

EMIS Group

FY19 results

Well positioned to weather the storm

EMIS has made good progress in a number of areas in FY19: it completed a restructuring programme, sold the Specialist & Care business, and was successfully appointed to GP frameworks in England and Scotland. The company continues to invest in developing the EMIS-X platform to support the growth of both the Health and Enterprise divisions. The group reported FY19 results slightly ahead of our forecasts, with revenue growth of 6.5% and adjusted EPS growth of 13.4%. We have taken a more conservative approach to forecasts to reflect short-term risks to new business while the NHS focuses on dealing with the coronavirus crisis.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	EMIS adj. dil. EPS** (p)	DPS (p)	P/E (x)
12/18	149.7	33.4	40.4	45.0	28.4	20.1
12/19	159.5	41.0	53.5	51.1	31.2	15.2
12/20e	159.8	39.9	51.2	48.9	32.6	15.9
12/21e	169.8	43.7	56.0	54.7	34.0	14.5

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.

FY19: A year of progress

The group was restructured in FY19 to better reflect the way health services are commissioned and to provide more efficient support to customers. The company also hit an important milestone with its appointment to the GP IT Futures framework in England. Revenues grew 6.5% y-o-y, of which 78% were recurring. Adjusted operating profit grew 9.4% y-o-y with margin expanding by 0.6pp to 24.6%. Net cash doubled to end the year at £31.1m.

FY20: Injecting a note of caution

The high level of recurring revenues with the NHS as the main customer means that EMIS entered 2020 with good visibility. Management highlighted that the coronavirus crisis is likely to make signing up new business more difficult and has reduced guidance for FY20. We have reduced our FY20 and FY21 revenue forecasts by 3.4% and 1.8%, respectively, which results in adjusted EPS cuts of 7.1% and 3.8%, respectively. With a strong net cash position plus access to debt, the company is well positioned to weather any short-term working capital issues.

Valuation: Decline overdone

Even after reducing our forecasts to reflect coronavirus uncertainty, EMIS is trading at a discount to peers on all profitability multiples despite higher profitability. The stock has declined 34% over the last month, compared to a 31% decline in the FTSE 100 and a 40% decline in the AIM All Share Index. Considering the high level of recurring revenues, strong balance sheet and longer-term direction of the NHS in terms of IT investment, this decline appears overdone.

Software & comp services

20 March 2020

Price **814p**
Market cap **£515m**

Net cash (£m) at end FY19	31.1
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(33.5)	(27.1)	(15.0)
Rel (local)	(0.8)	9.9	22.3
52-week high/low	1,242p	813p	

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 UK healthcare blockchain.

Next events

H120 trading update July 2020

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EMIS Group is a research client of Edison Investment Research Limited

Review of FY19 results

Exhibit 1: EMIS results highlights

£'000s	FY18	FY19e	FY19	Diff	y-o-y
Revenues	149,710	157,962	159,507	1.0%	6.5%
Normalised operating profit	32,991	39,769	40,794	2.6%	23.7%
Normalised operating margin	22.0%	25.2%	25.6%	0.4%	
Reported operating profit	27,680	27,552	26,827	(2.6%)	(3.1%)
EMIS adjusted operating profit	35,890	38,388	39,273	2.3%	9.4%
Adjusted operating margin	24.0%	24.3%	24.6%	0.3%	
Normalised EPS - p	40.4	51.5	53.5	3.9%	32.2%
Reported EPS - p	36.1	36.7	36.0	(1.9%)	(0.1%)
EMIS diluted adjusted EPS - p	45.0	49.3	51.1	3.7%	13.4%
Dividend per share - p	28.4	31.2	31.2	0.0%	9.9%
Net cash/(debt) - excluding lease liabilities	15,620	30,856	31,099	0.8%	99.1%

Source: EMIS accounts, Edison Investment Research estimates. Note: Normalised: excludes amortisation of acquired intangibles, share-based payments and exceptionals; Adjusted: cash accounts for development costs, excludes amortisation of acquired intangibles and exceptionals.

