

Numis Corporation

Investing to broaden the income base

FY21 results update

Inevitably, after two years of record revenues and with near-term market sentiment less certain, there is a temptation to be wary of the outlook for an investment bank. However, Numis has proven resilient through market cycles, has a strong balance sheet and has been successfully pursuing a growth strategy, which includes broadening its activities into M&A advisory, private markets and now international equity capital markets. Market fluctuations are still set to sway earnings but, on a longer view, the steps being taken currently should provide the base for further growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/19	111.6	12.4	8.1	12.0	39.3	3.8
09/20	154.9	37.1	26.7	12.0	11.9	3.8
09/21	215.6	74.2	49.1	13.5	6.5	4.2
09/22e	181.4	44.3	30.2	13.5	10.5	4.2

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

FY21 results: Record revenue and dividend increase

In line with its Q421 update at the end of September, Numis had a strong second half, with revenue just 9% below the exceptionally high level seen in its first half. Full year revenue of £215.6m (+39.2% y-o-y) represented a new record and included investment banking revenue up 52% and equities up 14%. Despite investment in staff to support growth, underlying operating profit increased 80%, demonstrating operational gearing. Further boosted by gains on the investment portfolio (£8.7m), pre-tax profit was up 100% to £74.2m. This gave diluted EPS of 49.1p (+84%). In an indication of the board's confidence in the capacity of the business to generate returns through market cycles, its ability to support investment and the adequacy of its capital and liquidity positions, the dividend has been rebased to 13.5p for the full year (previously 12p).

Strong pipeline with near-term timing uncertainty

Looking ahead, Numis has a strong pipeline of deals and reports that the UK M&A and global private markets areas remain active. There is currently more uncertainty over the timing of execution of IPOs and other capital markets transactions. As well as developing its core business further, Numis looks to expand its newer UK M&A and private market areas further and to develop international equity capital markets activities on a targeted basis.

Valuation

Apart from adjusting the dividend expectation in line with the increase announced for FY21, our FY22 estimate is not changed materially. It allows for some normalisation in earnings after two very strong years and gives a prospective P/E of 10.5x, below the averages for the US/EU investment banks and advisory firms. A ROE/COE model suggests the current share price is implying an ROE of 15.3%, below the five- or 10-year historical averages, for example (see page 7).

Financial services

10 December 2021

Price 319p
Market cap £354m

Net cash (£m) at end September 2021	134.1
Shares in issue	111.1m
Free float	75%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.6)	(11.4)	(8.9)
Rel (local)	(3.9)	(13.8)	(19.1)
52-week high/low		398p	308.5p

Business description

Numis Corporation is one of the UK's leading independent investment banking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. At the end of September 2021 it employed 319 staff in offices in London, Dublin and New York, and had 182 corporate clients.

Next events

AGM	8 February 2022
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FY21 results analysis

Exhibit 1 provides a summary of the half- and full-year figures for FY20 and FY21 with additional comments noted below. Figures are compared with the prior year period unless stated.

Group **revenue** for FY21 was up 39% with the largest increase (+£53m) in **investment banking**. Within this, capital markets and advisory were the main contributors, reflecting the revival in IPO and M&A activity following a COVID-induced hiatus, growth in the private markets activity (the Growth Capital Solutions team within capital markets) and a significant increase in average deal fees earned by Numis (these have doubled since FY19). Higher average deal fees were generated by larger deal sizes and more senior positions in transactions, an indication of a strengthening in Numis's reputation. The larger deal size in part reflects the increase in quality of the retained client base; while Numis does not regard size alone as an indicator of client quality, the average market capitalisation of its retained corporate clients has increased to £1.4bn, an increase of 88% over five years, and includes 66 FTSE 350 companies. The year-end number of retained clients at 182 versus 188 was affected by acquisitions of clients and a post-pandemic reduction in the opportunities to pitch for new clients. This left corporate retainer income slightly lower, but higher M&A activity contributed to a 177% (£19.7m) increase in advisory revenue arising from work for both retained and non-retained clients. Not shown in the table below, but private markets transaction revenue accounted for more than £20m or 18% of capital markets revenue and, as with the advisory team, there has been recruitment to support the increased level of activity and potential for growth.

