Numis Corporation

Initiation of coverage

A growing stockbroker and corporate adviser

Financial services

Numis is a leading UK-focused broker and corporate adviser, differentiated from peers by its diversified client base and strong capital position. It has been materially increasing the number and average size of its clients, growing its FTSE 250 presence strongly and the broad sector diversity should generate reasonably stable earnings. Numis has shown innovation in potential growth areas raising capital for companies with new "disruptive technologies" and through its recent investment in Crowdcube. 2015 has been strong, with client numbers up 7% and revenue increasing 5%.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/13	77.7	25.0	17.8	9.0	13.7	3.7
09/14	92.9	30.5	22.0	10.5	11.1	4.3
09/15e	97.5	30.8	21.6	11.0	11.3	4.5
09/16e	101.5	33.1	23.2	12.0	10.5	4.9

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items, other operating income gains/losses and share-based payments.

Client profile is key

Investors should judge the quality of a stockbroker/corporate adviser by its client portfolio. Numis has seen steady growth in the numbers of clients (2015: 183, 2014: 171, 2013: 156), showing it has an attractive offering to corporates with its focus on long-term relationships. The portfolio is diversified with eight sectors each generating over £3m in deal fees in 2015 and a client base spread over 16 sectors. Although the firm's profits depend on stable market conditions prevailing, it is not dependent on a few specific areas, which may be 'hot' one year and generate little business the next. The client mix now has a much higher proportion of FTSE 250 companies (2009: 16 or 13% of total, 2015: 43 or 23%) – important as they have greater funding needs, and have a lower churn rate than AIM stocks. The base from which Numis generates revenue is increasing in overall size while maintaining a broad range of companies and sectors.

Managing the portfolio

Numis generates income from every aspect of its corporate relationships. Trading commission and transaction fees each generate over 40% the revenue. Recurring corporate retainers account for 10%. Numis provides active execution in 600 stocks from which it makes trading gains (average c 8% of total revenue). The company has not just built its core franchise but also shown great innovation. In 2013 it positioned itself to take advantage of the new retail bond markets. It is active in raising funds for new and disruptive technology companies and in July 2015, Numis invested in Crowdcube, the retail crowdfunding platform.

Valuation: Upside from further market share gains

The average of our range of valuation approaches is 239p. Our long-term returns Gordon's growth model indicates 261p and our dividend discount model (DDM) 217p. While these indicate that the shares are currently trading around fair value, there is geared upside from further market share gains.

11 November 2015

Price	**243.5p**
Market cap	**£276m**

Net cash (£m) at end March 2015	64
Shares in issue	113.2m
Free float	58.5%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.7	(8.9)	0.1
Rel (local)	3.6	(2.8)	2.8
52-week high/low		276.25p	202.00p

Business description

Numis has grown to become one of the UK's leading institutional stockbrokers and corporate advisors. It employs c 200 staff, and has 183 corporate clients. In 2015 it was involved in 39 corporate deals.

Next event

FY15 results	2 December 2015

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Edison profile page

Numis Corporation is a research client of Edison Investment Research Limited

Investment summary

Company description: A growing stockbroking and corporate advisory franchise

Listed on AIM and with offices in London and New York, Numis is a leading UK-focused institutional stockbroker and corporate adviser. At September 2015 it had 183 corporate advisory relationships including one FTSE 100 company, 43 in the FTSE 250, 59 small caps on the main market and 65 listed on AIM. The average market capitalisation of its clients is now £545m (up nearly 10% on September 2014). It has been voted the leading mid and small-cap broker by companies in the Extel awards in each year from 2011 to 2015 and the leading brokerage firm by institutions and companies for the last three years. In each of 2013, 2014 and 2015 it raised over £2bn for clients. Numis's research covers c 750 stocks including 400 investment companies and funds. It also provides the Numis Smaller Companies Index – a benchmark covering companies with market caps of up to £1.5bn running continuously since 1955.