The company reported FY19 results slightly ahead of our forecasts. Revenues grew 6.5% y-o-y and were 1% ahead of our forecast. Normalised and adjusted operating profit were 2.6% and 2.3% ahead of forecast and increased 23.7% and 9.4%, respectively, year-on-year. Adjusted diluted EPS was 3.7% ahead of our forecast, mainly due to a lower than expected tax charge. Reported EPS was lower than expected mainly due to higher than forecast exceptional costs (£5.36m versus £3.15m forecast). The company announced a final dividend of 15.6p, resulting in a full year dividend of 31.2p (+10% y-o-y). Net cash at year-end was £31.1m, an increase of £15.5m over the year. Adjusting out the cash costs of exceptional items, cash flow from operations was £1.4m lower year-on-year reflecting a one-off working capital increase at the end of FY19 as the payment arrangements switched from GPSoc to GP IT Futures.

Divisional update

Exhibit 2: Divisional performance

£m	FY18	FY19e	FY19	Diff	y-o-y
Revenues					
EMIS Health	99.3	100.8	100.9	0.1%	1.6%
EMIS Enterprise	50.4	57.2	58.6	2.6%	16.3%
Total	149.7	158.0	159.5	1.0%	6.5%
Adjusted operating profit					
EMIS Health	25.2	24.3	23.3	(4.3%)	(7.7%)
EMIS Enterprise	12.8	15.8	17.5	11.0%	37.0%
Central costs	(2.1)	(1.7)	(1.5)	(11.4%)	(28.0%)
Total adjusted operating profit	35.9	38.4	39.3	2.3%	9.4%
Reported operating profit					
EMIS Health	19.2	18.2	16.0	(12.0%)	(16.4%)
EMIS Enterprise	10.6	11.0	12.3	11.4%	16.2%
Central costs	(2.1)	(1.7)	(1.5)	(11.4%)	(28.0%)
Total reported operating profit	27.7	27.6	26.8	(2.6%)	(3.1%)
Adjusted operating margin					
EMIS Health	25.4%	24.1%	23.1%	(1.1%)	(2.3%)
EMIS Enterprise	25.4%	27.6%	29.9%	2.3%	4.5%
Total adjusted operating margin	24.0%	24.3%	24.6%	0.3%	0.6%
Reported operating margin					
EMIS Health	19.3%	18.1%	15.9%	(2.2%)	(3.4%)
EMIS Enterprise	21.0%	19.3%	21.0%	1.7%	(0.0%)
Total reported operating margin	18.5%	17.4%	16.8%	(0.6%)	(1.7%)

Source: EMIS accounts, Edison Investment Research estimates

EMIS Health: Investment reduces profitability

EMIS Health saw 1.6% revenue growth but a 7.7% decline in adjusted operating profit year-on-year. This was mainly due to increased investment in developing the EMIS-X platform. On an operational basis:

Primary care

The company maintained its 57% market share of UK GPs.

In October 2019, EMIS was appointed to the GP IT Futures framework in **England**, which went into effect on 1 January 2020 and replaced the previous GP System of Choice (GPSoC) framework. EMIS Web was updated in 2019 to meet the initial contract requirements and will be further developed in 2020.

Earlier in 2019, EMIS was also appointed to the **Scottish** GP framework (NSS) and is currently working to deliver the technology required for this framework.

In **Northern Ireland**, EMIS has completed the roll-out of EMIS Web.

In **Wales**, the company continues to support its existing customer base, despite not being selected for the new framework. As one of the selected suppliers has since had its contract cancelled by NHS Wales, GP practices have not yet been able to shift away from EMIS.

Community care

EMIS increased its market share from 20% to 21% and remains the number two provider in this market.

Acute care

EMIS increased its share of the A&E market from 22% to 23% moving to market leadership.

Support and service

The division migrated its support and service function onto a single customer and internal platform, ServiceNow, and co-located two of its support teams to improve efficiency. By offering improved digital-first options for support, the company has been able to reduce headcount in this area.

Digitisation

Egton saw strong sales of its service to digitise legacy paper records. The market is working towards the target of being fully digitised by 2024.

Development focus

The division is focused on the development of EMIS-X, which it wants to deploy first in the Scottish and English GP markets when ready. This is likely to be in 2021.

