in each of the indices shown, the small cap sector outperformance over this period and the dip and recovery seen in markets in calendar year 2018 to date. The volatility index highlights the period of declining volatility that was interrupted early in 2018 with a market correction. As noted market levels have recovered close to those that prevailed at the beginning of the year and volatility has subsided.

If sustained this would seem likely to create a generally favourable background both for the equities and corporate banking and advisory businesses. Numis has indicated that since the end of H118, the equities business has performed in line with the first half: an encouraging indicator following uncertainty last year over the potential impact of MiFID II implementation.

**Exhibit 4: FTSE AIM, All-Share and Small Cap indices**


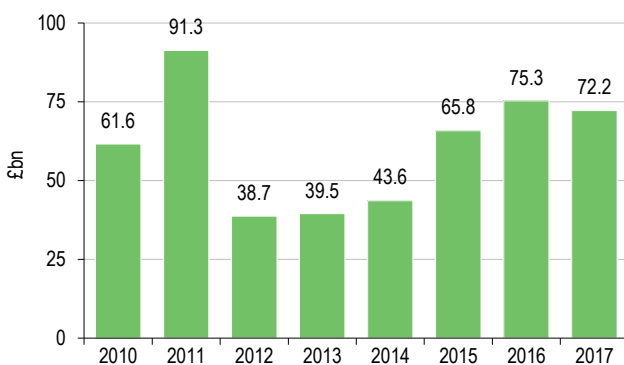
Source: Thomson Datastream. Note: Total return series

**Exhibit 5: FTSE 100 volatility index**


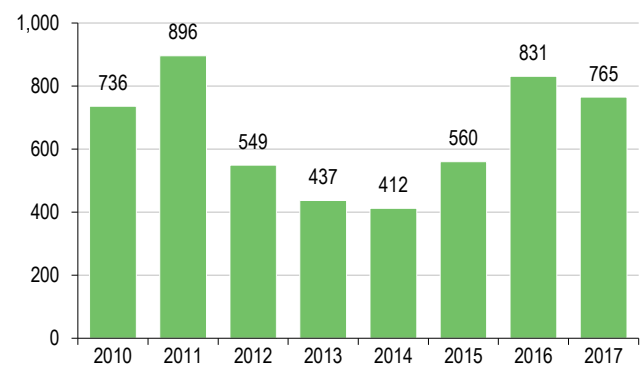
Source: Thomson Datastream

On the corporate broking and advisory business Numis reports that it has a strong IPO pipeline, reflecting marketing efforts in the first half although, as usual, delivery here will depend on market levels and volatility both remaining at levels that encourage corporate and investor confidence.

Developing and marketing the advisory capability within the division is seen as an important part of the company's strategy. Here the continued growth in the corporate client base over recent years has been important as it has resulted in an increase in the number, size and diversity of companies already advised by Numis that may be considering transactions. The company reports that although UK activity levels have been comparatively muted (see value and volumes by calendar year in Exhibits 6 and 7) its corporate clients (particularly in the mid-cap area) are putting greater emphasis on M&A activity and have the liquidity and debt capacity to support this.

**Exhibit 6: UK M&A transaction value**


Source: ONS. Note: inbound, outbound and domestic. Excludes deals above £10bn that affected 2016/17 data. Calendar years.

**Exhibit 7: UK M&A number of transactions**


Source: ONS. Note: inbound, outbound and domestic. Calendar years.

## Financials

We summarise changes in our estimates in Exhibit 8. Our revenue estimates are increased by 9% and 8% for FY18 and FY19 respectively following the strong first half performance but, again, reflecting the pattern in the first half, we have allowed for increased staff and other costs as Numis invests to support future growth. This leaves our operating profit forecasts up by 4% and 2%. The decision to close the Numis Mid Cap Fund means the overall size of the strategic investment portfolio is smaller and the returns we assumed would be generated by the fund will be removed. It is difficult to forecast the incidence of gains from the remaining, mainly unquoted, portfolio but we have reduced our estimates for other income from £2m per annum to £0.5m for FY18 and FY19. This results in modestly lower profit and EPS forecasts, as shown.

**Exhibit 8: Estimate revisions**

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/18e	132.2	144.5	9.3%	38.0	37.8	-0.7%	27.0	26.2	-3.2%	12.0	12.0	0.0%
09/19e	137.1	147.7	7.7%	39.4	38.6	-2.1%	28.3	27.2	-4.2%	12.0	12.0	0.0%

Source: Edison Investment Research

Cash flow in the first half is seasonally weaker reflecting the incidence of costs (notably bonus payments) and is in any case subject to working capital fluctuations. For H118 net cash flow from operations was positive at £4.3m but was outweighed by share buybacks, dividend payments and other items resulting in a £13.1m outflow in the half compared with £17.6m for H117. As noted earlier, this left cash at £82.5m prior to the receipt of the £12.5m proceeds from liquidating the Numis Mid Cap fund.

The H118 regulatory capital position was still in significant surplus with shareholder funds of £140m (c £134m post interim dividend) covering the regulatory requirement by c 2x, providing the company with considerable resilience and flexibility.

## Valuation

We have updated our comparative valuation table below. It includes UK brokers together with a selection of US and European investment banks and advisory firms. The absence of published estimates for the other UK brokers explains the lack of current year P/Es for the comparison. While the businesses have different profiles they do offer a qualified peer group for comparison. In terms of P/Es (calculated on last reported earnings), Numis is below the average across the whole list (25x), while its above average price to book ratio is supported by the above-average return on equity.

