

EMIS Group

Steady progress

Trading update

Software & comp services

In H117 EMIS traded in line with expectations. Primary Care, Community Care and Community Pharmacy are progressing well whereas Acute is still seeing budgetary pressure. The development of the Patient business is underway and likely to cost less than originally expected. Cash generation is on track and management expectations for the full year are unchanged. We make no change to our underlying forecasts; interim results are due on 1 September.

Year end	Revenue (£m)	PBT* (£m)	Dil. EPS* (p)	EMIS adj. dil. EPS** (p)	DPS (p)	P/E (x)	Yield (%)
12/15	155.9	36.6	46.0	45.1	21.2	20.3	2.3
12/16	158.7	39.2	49.4	49.2	23.4	18.9	2.5
12/17e	166.2	37.3	46.0	46.8	24.4	20.3	2.6
12/18e	175.4	40.2	49.4	51.1	25.4	18.9	2.7

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.

H1 trading in line

Trading in H117 was in line with management's expectations with H1 revenues slightly ahead year-on-year. The company maintained market share in Primary Care; the roll out of EMIS Web is underway in Northern Ireland and procurement for EMIS Web has started in Scotland. CCMH won two new contracts in H1. Since Andy Thorburn joined as CEO in May, the existing internal reorganisation programme has been expanded. This should generate cost savings in H2 to offset weakness in the Acute business. In Specialist & Care, five new diabetic screening contracts (won in 2016) were implemented, and notice was given on an unprofitable contract, which should expire in H218. Plans to develop the Patient business are underway, and the company now expects to be able to carry out development work more cost efficiently than previously budgeted.

Strong balance sheet; outlook unchanged

EMIS ended H117 with net cash of £10.5m, versus net debt of £0.4m at the end of FY16. The company also negotiated a three-year £60m revolving credit facility with Barclays and Lloyds providing resources should any acquisition opportunities arise. Management remains confident in the outlook for the business and expectations for the full year are unchanged. Our estimates are unchanged bar a £1m increase in FY17 exceptional charges to reflect the expanded reorganisation plan.

Valuation: Trading at a discount

EMIS is trading on an FY17e P/E of 20.3x, which is at a c 20% discount to its peer group. Although EMIS is more profitable than its peers, the forecast decline in earnings in FY17 is weighing on the valuation. Evidence of a resumption in earnings growth will be key to share price upside – in the short term, this could include improvement in Acute and Specialist Care, and in the longer term, evidence that the investment in Patient is paying off. We believe the NHS's digital agenda continues to support long-term growth for EMIS. Strong cash generation underpins the nearly 3% dividend yield.

19 July 2017

Price 931.5p
Market cap £590m

Net cash (£m) at end H117	10.5
Shares in issue	63.3m
Free float	98%
Code	EMIS
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.4)	3.7	(2.1)
Rel (local)	0.6	0.6	(12.3)
52-week high/low	1050.0p	807.0p	

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

H117 results	1 September 2017
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Analyst

Katherine Thompson	+44 (0)20 3077 5730
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tech@edisongroup.com

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Exhibit 1: Financial summary