EMIS Enterprise: Helped by one-off licence sales

EMIS Enterprise saw revenue growth of 16.3% in FY19 with adjusted operating profit increasing 37.0% and the margin increasing from 25.4% to 29.9%. Revenue growth was mainly due to the signing of several perpetual licences for current products and some that were about to go end-of-life. High-margin licences boosted divisional operating profit.

Community pharmacy

Despite seeing a small reduction in market share (from 37% to 36%) as a few sites decided not to upgrade to ProScript Connect, the company now has sole leadership of this market. The rollout of

ProScript Connect was completed during 2019, reaching nearly 5,200 pharmacies, and means that all pharmacies are using the same system, which should result in efficiencies for product support and development.

Two solutions for the Falsified Medicines Directive (FMD) were released to the community pharmacy and hospital pharmacy customer base. A pilot of the Patient Group Directions (PGD) functionality was completed and the company plans to launch this as part of ProScript Connect.

Hospital pharmacy

The company continued to develop its existing Electronic Prescribing and Medicines Administration (ePMA) system and is working with customers to bring them all onto the same version of the software.

Patient Access

The number of Patient Access registered users increased by 40% to 8.4 million by year-end; 6.7m GP appointments and 20.2m repeat prescriptions were booked via the app. After a successful pilot, EMIS has launched the ability to book community pharmacy appointments through the app. In H219, 14,000 appointments were booked by 11,500 users, and in February 2020 the service was live with more than 800 pharmacy branches across 22 organisations. The community pharmacy booking services is the first service available from the group's marketplace and uses the EMIS-X appointment engine. Pharmacists that use ProScript Connect are able to send an electronic consultation summary back to the patient record held within EMIS Web.

Community pharmacy acquisition post year-end

On 9 March, the company acquired Pinnacle Health Partnership LLP and Pinnacle Systems Management Ltd, owners and operators of the PharmOutcomes platform. PharmOutcomes is a web-based service management solution used by more than 11,000 community pharmacies to record and manage nationally and locally commissioned patient services such as flu vaccinations, the Community Pharmacist Consultation Service and hospital discharge referral management. The platform supports local and national level analysis and reporting on the effectiveness of commissioned services.

EMIS paid £3m on a cash and debt free basis, with up to £4m in contingent consideration payable in cash if certain performance targets are met in FY20 and FY21. In FY19, the business generated revenue of £1.9m and profit of £0.4m.

The company believes this service will integrate well with its existing Community Pharmacy business and may open up the possibility of selling to more pharmacies than the group's existing 5,200 base.

Coronavirus impact

The company is moving to remote working for all staff and does not see any reason why delivery of recurring software and services should be disrupted.

To support the NHS and community pharmacy customers, the company is providing the following:

- Free access to software for video consultations via Patient Access
- New coronavirus-related functionality within EMIS Web
- EMIS Anywhere application, which allows full access to EMIS Web from a mobile device
- Coronavirus insights for GPs and content for Patient.Info

The group reported 78% recurring revenues in FY19, providing a strong revenue base entering into FY20. The company has sounded a note of caution over new business, as there are likely to be restrictions on who can enter hospitals, and healthcare providers are likely to be focused on dealing with the coronavirus in the short term rather than on IT investment.

Outlook and changes to forecasts

We have reduced our revenue forecasts to reflect a lower level of new business in FY20, which results in substantially flat revenues versus FY19. We assume growth resumes in FY21. As the company is not planning on changing headcount over the course of this year, other than to skew the mix more in favour of developers, we do not see any reason to reduce cost forecasts. This results in a decrease in our adjusted operating profit forecast for FY20 of 7.5% and for FY21 of 4.4%. Despite the reduction, we still expect the company to be able to generate an adjusted operating margin of 23.8% in FY20.

The company is maintaining its longer-term forecast for mid-to high-single-digit revenue growth and operating margins approaching 30%.

We have increased our forecast tax rate to 19% from FY20 reflecting the government's decision to maintain the rate at 19% rather than reducing it to 17% as previously planned.

