

EMIS Group

Trading update

Streamlined business on track

EMIS traded in line with management's expectations during H119 and is on track for the full year. The outcome of the GP IT Futures procurement process is the main short-term catalyst, with a decision likely in September. Our underlying forecasts are unchanged and we have shifted the Specialist & Care disposal into discontinued operations.

| Year end | Revenue (£m) | PBT* (£m) | Diluted EPS* (p) | EMIS adj. dil. EPS** (p) | DPS (p) | P/E (x) |
|-----------|--------------|-----------|------------------|--------------------------|---------|---------|
| 12/17 | 160.4 | 35.2 | 43.1 | 47.0 | 25.8 | 27.7 |
| 12/18*** | 149.7 | 33.4 | 40.3 | 44.9 | 28.4 | 29.6 |
| 12/19e*** | 157.6 | 40.6 | 52.0 | 49.1 | 30.0 | 23.0 |
| 12/20e | 165.1 | 44.3 | 56.8 | 54.0 | 32.0 | 21.0 |

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. ***Excludes discontinued operations.

H1 trading in line

Trading for H1 was in line with management's expectations, with revenues up year-on-year, and expectations are unchanged for the full year. EMIS noted that the GP IT Futures renewal process has moved into the formal procurement phase, with successful bidders expected to be announced in September. The Patient business has started the controlled roll-out of new functionality within the Patient Access app. As previously indicated, headcount is being managed to increase development resources for EMIS-X while reducing headcount elsewhere in the group. Net cash was £26.7m at the end of H1, reflecting typically strong H1 working capital inflows as well as proceeds from the disposal of the Specialist & Care business.

New divisional reporting disclosed

The company disclosed the new divisional reporting structure that will kick in with H119 results. The current four divisions will become two: EMIS Health, which will include all NHS-funded business (primary, community, acute care) and EMIS Enterprise, which will include revenues predominantly from private sector sources (medicines management, Patient, overseas and partner business). We make no change to underlying forecasts but have shifted the recently sold Specialist & Care business into discontinued operations. This has no impact at the reported EPS level but reduces normalised/adjusted EPS by 0.9% in FY19.

Valuation: IT Futures decision the next catalyst

The share price has gained 32% year to date, but EMIS continues to trade at a small discount to peers on a P/E basis. Uncertainty over the outcome of GP IT Futures is likely to weigh on the share price in the short term (a decision is expected in September); while we think it highly unlikely that EMIS would not be selected for the framework, there is still uncertainty around pricing, technical requirements and the future competitive environment. In the longer term, evidence that the company is making progress towards the targets set at last year's capital markets day will be the key catalyst for share price upside.

Software & comp services

18 July 2019

Price 1,194p
Market cap £756m

| | |
|---------------------------|-------|
| Net cash (£m) at end H119 | 26.7 |
| Shares in issue | 63.3m |
| Free float | 98% |
| Code | EMIS |
| Primary exchange | AIM |
| Secondary exchange | N/A |

Share price performance



| | | | |
|------------------|-------|-------|------|
| % | 1m | 3m | 12m |
| Abs | 1.7 | 6.2 | 38.3 |
| Rel (local) | (1.2) | 5.2 | 40.1 |
| 52-week high/low | | 1242p | 864p |

Business description

EMIS is a clinical software supplier to the primary, community and acute care markets in the UK and provides software to the community pharmacy market. Its Patient business provides medical and wellbeing information as well as transactional services to patients.

Next events

| | |
|--------------|-----------|
| H119 results | 30 August |
|--------------|-----------|