Within the **equities** business, **institutional** income benefited from market share gains, with the number of institutional clients increasing despite post-Brexit limitations on access to EU clients. The new electronic trading product has progressed and is expected to account for a growing proportion of institutional income. Research income was at a similar level to the prior year and Numis believes the market has now generally stabilised following the implementation of MiFID II in 2018. **Trading income** was up 23% from a strong FY20 with a weighting to the first half. The net trading gains of nearly £20m compare with the £9m average of the prior five years, reflecting periodic volatility during the year (although below the levels seen in FY20), a relatively strong performance by mid- and small-cap stocks and an increase in trading book limits.

The **other operating income** line comprised gains of £8.7m in the investment portfolio, which was valued at £21.8m at the year end (versus £14.7m FY20). The gains mainly arose from holdings in Oxford Nanopore Technologies (DNA/RNA sequencing devices) and Wiz Inc (cyber security). Numis invested in Oxford Nanopore Technologies 12 years ago and acted for the company in its IPO at the end of September; Numis has since sold its entire holding. The investment in Wiz was made during FY21 and is an example of a move to later-stage investments that are aligned with its private market activity and can benefit from Numis's network and experience. Remaining legacy and fund investments are being progressively sold, with the aim being to have a broadly stable number of holdings through reinvestment.

Administrative expenses increased by 25%, including a 26% increase in total staff costs (or 30% excluding share-based payments) mainly reflecting higher variable remuneration given the increase in pre-bonus profitability. The year-end headcount was 9% higher at 319 and the average increased by 3.5%. Staff additions mainly comprised junior and mid-level roles in investment banking. At 50.4%, the compensation ratio was at the lower end of the target range of 50–60%. Non-staff costs increased by 21% including higher occupancy costs arising from the move to a new London office (there was a reduced one-off cost of £0.4m related to this compared with £1.3m in FY20). Data service costs rose with headcount and there were professional fees relating to the EU licence application for the Dublin office. Ongoing non-staff costs for this office are expected to be £1.5m.

This left **operating profits** more than double the FY20 level and the operating margin, before other income at 31.4% versus 23.6%. **Pre-tax profit** increased by 100% and diluted **EPS** by 84%.

Exhibit 1: Profit and loss analysis

£m unless stated	H120	H220	H121	H221	% change y-o-y	FY20	FY21	% change y-o-y
Net trading gains	6.5	9.5	11.5	8.2	(12.8)	16.0	19.8	23
Institutional income	19.7	17.5	21.9	19.1	9.0	37.2	41.0	10
Equities	26.2	27.0	33.4	27.3	1.3	53.2	60.7	14
Corporate retainers	6.8	6.7	6.3	6.2	(8.1)	13.5	12.5	(8)
Advisory	7.2	3.9	12.4	18.5	370.7	11.1	30.9	177
Capital markets	22.8	54.2	63.3	48.2	(11.1)	77.0	111.5	45
Investment banking	36.9	64.8	82.0	72.8	12.3	101.7	154.9	52
Total revenue	63.1	91.8	115.4	100.2	9.1	154.9	215.6	39
Other operating income	(1.9)	2.2	2.0	6.7	204.5	0.3	8.7	2,711
Total income	61.2	94.0	117.4	106.9	13.7	155.2	224.3	45
Staff costs	(36.6)	(49.4)	(61.0)	(47.6)	(3.6)	(86.0)	(108.6)	26
Non-staff costs	(17.4)	(15.0)	(15.7)	(23.6)	56.8	(32.4)	(39.2)	21
Total administrative expenses	(54.0)	(64.4)	(76.7)	(71.2)	10.5	(118.4)	(147.9)	25
Operating profit/loss	7.2	29.6	40.7	35.7	20.7	36.8	76.4	108
Finance income/expense	0.0	0.2	(1.4)	(0.9)	(472.1)	0.3	(2.3)	(970)
Pre-tax profit	7.3	29.8	39.3	34.8	16.8	37.1	74.2	100
Tax	(1.0)	(4.7)	(9.5)	(6.8)	43.4	(5.7)	(16.3)	185
Effective tax rate (%)	13.8	15.8	24.3	19.4		15.4	22.0	43
Attributable profit	6.3	25.1	29.8	28.1	11.8	31.4	57.8	85
Diluted EPS (p)	5.5	20.7	25.7	23.5	13.6	26.7	49.1	84
Dividend (p)	5.5	6.5	5.5	8.0	23.1	12.0	13.5	13
Operating margin before other income (%)	14.5	29.8	33.6	28.9		23.6	31.4	33

Source: Numis, Edison Investment Research

Numis had maintained a stable full-year **dividend** at 12p since FY16, but has made an upward adjustment to 13.5p (8p final dividend) for FY21. The move follows a reassessment by the board, which took into account resilience shown by the business through market cycles and the progress in implementation of the group's strategy in FY21 and prior years. The board sees the increase as consistent with investing to support growth.