We have factored in sale proceeds of £2.5m for the former head office, which was sold post year-end. We have added in the Pinnacle acquisition, with a £3m cash payment in FY20 and contingent consideration of £4m on the balance sheet.

Exhibit 3: Changes to forecasts

£'000s	FY20e		Change	y-o-y	FY21e		Change	y-o-y	FY22e		y-o-y
	Old	New			Old	New			Old	New	
Revenues	165,324	159,752	(3.4%)	0.2%	172,813	169,787	(1.8%)	6.3%	176,886		4.2%
Normalised operating profit	42,795	39,505	(7.7%)	(3.2%)	45,582	43,111	(5.4%)	9.1%	48,261		11.9%
Normalised operating margin	25.9%	24.7%	(1.2%)		26.4%	25.4%	(1.0%)		27.3%		
Reported operating profit	34,468	31,378	(9.0%)	17.0%	38,992	36,721	(5.8%)	17.0%	43,425		18.3%
EMIS adjusted operating profit	41,143	38,069	(7.5%)	(3.1%)	44,270	42,339	(4.4%)	11.2%	45,850		8.3%
Adjusted operating margin	24.9%	23.8%	(1.1%)		25.6%	24.9%	(0.7%)		25.9%		
Normalised EPS - p	55.3	51.2	(7.4%)	(4.2%)	59.0	56.0	(5.1%)	9.3%	62.6		11.8%
Reported EPS - p	45.6	40.9	(10.2%)	13.6%	52.0	47.9	(7.8%)	17.1%	56.6		18.0%
EMIS adjusted EPS - p	52.7	48.9	(7.1%)	(4.2%)	56.9	54.7	(3.8%)	11.9%	58.8		7.3%
Dividend per share - p	32.6	32.6	0.0%	4.5%	34.0	34.0	0.0%	4.3%	35.0		2.9%
Net cash/(debt) - excl lease liabilities	38,732	39,841	2.9%	28.1%	54,818	52,793	(3.7%)	32.5%	69,145		31.0%

Source: Edison Investment Research

Valuation

EMIS is trading at a discount to peers on all profitability multiples despite higher profitability. The stock has declined 34% over the last month, compared to a 31% decline in the FTSE 100 and a 40% decline in the AIM All Share Index. Considering the high level of recurring revenues, strong balance sheet and longer-term direction of the NHS in terms of IT investment, this decline appears overdone.

Exhibit 4: Peer multiples

	Year-end	EV/sales (x)			P/E (x)			EV/EBIT (x)			EV/EBITDA (x)			Dividend yield		
		19	20e	21e	19	20e	21e	19	20e	21e	19	20e	21e	19	20e	21e
EMIS	31/12	3.0	3.0	2.8	14.7	15.4	14.1	11.6	12.0	11.0	8.5	8.9	8.3	4.0%	4.1%	4.3%
EMIS (cash R&D)					15.4	16.1	14.4	12.1	12.5	11.2						
AllScripts	31/12	0.9	0.9	0.9	8.2	7.6	6.9	9.6	9.9	9.1	5.7	5.4	5.2	0.0%	0.0%	0.0%
Cegedim	31/12	1.0	1.0	1.0	16.7	8.9	8.0	17.1	12.6	11.1	6.4	5.9	5.5	0.0%	0.5%	3.4%
Cerner	31/12	3.4	3.3	3.1	22.3	19.0	16.9	18.2	15.8	14.2	11.0	10.3	9.5	0.6%	1.2%	1.4%
Craneware	30/06	5.5	5.1	4.8	28.1	26.8	24.6	19.2	18.2	17.0	16.3	15.5	14.3	1.9%	2.1%	2.2%
CompuGroup	31/12	4.3	4.1	3.8	24.4	21.5	19.7	22.3	21.0	18.8	17.0	15.5	14.2	1.0%	1.1%	1.2%
Nexus	31/12	2.5	2.3	2.2	35.8	23.8	20.9	21.4	15.7	14.1	12.6	10.2	9.4	0.7%	0.8%	0.9%
NexGen Healthcare	31/12	0.7	0.7	0.7	6.7	7.0	7.0	6.0	5.6	5.5	5.2	4.0	3.9	0.0%	0.0%	0.0%
Average		2.6	2.5	2.3	20.3	16.4	14.9	16.3	14.1	12.8	10.6	9.5	8.8	0.6%	0.8%	1.3%
Median		2.5	2.3	2.2	22.3	19.0	16.9	18.2	15.7	14.1	11.0	10.2	9.4	0.6%	0.8%	1.2%
Premium (discount) to average			13%	19%		(28%)	(6%)		(29%)	(15%)		(20%)	(7%)			