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Changes to forecasts

| Exhibit 1: Changes to estimates | | | | | | | | | | | | |
|---------------------------------|---------|---------|--------|--------|---------|---------|--------|-------|---------|---------|--------|-------|
| £'000s | FY19e | FY19e | Change | y-o-y | FY20e | FY20e | Change | y-o-y | FY21e | FY21e | Change | y-o-y |
| | Old | New | % | % | Old | New | % | % | Old | New | % | % |
| Revenues | 162,849 | 157,551 | -3.3% | 5.2% | 165,112 | 165,112 | 0.0% | 4.8% | 172,947 | 172,947 | 0.0% | 4.7% |
| Normalised operating profit | 40,487 | 40,141 | -0.9% | 21.7% | 43,838 | 43,838 | 0.0% | 9.2% | 46,271 | 46,271 | 0.0% | 5.6% |
| Normalised operating margin | 24.9% | 25.5% | 0.6% | | 26.6% | 26.6% | 0.0% | | 26.8% | 26.8% | 0.0% | |
| Reported operating profit | 32,256 | 32,075 | -0.6% | 15.9% | 36,010 | 36,010 | 0.0% | 12.3% | 39,681 | 39,681 | 0.0% | 10.2% |
| EMIS adjusted operating profit | 38,633 | 38,280 | -0.9% | 6.7% | 42,064 | 42,064 | 0.0% | 9.9% | 45,648 | 45,648 | 0.0% | 8.5% |
| Adjusted operating margin | 23.7% | 24.3% | 0.6% | | 25.5% | 25.5% | 0.0% | | 26.4% | 26.4% | 0.0% | |
| Normalised EPS (p) | 52.5 | 52.0 | -0.9% | 29.1% | 56.8 | 56.8 | 0.0% | 9.1% | 59.9 | 59.9 | 0.0% | 5.5% |
| Reported EPS (p) | 42.0 | 42.0 | 0.0% | 16.6% | 46.9 | 46.9 | 0.0% | 11.5% | 51.6 | 51.6 | 0.0% | 10.1% |
| EMIS adjusted EPS (p) | 49.5 | 49.1 | -0.9% | 9.3% | 54.0 | 54.0 | 0.0% | 10.0% | 58.9 | 58.9 | 0.0% | 9.2% |
| Dividend per share (p) | 30.0 | 30.0 | 0.0% | 5.6% | 32.0 | 32.0 | 0.0% | 6.7% | 34.0 | 34.0 | 0.0% | 6.3% |
| Net cash | 29,852 | 29,744 | -0.4% | 125.7% | 41,183 | 42,066 | 2.1% | 41.4% | 59,199 | 60,367 | 2.0% | 43.5% |