The group remains committed to returning excess cash to shareholders and mitigating the dilutive impact of share awards. During FY21, on-market purchases of shares were sharply reduced (£1.6m versus £5.4m) as the purchase of shares for the employee benefit trust increased (to £22.7m versus £4.3m), which was related to the vesting of FY16 Long Term Incentive Plan (LTIP) awards. This vesting pushed up the share count at the year end and the group intends to increase on-market buybacks of shares to prior levels to offset the dilutive effect over a period.

The group adheres to its **five strategic strands** while evolving as openings emerge.

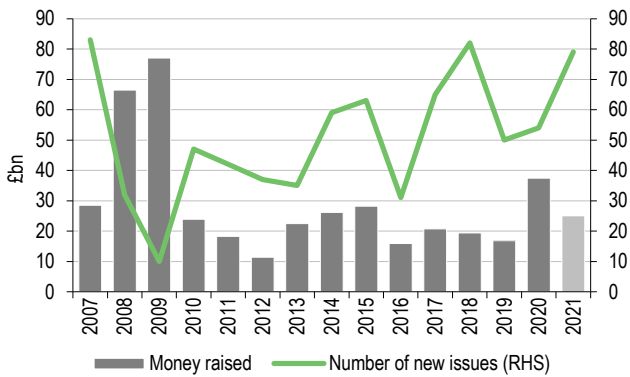
1. Build the size and quality of the corporate franchise. This underpins transaction opportunities for the capital markets and advisory teams.
2. Become the leading UK equities platform by growing market share in both equities and equity capital markets.
3. Diversify into new products and markets. Here the aim is to increase advisory and private markets revenues further. The potential to develop non-UK equity capital markets revenues has been recognised and targeted more recently. Numis has been acting as an adviser on its first US IPO (Nubank, a Brazilian fintech, listed on the NYSE). Investment in Dublin and the US will help attract non-UK clients and facilitate a broadening of the institutional investor client base.
4. Maintain operating and capital discipline. While costs have increased with growth and the move to a new London office, the compensation ratio has been managed through market fluctuations.
5. Deliver shareholder returns through revenue growth, with greater diversity of income and control over the share count resulting in EPS growth and lower volatility through the market cycle.

Background and outlook

Exhibits 2 and 3 show calendar-year figures for total issuance for the London Stock Exchange Main and AIM markets since 2007; the 2021 figures are for the period to end-November. On the Main Market, the number of new issues for 2021 to end November was sharply higher than in 2020 but total money raised was below the prior year period when funds were being raised to support company balance sheets following the onset of the pandemic. For AIM, the pattern has been different with a smaller increase in 2020 issuance followed by a rise in 2021 as the market rotated towards smaller- and mid-cap stocks with growing confidence in economic recovery. Like the Main Market, AIM new issues have increased significantly from a low point in 2019. Mirroring this, Numis acted for clients in 12 IPOs in FY21 compared with one in FY20.

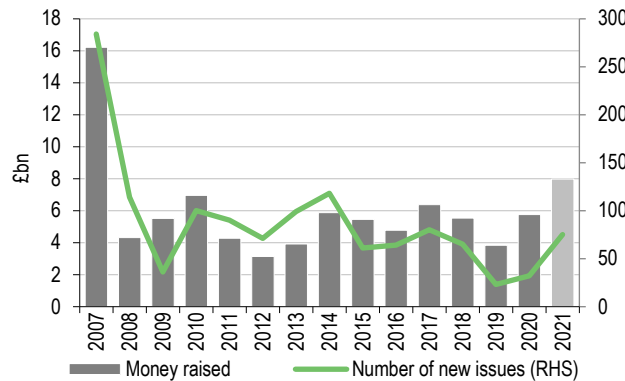
To provide longer-term context, the level of money raised on the Main Market in 2020 and 2021 was well below the exceptional levels seen during the global financial crisis when large financial institutions on the Main Market required recapitalisation. In the case of AIM, issuance has been running well below the immediate pre-financial-crises level (£16bn in 2007).

Exhibit 2: LSE Main Market issuance and IPO count



Source: London Stock Exchange. Note: 2021 to end November.