Source: Edison Investment Research, Refinitiv (as at 19 March)

Exhibit 5: Peer group financial metrics

	Market cap (m)	EBIT margin			EBITDA margin			Revenue growth			EPS growth		
		19	20e	21e	19	20e	21e	19	20e	21e	19	20e	21e
EMIS	£515	25.6%	24.7%	25.4%	34.9%	33.3%	33.5%	6.5%	0.2%	6.3%	32.2%	-4.2%	9.3%
EMIS (cash R&D)		24.6%	23.8%	24.9%							13.4%	-4.2%	11.9%
AllScripts	\$895	9.8%	9.5%	10.0%	16.7%	17.4%	17.6%	1.2%	1.0%	3.3%	-6.9%	8.7%	10.1%
Cegedim	€298	6.1%	8.0%	8.8%	16.5%	17.2%	17.8%	7.7%	3.8%	3.8%	217.5%	86.2%	11.2%
Cerner	\$18,676	18.5%	20.7%	22.0%	30.6%	31.7%	32.8%	6.1%	3.2%	4.9%	9.4%	17.4%	12.3%
Craneware	£374	28.7%	28.2%	28.0%	33.6%	33.2%	33.2%	-6.5%	6.9%	7.9%	-4.7%	5.0%	9.1%
CompuGroup	€2,770	19.2%	19.4%	20.2%	25.2%	26.3%	26.7%	4.0%	4.9%	7.4%		13.5%	8.7%
Nexus	€389	11.8%	15.0%	15.6%	20.0%	23.0%	23.4%	8.2%	7.9%	6.9%	0.0%	50.7%	13.5%
NexGen Healthcare	\$376	12.2%	12.8%	12.5%	14.2%	17.6%	17.5%	-2.9%	3.0%	4.5%	5.0%	-4.7%	-0.7%
Average		15.2%	16.2%	16.7%	22.4%	23.8%	24.2%	2.6%	4.4%	5.5%	36.7%	25.3%	9.2%
Median		12.2%	15.0%	15.6%	20.0%	23.0%	23.4%	4.0%	3.8%	4.9%	2.5%	13.5%	10.1%

Source: Edison Investment Research, Refinitiv (as at 19 March)