Valuation: Around fair value with upside from further market share gains

We use a Gordon's growth model to consider the long-term returns available to the business (indicative value 261p) and a dividend discount model (indicative value 217p). For both we have made an adjustment for surplus capital (although this adjustment increases the DDM it reduces the Gordon's growth model by a greater amount). Our estimates have modest growth in 2016 and anything greater than this could see operational leverage and geared valuation upgrades. Some investors may want to consider a franchise approach – for example, comparing Numis's market cap with the capitalisation of the corporate client base. While we see the logic (Numis's potential revenue is related to its clients) we believe this approach has inherently high volatility. Peer comparators are also fraught with difficulty given the lack of public forecasts and volatile earnings outlooks. Adjusting for cash, Numis trades on a 2016e P/E of just 7.2x, with a yield of 5% nearly twice covered by earnings.

Financials: Market growth built into our 2016 numbers

Any stockbroker and adviser will have great sensitivity to investor appetite for shares and the corporate need or desire to raise funds. Therefore, estimates need to be treated with a degree of caution. Numis has a broad diversity of clients and we use two-year forecasts, with 2016 showing a modest 5% revenue growth, and small operational leverage improvement, on 2015. We assume this will prove inaccurate but there are both upside opportunities and downside risks, so modest growth has been taken as a base case. We provide sensitivities below.

Sensitivities: Equity market is key but Numis very diversified

Numis is not immune from significant fluctuations in market activity. A rising market not only sees rising income, but also positive operational leverage with an element of fixed cost. We note the diversity of clients should limit the risk of a departure or death of key personnel. While regulation is an increasing burden on all financial companies, it appears a relatively small risk to Numis with the estimated adverse effect of commission unbundling in the range of 5-10% of pre-tax profits (and most likely at the lower end of this scale).

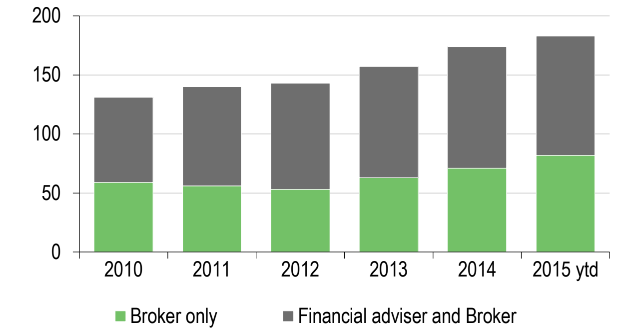
Company description: Growing UK stockbroker and corporate adviser

Numis's corporate advisory and institutional stockbroking activities are complementary to each other. The business units are closely interrelated as a corporate broking relationship is more likely to see a leading market share in trading and a strong research and trading capacity is more likely to win corporate relationships. Operationally, of course, the usual Chinese walls are in place to ensure regulatory compliance. We highlight in the section below some of the key drivers behind each revenue line, noting the relative resilience of revenue post Lehman.

Growing franchise

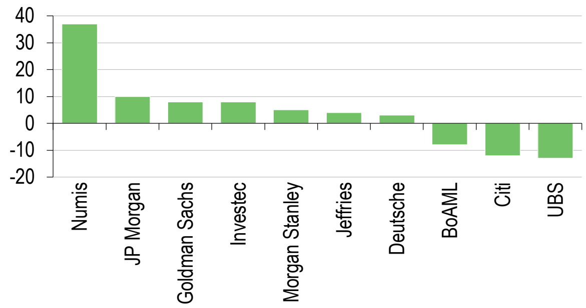
Numis aims to be a dominant broker and adviser across the market capitalisation spectrum and has been growing both the quality and the overall size of its franchise. Exhibit 1 highlights the consistent annual growth in both broker-only and financial adviser and broker relationships. Exhibit 2 shows the number of FTSE 250 client wins since 2009.