Source: Edison Investment Research

Exhibit 2: Financial summary

| | £'000s | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|--|--------|----------|----------|----------|----------|----------|----------|----------|----------|
| Year end 31 December | | | | | | | | | |
| PROFIT & LOSS | | | | | | | | | |
| Revenue | | 137,639 | 155,898 | 158,712 | 160,354 | 149,710 | 157,551 | 165,112 | 172,947 |
| Cost of Sales | | (12,782) | (12,955) | (14,151) | (14,674) | (11,640) | (13,920) | (14,933) | (15,998) |
| Gross Profit | | 124,857 | 142,943 | 144,561 | 145,680 | 138,070 | 143,632 | 150,180 | 156,950 |
| EBITDA | | 47,645 | 51,964 | 52,288 | 49,222 | 48,919 | 54,285 | 58,166 | 61,044 |
| Operating Profit (before amort. of acq. intang. SBP and except.) | | 34,787 | 37,123 | 38,897 | 34,895 | 32,991 | 40,141 | 43,838 | 46,271 |
| EMIS adjusted operating profit | | 32,639 | 36,553 | 38,753 | 37,406 | 35,890 | 38,280 | 42,064 | 45,648 |
| Amortisation of acquired intangibles | | (6,269) | (6,509) | (6,639) | (6,717) | (6,202) | (7,066) | (6,827) | (5,590) |
| Exceptionals | | 873 | (18,500) | (6,714) | (16,988) | 1,657 | 0 | 0 | 0 |
| Share-based payments | | (270) | (684) | (473) | (550) | (766) | (1,000) | (1,000) | (1,000) |
| Operating Profit | | 29,121 | 11,430 | 25,071 | 10,640 | 27,680 | 32,075 | 36,010 | 39,681 |
| Net Interest | | (543) | (449) | (237) | (299) | (180) | (200) | (200) | (200) |
| Profit Before Tax (norm) | | 34,206 | 36,625 | 39,159 | 35,192 | 33,426 | 40,570 | 44,274 | 46,707 |
| Profit Before Tax (FRS 3) | | 28,540 | 10,932 | 25,333 | 10,937 | 28,115 | 32,504 | 36,446 | 40,117 |
| Tax | | (5,719) | (5,558) | (5,208) | (2,074) | (5,346) | (6,176) | (6,925) | (7,622) |
| Profit After Tax (norm) | | 27,617 | 29,801 | 32,175 | 27,989 | 26,343 | 32,862 | 35,862 | 37,832 |
| Profit After Tax (FRS3) | | 22,821 | 5,374 | 20,125 | 8,863 | 22,769 | 26,328 | 29,522 | 32,495 |
| Average Number of Shares Outstanding (m) | | 62.8 | 62.7 | 62.8 | 62.9 | 63.0 | 63.0 | 63.0 | 63.0 |
| EPS - normalised & diluted (p) | | 42.8 | 46.0 | 49.4 | 43.1 | 40.3 | 52.0 | 56.8 | 59.9 |
| EPS - EMIS adjusted & diluted (p) | | 39.4 | 45.1 | 49.2 | 47.0 | 44.9 | 49.1 | 54.0 | 58.9 |
| EPS - FRS 3 (p) | | 35.3 | 7.2 | 30.4 | 12.8 | 36.1 | 42.0 | 46.9 | 51.6 |
| Dividend (p) | | 18.4 | 21.2 | 23.4 | 25.8 | 28.4 | 30.0 | 32.0 | 34.0 |
| Gross Margin (%) | | 90.7% | 91.7% | 91.1% | 90.8% | 92.2% | 91.2% | 91.0% | 90.8% |
| EBITDA Margin (%) | | 34.6% | 33.3% | 32.9% | 30.7% | 32.7% | 34.5% | 35.2% | 35.3% |
| Operating Margin (before GW and except.) (%) | | 25.3% | 23.8% | 24.5% | 21.8% | 22.0% | 25.5% | 26.6% | 26.8% |
| BALANCE SHEET | | | | | | | | | |
| Fixed Assets | | 166,415 | 143,546 | 133,292 | 122,979 | 117,920 | 107,374 | 100,555 | 93,828 |
| Intangible Assets | | 139,397 | 121,383 | 110,953 | 100,844 | 96,807 | 83,532 | 77,077 | 70,714 |
| Tangible Assets | | 24,313 | 22,032 | 22,187 | 22,037 | 21,000 | 23,100 | 22,100 | 21,100 |
| Other fixed assets | | 2,705 | 131 | 152 | 98 | 113 | 742 | 1,378 | 2,014 |
| Current Assets | | 37,221 | 39,800 | 46,088 | 56,900 | 53,107 | 70,767 | 85,953 | 105,183 |
| Stocks | | 1,550 | 1,206 | 1,815 | 1,633 | 1,264 | 1,264 | 1,264 | 1,264 |
| Debtors | | 28,732 | 33,893 | 39,970 | 40,148 | 36,223 | 36,258 | 37,998 | 39,802 |
| Cash | | 6,939 | 4,701 | 4,303 | 13,991 | 15,620 | 33,244 | 44,691 | 62,117 |
| Current Liabilities | | (67,665) | (63,819) | (56,158) | (65,131) | (60,169) | (63,943) | (66,931) | (69,228) |
| Creditors | | (54,763) | (51,960) | (51,425) | (65,131) | (60,169) | (63,068) | (66,056) | (68,353) |
| Short term borrowings | | (12,902) | (11,859) | (4,733) | 0 | 0 | (875) | (875) | (875) |
| Long Term Liabilities | | (21,063) | (12,481) | (9,080) | (6,734) | (8,199) | (8,804) | (3,788) | (1,892) |
| Long term borrowings | | (5,854) | (1,951) | 0 | 0 | 0 | (2,625) | (1,750) | (875) |
| Other long term liabilities | | (15,209) | (10,530) | (9,080) | (6,734) | (8,199) | (6,179) | (2,038) | (1,017) |
| Net Assets | | 114,908 | 107,046 | 114,142 | 108,014 | 102,659 | 105,394 | 115,789 | 127,891 |
| CASH FLOW | | | | | | | | | |
| Operating Cash Flow | | 44,856 | 42,711 | 43,657 | 48,834 | 47,431 | 57,349 | 59,414 | 62,337 |
| Net Interest | | (445) | (422) | (324) | (356) | (214) | (200) | (200) | (200) |
| Tax | | (5,247) | (6,896) | (7,655) | (8,139) | (5,830) | (7,396) | (12,266) | (8,643) |
| Capex | | (15,161) | (14,058) | (12,084) | (11,342) | (12,767) | (13,700) | (13,700) | (13,000) |
| Acquisitions/disposals | | (9,959) | (4,587) | (1,790) | 329 | (9,269) | 5,500 | (800) | (800) |
| Financing | | (1,578) | 492 | 881 | 571 | 906 | (3,000) | (500) | (500) |
| Dividends | | (10,792) | (14,532) | (14,006) | (15,476) | (21,070) | (18,487) | (19,626) | (20,893) |
| Net Cash Flow | | 1,674 | 2,708 | 8,679 | 14,421 | (813) | 20,066 | 12,322 | 18,301 |
| Opening net debt/(cash) | | 13,491 | 11,817 | 9,109 | 430 | (13,991) | (13,178) | (29,744) | (42,066) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 | 0 | (3,500) | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (0) |
| Closing net debt/(cash) | | 11,817 | 9,109 | 430 | (13,991) | (13,178) | (29,744) | (42,066) | (60,367) |

Source: EMIS, Edison Investment Research

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