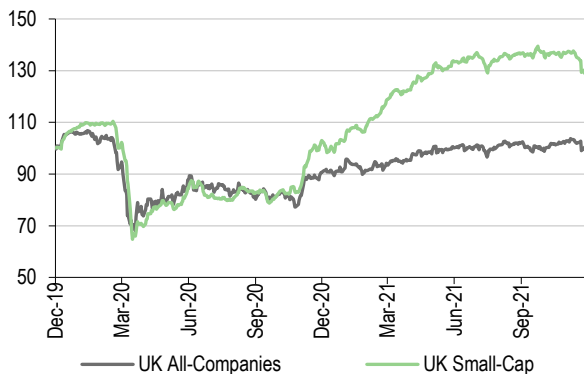
Exhibit 3: LSE AIM issuance and IPO count



Source: London Stock Exchange. Note: 2021 to end November.

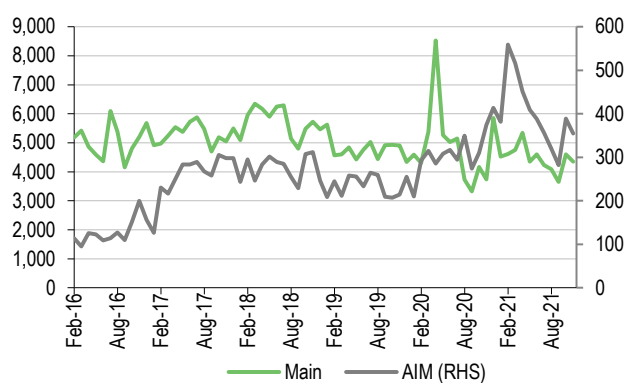
Exhibit 4 illustrates the recent performance of UK equity indices. The strong recovery from the pandemic-induced fall last year is clear, with a more marked pick-up for smaller-cap stocks evident since late 2020 as noted above. Both indices have seen a softer performance more recently. The next chart shows the daily value traded on the London Stock Exchange order book and on AIM. The Main Market showed a sharp spike with the onset of the pandemic, but AIM activity following later as interest rotated towards smaller-cap or riskier stocks. Both have seen a more recent decline towards more normal levels.

Exhibit 4: UK equity indices



Source: Refinitiv, CBOE indices

Exhibit 5: LSE average daily value traded (£m)



Source: London Stock Exchange (Main Market order book & AIM)

Turning to Numis's performance in the first two months of FY22, the company reports that revenue was broadly in line with H221 (c £13.7m per month). Exhibit 6 shows selected transactions that made a contribution, demonstrating a continuation of activity with roles on four IPOs (including one on Nasdaq Stockholm). Nevertheless, Numis acknowledges that market uncertainties could have an impact on the timing of execution of the capital markets pipeline in H122.

Exhibit 6: Numis – selected transactions in H122 to date

Company	Date	Role	Transaction	Money raised/ value (£m)
Synthomer	Oct-21	Joint bookrunner	Placing	205
Arrow Global	Oct-21	Joint financial adviser and joint broker	M&A	563
Oxford Nanopore	Oct-21	Joint bookrunner	IPO	603
Eurowag	Oct-21	Joint bookrunner	IPO	c 1,000
XPS Pensions	Nov-21	Debt adviser	Refinancing	100
Truecaller	Nov-21	Joint bookrunner	IPO (Nasdaq Stockholm)	1,630
Hyve	Nov-21	Sole bookrunner and debt adviser	Placing	29
Ashtead Technology	Nov-21	Sole bookrunner and nomad	IPO	129
Stock Spirits	Nov-21	Joint financial adviser	M&A	767
Benchmark Holdings	Nov-21	Sole bookrunner	Placing	21

Source: Numis, Edison Investment Research

There is greater confidence over the activity level in the UK M&A and global private markets, both areas where Numis also sees good potential for longer-term growth following the progress already demonstrated in the FY21 results.

We discuss our estimate assumptions and outputs in the next section.

Financials

We have reviewed our FY22 estimates and made only modest adjustments. Our assumptions for FY22 are tentative at this early stage in the year, and this point is underlined by Numis's caution over the timing for potential IPOs and other capital markets transactions in the pipeline. We have allowed for some normalisation in activity levels compared with FY21 on the basis that there may well be a quieter phase in activity. Nevertheless, the revenue run rate for the first two months (only) would, if maintained, imply a lower outcome with revenue of c £165m versus our £181m estimate (see Exhibit 7 for analysis).