Exhibit 1: Client numbers by type of relationship



Source: Numis, Edison Investment Research

Exhibit 2: Net FTSE 250 client wins since 2009

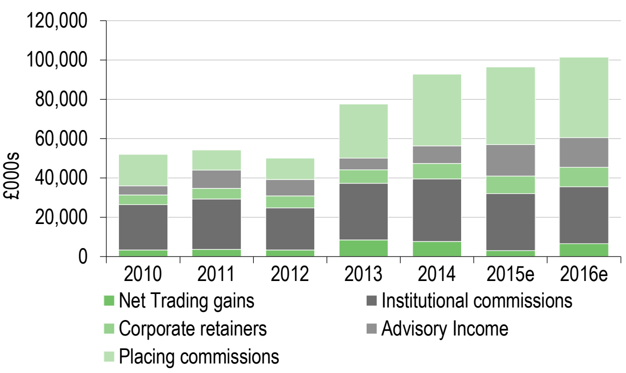


Source: Adviser Rankings Limited via Numis presentation, Edison Investment research

Summary revenue breakdown

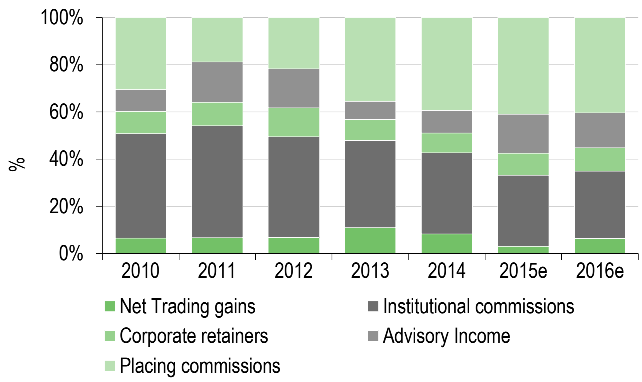
Exhibits 3 and 4 show the revenue and mix since 2010. As can be seen revenue has shown strong growth especially from transaction related income generated from the growing customer base.

Exhibit 3: Revenue breakdown 2010-16e (£000s)



Source: Numis, Edison Investment Research

Exhibit 4: Revenue breakdown 2010-16e (% total)



Source: Numis, Edison Investment Research

Institutional commissions (2010-14 average 41% revenue)

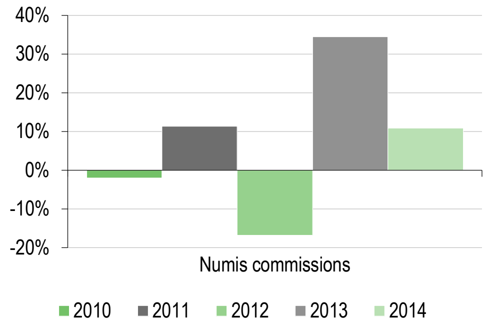
Exhibit 5: Institutional commissions

September	2010	2011	2012	2013	2014	2015e	2016e
£000s	23,060	25,690	21,379	28,759	31,882	29,000	29,000
% Numis revenue	44%	47%	43%	37%	34%	30%	29%
UK mid- and small-cap share of trading	16.24	18.97	18.14	19.17	15.65	N/F	N/F

Source: Numis, Edison Investment Research. Note: N/F = not forecast.

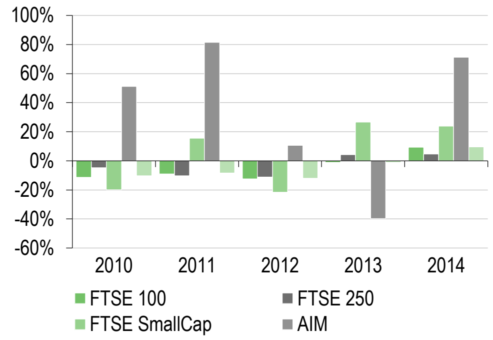
Numis's institutional commissions may be segmented into those generated from FTSE 100/250 stocks (c 60%) and AIM/small-cap/other stocks accounting for the c 40% balance. As shown in Exhibits 6 and 7 below, Numis has less volatility in institutional commissions from 2010-14 compared with the change in the value of stocks traded in the market as a whole. It has benefited from a generally stronger performance in AIM stocks, but additionally management attributes this relative success to the rising number of corporate stocks and a continual top-grading to the sales team. It now has 10 salesmen to UK institutions, two to European clients, nine UK sales traders and eight staff based in the US. It also has eight sales and sales traders covering investment companies and four fixed income products. It should be noted that with smaller stocks, the split between the commission and bid-offer spread (reported in trading gains) can be variable and this can distort the relative reporting. We have assumed H215 commission broadly stable on H115.