Exhibit 6: Financial summary

	£'000s	2016	2017	2018	2019	2020e	2021e	2022e
Year end 31 December								
PROFIT & LOSS								
Revenue		158,712	160,354	149,710	159,507	159,752	169,787	176,886
Cost of Sales		(14,151)	(14,674)	(14,236)	(15,407)	(15,695)	(17,314)	(18,466)
Gross Profit		144,561	145,680	135,474	144,100	144,058	152,473	158,420
EBITDA		52,288	49,222	48,919	55,632	53,269	56,839	60,450
Operating Profit (before amort. of acq. intang, SBP and except.)		38,897	34,895	32,991	40,794	39,505	43,111	48,261
EMIS adjusted operating profit		38,753	37,406	35,890	39,273	38,069	42,339	45,850
Amortisation of acquired intangibles		(6,639)	(6,717)	(6,202)	(7,317)	(6,827)	(5,090)	(3,536)
Exceptionals		(6,714)	(16,988)	1,657	(5,360)	0	0	0
Share-based payments		(473)	(550)	(766)	(1,290)	(1,300)	(1,300)	(1,300)
Operating Profit		25,071	10,640	27,680	26,827	31,378	36,721	43,425
Net Interest		(237)	(299)	(180)	(498)	(300)	(200)	(200)
Profit Before Tax (norm)		39,159	35,192	33,426	41,038	39,947	43,653	48,803
Profit Before Tax (FRS 3)		25,333	10,937	28,115	27,071	31,820	37,263	43,967
Tax		(5,208)	(2,074)	(5,355)	(5,022)	(6,046)	(7,080)	(8,354)
Profit After Tax (norm)		32,175	27,989	26,447	33,697	32,357	35,359	39,531
Profit After Tax (FRS3)		20,125	8,863	22,760	22,049	25,774	30,183	35,613
Ave. Number of Shares Outstanding (m)		62.8	62.9	63.0	62.9	63.0	63.0	63.0
EPS - normalised & diluted (p)		49.4	43.1	40.4	53.5	51.2	56.0	62.6
EPS - EMIS adjusted & diluted (p)		49.2	47.0	45.0	51.1	48.9	54.7	58.8
EPS - FRS 3 (p)		30.4	12.8	36.1	36.0	40.9	47.9	56.6
Dividend (p)		23.4	25.8	28.4	31.2	32.6	34.0	35.0
Gross Margin (%)		91.1%	90.8%	90.5%	90.3%	90.2%	89.8%	89.6%
EBITDA Margin (%)		32.9%	30.7%	32.7%	34.9%	33.3%	33.5%	34.2%
Operating Margin (before GW and except.) (%)		24.5%	21.8%	22.0%	25.6%	24.7%	25.4%	27.3%
BALANCE SHEET								
Fixed Assets		133,292	122,979	117,920	101,089	100,740	94,965	92,281
Intangible Assets		110,953	100,844	96,807	82,345	82,254	76,237	73,311
Tangible Assets		22,187	22,037	21,000	18,399	17,399	16,899	16,399
Other fixed assets		152	98	113	345	1,087	1,829	2,571
Current Assets		46,088	56,900	53,107	67,278	78,388	94,524	112,510
Stocks		1,815	1,633	1,264	657	657	657	657
Debtors		39,970	40,148	36,223	33,047	35,890	39,074	40,708
Cash		4,303	13,991	15,620	31,099	39,841	52,793	69,145
Current Liabilities		(56,158)	(65,131)	(60,169)	(55,700)	(58,489)	(61,039)	(63,564)
Creditors		(51,425)	(65,131)	(60,169)	(55,060)	(57,849)	(60,399)	(62,924)
Lease liabilities		0	0	0	(640)	(640)	(640)	(640)
Short term borrowings		(4,733)	0	0	0	0	0	0
Long Term Liabilities		(9,080)	(6,734)	(8,199)	(8,469)	(10,063)	(7,974)	(6,180)
Long term borrowings		0	0	0	0	0	0	0
Lease liabilities		0	0	0	(3,294)	(2,419)	(1,544)	(669)
Other long term liabilities		(9,080)	(6,734)	(8,199)	(5,175)	(7,644)	(6,430)	(5,511)
Net Assets		114,142	108,014	102,659	104,198	110,576	120,476	135,047
CASH FLOW								
Operating Cash Flow		43,657	48,834	49,873	50,059	52,675	57,224	61,342
Net Interest		(324)	(356)	(214)	(93)	(300)	(200)	(200)
Tax		(7,655)	(8,139)	(5,830)	(4,466)	(8,557)	(8,294)	(9,273)
Capex		(12,084)	(11,342)	(12,767)	(13,119)	(12,500)	(12,300)	(12,300)
Acquisitions/disposals		(1,790)	329	(9,269)	5,152	(1,005)	(1,020)	0
Financing		881	571	906	(2,369)	(500)	(500)	(500)
Dividends		(14,006)	(15,476)	(21,070)	(18,745)	(20,196)	(21,083)	(21,842)
Net Cash Flow		8,679	14,421	1,629	16,419	9,617	13,827	17,227
Opening net debt/(cash)		9,109	430	(13,991)	(15,620)	(31,099)	(39,841)	(52,793)
Finance leases initiated		0	0	0	(940)	(875)	(875)	(875)
Other		0	0	0	0	(0)	0	0
Closing net debt/(cash)		430	(13,991)	(15,620)	(31,099)	(39,841)	(52,793)	(69,145)

Source: EMIS Group accounts, Edison Investment Research

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