**Exhibit 9: Peer comparison**

	Price (local)	Market cap (£m)	Last reported P/E (x)	Current P/E (x)	Yield (%)	Price to book (x)	ROE (%)
<b>UK brokers</b>							
Numis	435.5	466	16.8	16.7	2.8	3.5	23.1
Arden	40.5	13	12.3	N/A	0.0	1.1	7.4
Cenkos	110.0	61	8.3	N/A	8.2	2.1	25.3
Shore Capital	285.0	61	21.8	N/A	1.8	1.1	4.8
WH Ireland	110.0	33	loss	N/A	0.0	2.4	-6.4
<b>UK brokers average</b>			<b>14.8</b>	<b>N/A</b>	<b>2.5</b>	<b>2.0</b>	<b>10.9</b>
<b>US, European IB and advisory</b>							
Bank of America	31.1	232,694	19.1	12.3	1.3	1.3	7.7
Evercore	109.1	3,283	34.5	14.6	1.3	8.1	25.3
Goldman Sachs	241.0	69,849	26.3	10.5	1.2	1.3	5.8
Greenhill	26.9	505	loss	21.4	5.2	4.0	-8.6
JP Morgan	113.3	285,132	17.8	12.6	1.9	1.7	10.8
Moelis	58.5	2,523	60.9	20.5	9.6	9.3	15.9
Morgan Stanley	55.0	71,901	17.5	11.7	1.6	1.4	9.1
Stifel	59.5	3,143	23.5	11.6	0.0	1.5	7.3
Credit Suisse	16.8	31,662	loss	13.9	1.5	1.0	-2.1
Deutsche Bank	11.0	19,869	loss	21.1	1.0	0.4	-2.4
UBS	16.1	45,795	45.8	11.5	0.0	1.2	2.5
<b>US, European IB and advisory average</b>			<b>30.7</b>	<b>14.7</b>	<b>2.2</b>	<b>2.8</b>	<b>6.5</b>

Source: Bloomberg. Note: Priced at 17 May 2018.

We have used a ROE/COE valuation model to infer the ROE assumption required to match the 435p share price at time of writing: this gives a value of 24% (based on the H118 NAV of 131p and assuming a cost of equity of 10% and growth of 4%). Our current forecasts indicate ROEs of 22% and 21% for FY18 and FY19 but on a medium-term view a combination of deployment or return of some part of the excess capital highlighted earlier and/or better than expected results could put

returns of 24% or more well within reach. The sensitivity of the valuation to changing growth and ROE assumptions is illustrated in Exhibit 10.

<b>Exhibit 10: ROE/COE valuation output variations (value per share, p)</b>					
<b>Growth rate (right)</b>	<b>2.0%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>5.0%</b>	<b>6.0%</b>
<b>Return on equity</b>					
18.0%	261	280	305	340	392
21.0%	310	336	370	418	490
23.0%	343	373	414	471	555
25.0%	376	411	457	523	621
29.0%	441	485	545	627	752
Source: Edison Investment Research					

<b>Exhibit 11: Financial summary</b>						
<b>£'000s</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>
Year end 30 September						
<b>PROFIT &amp; LOSS</b>						
Revenue		97,985	112,335	130,095	144,504	147,670
Other operating income		(1,978)	3,759	3,431	500	500
Total income		96,007	116,094	133,526	145,004	148,170
Cost of Sales (excl. amortisation and depreciation)		(65,018)	(76,120)	(83,626)	(95,268)	(98,926)
Share based payment		(4,104)	(6,229)	(10,454)	(10,800)	(9,500)
EBITDA		28,863	29,986	36,015	38,436	39,244
Depreciation		(882)	(1,126)	(1,226)	(1,200)	(1,200)
Amortisation		(111)	(125)	(89)	(35)	(20)
Operating Profit (before amort. and except).		27,870	28,735	34,700	37,201	38,024
Net finance income		190	37	188	50	60
Other operating income		(1,978)	3,759	3,431	500	500
Profit before tax		26,082	32,531	38,319	37,751	38,584
Tax		(4,533)	(6,132)	(7,942)	(7,740)	(7,762)
Profit after tax (FRS 3)		21,549	26,399	30,377	30,011	30,822
Average diluted number of shares outstanding (m)		117.6	118.0	117.2	114.7	113.0
EPS - basic (p)		19.5	23.5	27.4	28.2	29.4
EPS - diluted (p)		18.3	22.4	25.9	26.2	27.3
Dividend per share (p)		11.50	12.00	12.00	12.00	12.00
NAV per share (p)		102.0	113.5	125.0	134.5	146.1
ROE (%)		19%	22%	23%	22%	21.0%
EBITDA margin (%)		29.5%	26.7%	27.7%	26.6%	26.6%
Operating margin (before GW and except.) (%)		28.4%	25.6%	26.7%	25.7%	25.7%
<b>BALANCE SHEET</b>						
Fixed assets		6,724	5,522	6,147	7,188	6,658
Current assets		279,114	312,462	407,850	366,470	376,044
Total assets		285,838	317,984	413,997	373,658	382,702
Current liabilities		(170,319)	(188,895)	(280,371)	(231,146)	(231,146)
Long term liabilities		0	(12)	0	(11)	(11)
Net assets		115,519	129,077	133,626	142,501	151,545
<b>CASH FLOW</b>						
Operating cash flow		6,467	48,735	43,369	36,137	36,232
Net cash from investing activities		(3,632)	84	(198)	(990)	(380)
Net cash from (used in) financing		(17,510)	(19,580)	(36,359)	(33,037)	(31,279)
Net cash flow		(14,675)	29,239	6,812	2,110	4,574
Opening net (cash)/debt		(74,518)	(59,591)	(89,002)	(95,852)	(97,770)
FX effect		(252)	172	38	(192)	0
Closing net (cash)/debt		(59,591)	(89,002)	(95,852)	(97,770)	(102,344)
Source: Company data, Edison Investment Research						

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