Exhibit 7: Revenue analysis

£000s	2018	2019	2020	2021	2022e
Net trading gains	9,594	4,008	16,003	19,754	14,250
Institutional income	37,866	33,317	37,192	40,957	38,000
Equities	47,460	37,325	53,195	60,711	52,250
Corporate retainers	12,430	13,357	13,536	12,471	12,690
Advisory	17,335	12,576	11,146	30,884	31,500
Capital markets	58,822	48,352	77,022	111,516	85,000
Investment banking	88,587	74,285	101,704	154,871	129,190
Total revenue	136,047	111,610	154,899	215,582	181,440

Source: Edison Investment Research

On expenses, we have allowed for a further increase in staff numbers in FY22 to support growth in the new Dublin office, in advisory, the private markets team and in the US. Some double running costs will drop out in FY22 following the recent move to the new headquarters, but other non-staff costs will be higher, including costs related to the Dublin office, the new London office and higher travel and entertainment spending following the end of lockdown restrictions.

Changes in the headline numbers from our forecasts are shown below, with further detail from the new forecast given in the financial summary table (Exhibit 11). As can be seen, EPS increases marginally and the only material change in our FY22 estimates is adjusting the dividend to the new level set for FY21.

Exhibit 8: Estimate changes

	Revenue (£m)			PBT (£m)			Fully diluted EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/21a/e	215.2	215.6	0.2%	66.4	74.2	11.6%	44.9	49.1	9.3%	12.0	13.5	12.5%
09/22e	181.4	181.4	0.0%	44.2	44.3	0.1%	29.8	30.2	1.6%	12.0	13.5	12.5%

Source: Edison Investment Research. Note: For FY21, old figures are our estimate and new are actual.

Numis ended the year with no debt drawn and end-September cash and cash equivalents of £134.1m compared with £125.2m at the end of FY21. The average level of cash during the year was £115m versus £83m and the variance between daily high and low cash positions was £77m. The group also continues to have significant excess capital for regulatory purposes, which it regards as providing long-term stability and strategic flexibility. Numis notes that the UK Investment Firms Prudential Regime (IFPR) will take effect from the beginning of calendar 2022 and that its capital requirement under the new regulation will be subject to an FCA review of the internal assessment so there will be no immediate impact. The establishment of a regulated entity in Ireland and the addition of US ECM to the US office's offering will give rise to a modest increase in capital requirement.

Turning to cash flow, there was a net cash inflow from operations of £58m including a negative working capital movement of £14m. Capital spending absorbed nearly £9m, a sharp increase on the previous five-year average of under £1m because of the fit-out costs of the new London office. Share repurchases and dividend payments absorbed £37m and, with other smaller items accounting for another £3m, in total there was a net cash inflow of £9m.

Valuation

We have updated our peer comparison table showing UK investment banks/brokers, and US and European investment banks and advisory firms in Exhibit 9.

Exhibit 9: Peer comparison

	Price (local)	Market cap (£m)	Last reported P/E (x)	Current P/E (x)	Yield (%)	ROE (%)	Price to book (x)
UK brokers							
Numis	319	354	6.5	10.5	4.2	34.0	1.9
Cenkos	76	43	22.8	N/A	4.6	8.0	1.5
FinnCap	32	57	7.2	7.4	4.7	31.0	2.0
WH Ireland	50	31	13.3	N/A	0.0	7.6	2.0
UK brokers average			12.5	9.0	3.4	20.1	1.8
US, European IB and advisory							
Bank of America	44.2	361,409	23.6	12.6	1.6	6.8	1.5
Evercore	136.7	6,090	14.2	9.3	1.7	43.8	4.5
Goldman Sachs	397.3	133,020	16.1	6.6	1.3	10.2	1.4
Greenhill	18.2	336	13.4	10.9	1.1	N/A	N/A
Jefferies Financial	38.6	9,474	14.6	6.4	1.5	8.1	1.0
JP Morgan	160.7	474,941	18.1	10.7	2.2	12.0	2.0
Moelis	61.7	4,062	21.2	11.3	2.3	N/A	7.5
Morgan Stanley	101.3	181,684	15.4	12.9	1.4	13.3	2.0
PJT Partners	74.0	2,630	15.0	16.0	0.3	N/A	11.4
Stifel Financial	71.8	7,522	15.7	10.7	0.6	N/A	2.0
Credit Suisse	8.9	23,671	8.4	25.7	1.1	5.9	0.5
Deutsche Bank	11.0	22,780	16.5	9.1	0.0	2.6	0.4
UBS	18.0	66,622	10.1	8.7	0.9	11.5	1.1
US, European IB and advisory average			15.6	11.6	1.2	12.7	2.9

Source: Refinitiv. Note: Priced at 9 December 2021. P/Es are for financial years and therefore not all same period end.