Exhibit 6: % change in Numis commissions



Source: Numis, Edison Investment Research

Exhibit 7: % change in total market value traded



Source: Numis, Edison Investment Research

Net trading gains (2010-14 average 8% revenue)

Numis makes markets in over 600 stocks. Positions are created by customer trades where Numis does not have an exactly matching client order leaving Numis on risk by having a long or short position. The model is not about Numis taking large punts on a proprietary book. The risk from taking client-induced positions is compensated for by the bid-offer spread, which, for smaller companies especially, is variable and reflects stock-specific issues at the time. The average annual profit (£5.3m from 2010-14) shows that over time Numis receives an appropriate reward for the risk it takes. Trading gains will by its nature be volatile and Numis manages this risk through a mix of value at risk and stress test techniques (see risk section below) as well as relying on the experience of its senior market makers. Unsurprisingly, in the sharp market correction in 2008 there was a loss. For H215 we have assumed a recovery from H115 to levels closer to the historic average.

Exhibit 8: Net trading gains 2010-16e

	2010	2011	2012	2013	2014	2015e	2016e
£000s	3,418	3,653	3,430	8,459	7,715	3,000	6,500
% Numis revenue	7	7	7	11	8	3	6
No stocks with No1 market share	N/D	93	103	121	123	N/F	N/F
No 2/3 share	N/D	100	83	103	120	N/F	N/F

Source: Numis, Edison Investment Research.

Corporate transactions (2010-14 average 41% revenue)

The second sizeable stream of revenue is income generated from raising equity (and to a lesser extent debt) for Numis's corporate clients, as well as advice provided on corporate transactions. This has historically contributed just over 40% of revenue but in 2014/15e it rose materially as the historic growth of larger corporate relationships fed through to a strong deal and placing flow.

Exhibit 9: Corporate transactions revenue 2010-16e

12 months to September	2010	2011	2012	2013	2014	2015e	2016e
Advisory income (£000s)	4,793	9,298	8,275	6,015	8,972	16,000	15,000
Placing commissions (£000s)	15,847	10,150	10,853	27,492	36,497	39,500	41,000
Total (£000s)	**20,640**	**19,448**	**19,128**	**33,507**	**45,469**	**55,500**	**56,000**
Advisory income (% total rev.)	9	17	17	8	10	17	15
Placing comms (% total rev.)	31	19	22	35	39	41	40
Business measures							
Total funds raised	1,315	634	717	2,162	2,071	N/F	N/F
Main market funds raised	36,014	24,447	7,667	20,693	29,379	N/F	N/F
AIM funds raised	6,183	6,702	2,982	3,069	6,275	N/F	N/F
% Main and AIM	3.1	2.0	6.7	7.7	5.8	N/F	N/F

Source: Numis, London Stock Exchange, Edison Investment Research

Over the past three years, Numis's market share has been around 6-8% of total equity funds raised on the LSE. Corporate transaction revenue is inherently volatile (2014 more than double 2010 levels compared with commissions, up 40%). The key drivers are shown in Exhibit 10 below.

Exhibit 10: Number of clients won and lost 2010-14

	2010	2011	2012	2013	2014	H115	2015e
Opening	122	133	140	144	156	171	171
Wins	29	26	18	28	24	15	37
Gain as % opening	24	20	13	19	15	18*	22

Source: Numis, Edison Investment Research

- Corporate client portfolio: Numis has increased the number of its corporate clients every year since 2008. Even as Numis has grown its portfolio, the rate of client acquisition has also been reasonably stable. The key to such growth is having the credibility, brand, continuity and staff to deliver deals. Numis is seen as an experienced adviser that will be around for the long term. It is unlikely to be a consolidation target and its strategy is focused in this business (in contrast, HSBC and other banks have withdrawn from AIM nomad relationships).
- Average client size: Typically, larger companies have larger funding requirements. At September 2015, 44 of Numis's 183 clients were FTSE 250 or FTSE 100, up from 16 in 2009. Again there has been very steady growth in clients of this scale.