	£'000s	2012	2013	2014	2015	2016	2017e	2018e
Year end 31 December								
PROFIT & LOSS								
Revenue		86,333	105,542	137,639	155,898	158,712	166,168	175,354
Cost of Sales		(10,891)	(11,780)	(12,782)	(12,955)	(14,151)	(16,534)	(18,237)
Gross Profit		75,442	93,762	124,857	142,943	144,561	149,634	157,117
EBITDA		33,178	38,885	47,645	51,964	52,288	50,473	54,007
Operating Profit (before amort. of acq. intang. SBP and except.)		27,619	30,482	34,787	37,123	38,897	36,960	39,794
EMIS adjusted operating profit		22,910	26,260	32,639	36,553	38,753	37,496	40,854
Amortisation of acquired intangibles		(2,983)	(4,198)	(6,269)	(6,509)	(6,639)	(6,697)	(6,697)
Exceptionals		(435)	(1,144)	873	(18,500)	(6,714)	(4,000)	0
Share-based payments		(90)	(195)	(270)	(684)	(473)	(1,000)	(1,000)
Operating Profit		24,111	24,945	29,121	11,430	25,071	25,263	32,097
Net Interest		(76)	(242)	(543)	(449)	(237)	(150)	(50)
Profit Before Tax (norm)		27,567	30,172	34,206	36,625	39,159	37,309	40,243
Profit Before Tax (FRS 3)		24,059	24,635	28,540	10,932	25,333	25,612	32,546
Tax		(4,625)	(4,706)	(5,719)	(5,558)	(5,208)	(5,251)	(6,672)
Profit After Tax (norm)		23,191	25,179	27,617	29,801	32,175	29,661	31,993
Profit After Tax (FRS3)		19,434	19,929	22,821	5,374	20,125	20,362	25,874
Average Number of Shares Outstanding (m)		58.2	59.4	62.8	62.7	62.8	62.8	62.8
EPS - normalised & diluted (p)		39.0	41.4	42.8	46.0	49.4	46.0	49.4
EPS - EMIS adjusted & diluted (p)		30.7	34.0	39.4	45.1	49.2	46.8	51.1
EPS - FRS 3 (p)		32.5	32.6	35.3	7.2	30.4	31.3	39.8
Dividend (p)		14.2	16.0	18.4	21.2	23.4	24.4	25.4
Gross Margin (%)		87.4%	88.8%	90.7%	91.7%	91.1%	90.1%	89.6%
EBITDA Margin (%)		38.4%	36.8%	34.6%	33.3%	32.9%	30.4%	30.8%
Operating Margin (before GW and except.) (%)		32.0%	28.9%	25.3%	23.8%	24.5%	22.2%	22.7%
BALANCE SHEET								
Fixed Assets		77,673	153,838	166,415	143,546	133,292	125,082	116,172
Intangible Assets		52,789	126,468	139,397	121,383	110,953	101,843	92,233
Tangible Assets		22,144	24,610	24,313	22,032	22,187	23,087	23,787
Other fixed assets		2,740	2,760	2,705	131	152	152	152
Current Assets		27,538	27,046	37,221	39,800	46,088	55,732	74,984
Stocks		1,243	1,431	1,550	1,206	1,815	1,815	1,815
Debtors		15,188	21,448	28,732	33,893	39,970	41,883	44,199
Cash		11,107	4,167	6,939	4,701	4,303	12,033	28,970
Current Liabilities		(30,598)	(54,530)	(67,665)	(63,819)	(56,158)	(54,658)	(56,367)
Creditors		(30,202)	(46,628)	(54,763)	(51,960)	(51,425)	(50,925)	(53,634)
Short term borrowings		(396)	(7,902)	(12,902)	(11,859)	(4,733)	(3,733)	(2,733)
Long Term Liabilities		(10,548)	(22,231)	(21,063)	(12,481)	(9,080)	(9,080)	(9,080)
Long term borrowings		(3,000)	(9,756)	(5,854)	(1,951)	0	0	0
Other long term liabilities		(7,548)	(12,475)	(15,209)	(10,530)	(9,080)	(9,080)	(9,080)
Net Assets		64,065	104,123	114,908	107,046	114,142	117,076	125,709
CASH FLOW								
Operating Cash Flow		32,732	38,725	44,856	42,711	43,657	44,060	54,401
Net Interest		(60)	(580)	(445)	(422)	(324)	(50)	50
Tax		(4,566)	(5,073)	(5,247)	(6,896)	(7,655)	(7,648)	(8,250)
Capex		(18,342)	(15,025)	(15,161)	(14,058)	(12,084)	(12,000)	(12,000)
Acquisitions/disposals		(512)	(57,315)	(9,959)	(4,587)	(1,790)	0	0
Financing		(1,816)	27,212	(1,578)	492	881	(500)	(500)
Dividends		(7,735)	(9,146)	(10,792)	(14,532)	(14,006)	(15,131)	(15,764)
Net Cash Flow		(299)	(21,202)	1,674	2,708	8,679	8,730	17,937
Opening net debt/(cash)		(8,026)	(7,711)	13,491	11,817	9,109	430	(8,300)
HP finance leases initiated		0	0	0	0	0	0	0
Other		(16)	0	0	0	0	0	0
Closing net debt/(cash)		(7,711)	13,491	11,817	9,109	430	(8,300)	(26,237)
Source: EMIS, Edison Investment Research								

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