Comparison is limited by the fact that most other UK companies lack consensus estimates and that there are different year ends across the peers. Nevertheless, we note that Numis offers a high yield

relative to the non-UK companies, its P/E ratios are below the averages for the US/EU investment banks and advisory firms and its ROE is high in the range.

The chart below shows a 10-year history of the price to book ratio for Numis. The current value is 1.9x, just below the 10-year average of 2.1x. Using an ROE/COE model to infer the ROE required to match the share price at time of writing (319p) gives a value of 15.3%: less than half the 34% reported in FY21 and also below the 21% five-year historical average, the 18% 10-year average and our FY22 estimate, also 18%. While the market may be taking a cautious view, given the very strong performance seen in the last two years and near-term uncertainties, it can be argued that the strategic progress the group has made is not being fully captured in this valuation.

Exhibit 10: 10-year history of the price to book value ratio for Numis



Source: Refinitiv, Edison Investment Research

Exhibit 11: Financial summary

£'000s	2016	2017	2018	2019	2020	2021	2022e
Year end 30 September							
PROFIT & LOSS							
Revenue	112,335	130,095	136,047	111,610	154,899	215,582	181,440
Administrative expenses (excl. amortisation and depreciation)	(76,120)	(83,626)	(94,603)	(85,432)	(105,327)	(133,651)	(124,010)
Share based payment	(6,229)	(10,454)	(10,583)	(10,914)	(9,961)	(9,634)	(7,000)
EBITDA	29,986	36,015	30,861	15,264	39,611	72,297	50,430
Depreciation	(1,126)	(1,226)	(1,113)	(1,124)	(3,016)	(4,416)	(5,020)
Amortisation	(125)	(89)	(49)	(44)	(105)	(158)	(70)
Operating profit (before other operating income)	28,735	34,700	29,699	14,096	36,490	67,723	45,340
Net finance income	37	188	212	550	263	(2,288)	(1,050)
Other operating income	3,759	3,431	1,733	(2,210)	310	8,715	0
Profit before tax	32,531	38,319	31,644	12,436	37,063	74,150	44,290
Tax	(6,132)	(7,942)	(4,967)	(3,110)	(5,713)	(16,303)	(8,415)
Profit after tax (FRS 3)	26,399	30,377	26,677	9,326	31,350	57,847	35,875
Average diluted number of shares outstanding (m)	118.0	117.2	115.8	114.9	117.3	117.7	118.6
EPS - basic (p)	23.5	27.4	25.1	8.8	29.9	54.2	32.7
EPS - diluted (p)	22.4	25.9	23.0	8.1	26.7	49.1	30.2
Dividend per share (p)	12.00	12.00	12.00	12.00	12.00	13.50	13.50
NAV per share (p)	113.5	125.0	135.0	131.3	149.8	168.3	184.1
ROE (%)	22%	23%	19%	6.6%	21.2%	33.6%	18.5%
EBITDA margin (%)	26.7%	27.7%	22.7%	13.7%	25.6%	33.5%	27.8%
Operating margin (%)	25.6%	26.7%	21.8%	12.6%	23.6%	31.4%	25.0%
BALANCE SHEET							
Fixed assets	5,522	6,147	8,215	6,832	12,639	52,641	47,905
Current assets	312,462	407,850	533,033	326,641	509,034	683,319	700,785
Total assets	317,984	413,997	541,248	333,473	521,673	735,960	748,690
Current liabilities	(188,895)	(280,371)	(398,112)	(195,319)	(361,397)	(509,654)	(509,654)
Long term liabilities	(12)	0	0	0	(2,643)	(39,580)	(37,376)
Net assets	129,077	133,626	143,136	138,154	157,633	186,726	201,660
CASH FLOW							
Operating cash flow	48,735	43,369	45,830	(2,748)	65,953	58,329	51,001
Net cash from investing activities	84	(198)	(1,014)	(77)	(474)	(9,190)	(3,390)
Net cash from (used in) financing	(19,580)	(36,359)	(29,035)	(24,646)	(24,451)	(39,857)	(30,145)
Net cash flow	29,239	6,812	15,781	(27,471)	41,028	9,282	17,466
Opening net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(134,125)
FX effect	172	38	40	0	(13)	(374)	0
Closing net (cash)/debt	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(134,125)	(151,591)

Source: Company data, Edison Investment Research

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