Exhibit 11: Mix of corporate clients

	2010	2011	2012	2013	2014	2015	2016e
Total corporate clients	133	140	144	156	171	183	195
FTSE 100	1	1	1	1	1	1	2
FTSE 250	26	25	28	31	36	43	48

Source: Numis, Edison Investment Research

- Client equity financing requirements: Strong growth companies are more likely to have a greater need for equity market finance than established slower-growth companies.
- Sector concentrations: Over time, different sectors have different funding requirements and sector concentration leads to more volatility. Numis has corporate clients across 16 sectors with the top five sectors accounting for 82%, 80%, and 67% of combined advisory and placing fees in 2013, 2014 and 2015. Sectors have rotated so it has not been the same five sectors each year. In 2015, half the sectors generated over £3m each in fees.
- Limited client concentration. The number of fund-raises (broadly equivalent to unique corporates) over the last three years has been 40, 44 and 39, so revenue has been generated over a wide number of corporate clients. The number of deals generating in excess of £1m was

nine, 11 and 14 (2013, 2014 and 2015) with the highest single fee around 10% of deal-related revenue in each of these years.

- Innovation: Numis has shown itself to be nimble in dealing with new markets and offerings. In 2013 it raised £334m in retail bonds (a third of the market total). It has been active in the challenger bank market including IPOs for TSB and Aldermore. We also note the 30 July 2015 announcement that Numis has taken an 8.49% stake in Crowdcube (an equity crowdfunding platform) with the potential to launch access to IPOs. Through this relationship Numis is also looking to develop a mini-bond product.
- Margin: While advice has no balance sheet implications, one can consider the fees generated by Numis against the funds it has helped raise. As can be seen in Exhibit 12 below, the average fee 2008-15e was 2.6% of funds raised, although the annual range is quite broad. This is driven by the size of deal (larger deals mean typically smaller fees), the mix between advisory and placing fees (pure placing typically lower margin) and the role in the deal, etc.

Exhibit 12: Advisory income and placing commissions compared with funds raised

£m	2010	2011	2012	2013	2014	2015e
Total advisory and placing fees	21	19	19	34	45	56
Funds raised	1,315	634	717	2,162	2,071	2,000
Fee rate (%)	1.57	3.07	2.67	1.55	2.20	2.78

Source: Numis, Edison Investment Research

Market sentiment is important in determining if and when companies choose to list (Numis had 11 IPOs in FY15, 16 in FY14 and seven in FY13), make acquisitions or raise equity finance for organic growth. For H215 we assume a lower level than the record H115, but still above the recent period averages.

Corporate retainers (2010-14 average 10% revenue)

Numis provides a range of services within its corporate broking and advisory business, including investor roadshows both in the US and the UK as well as advisory and broking services. It has successfully managed to replace clients lost through takeover and de-listing (with losses to competitors at a minimal level over recent years). In terms of client wins, we note that the majority have not been from new companies coming to market (2012-14 number of IPOs is 26 out of 70 total new client wins). Numis has therefore gained clients from competitors through its service offering and reputation.

Exhibit 13: Retainer revenue and client numbers since 2008

	2010	2011	2012	2013	2014	2015e	2016e
Revenue (£000s)	4,822	5,412	6,139	6,933	7,796	9,000	10,000
% group revenue	9	10	12	9	8	9	10
Total corporate clients	133	140	144	156	171	183	195
FTSE 100	1	1	1	1	1	1	2
FTSE 250	26	25	28	31	36	43	48
Other	N/D	6	4	5	13	15	15
AIM	N/D	50	52	58	62	65	70
Small cap	N/D	51	59	61	59	59	60

Source: Numis, Edison Investment Research

Management KPIs

In its full-year results, management highlighted a number of financial and operational KPIs (see Exhibit 14). In terms of sustainable profitability, the key measures are the growing base of corporate clients of an increasing scale and the broadly stable share of trading. Revenue per head and cost efficiency are significantly driven by market conditions, as outlined above.

Exhibit 14: Management KPIs

	2010	2011	2012	2013	2014
Revenue per head (£000s)	275	283	278	449	491
Cost:core revenue (%)	86	85	85	68	68
Corporate client base	133	140	144	156	171
Number of FTSE 250 clients	26	25	28	31	36
Funds raised for corporate clients (£m)	1,315	634	717	2,162	2,095

Source: Numis, Edison Investment Research

US arm

In 2004 the group established a wholly-owned subsidiary, NSI, based in New York. NSI is licensed by FINRA as a registered broker-dealer in the US and acts as agency broker (not a marker maker or principal dealer) and takes buying or selling orders from US institutions. These orders can be both for normal trading and for placements. The unit generates c 25% of group institutional commissions.

Management

We detail the director biographies on page 12. In summary, there is a good balance between those who have been with Numis long term and those with outside experience. As can be seen in the shareholding table, the directors have a material interest in the company and as such their interests are closely aligned to those of shareholders.

Managing risk

Market conditions

Although the firm's profits are dependent on stable market conditions prevailing, it is not dependent on a few specific areas, which may be 'hot' one year and generate little business the next.

Market risk on positions

Numis is also exposed to near-term movements in share prices affecting the equity positions it holds as market maker. Controlling nominal exposures is just one element of managing market risk. Management also uses sophisticated statistical modelling. Its value at risk (VAR) looks at price movements over the previous year (256 working days) and applies a 99% probability (ie third-worst day out of 256 measured) to current exposures. Management receives daily reports on the use of VAR limits allocated to traders. We note that in 2014 the average nominal long position was £39m, short position £13m and net exposure £26m, while the average VAR was £512k. This approach has all the advantages and flaws of sophisticated modelling and is overlaid by the experience of the senior market makers. In practice, actual delivery is the test of whether controls work. In 2014 Numis's daily market book average profit was £37k with a standard deviation of £116k. For 2015 both these numbers will be lower. Critically, we understand the number of profitable days is consistently around two-thirds of the total. These results are indicative of a bell-shaped distribution for daily profit (centred on a modest profit) and exactly the type of results that should be expected if VAR is working.

Key man risk

In a people business it is important to understand how Numis manages key personnel risk. The shareholdings of the directors are detailed on the final page and act as a major retention factor. Shareholdings have also been spread across staff in the firm through the use of share plan awards.

The lack of sector concentration noted above means that primary revenue varies year-on-year in terms of which staff or teams deliver the most revenue.

Regulatory capital position

On 30 September 2014 (the last date for detailed data) Numis had Pillar 1 capital of £57.5m against its Pillar I requirements £23.9m, ie it was running with more than twice the amount of capital required at that time with a surplus of £33.6m (this increased by a further £19m following the completion of the financial audit, following which 2014 profits were included as regulatory capital). The mix of capital requirement was £11.8m market risk, £3.5m credit risk and £8.5m operational risk (15% of average of three years' revenue)[1]. It has been actively buying shares into treasury (eg 2014 £9.8m) rather than in its Employee Benefit Trust given the former's greater flexibility. Over time we expect them to be released against share grants, although in the short term further purchases will reduce the regulatory capital surplus.

Credit risk

Credit losses have not been a material feature of Numis's results. It manages counterparty risk by specific name and applies a 20-day VAR to exposures to monitor utilisation against limits. Senior management receives a daily report on the 40 largest exposures detailing this, major stock positions and largest trades. Hedge fund exposure is a small part of the overall exposure and at 30 September 2014 was £24m against £113m exposure to brokers and £103m to long-only funds.

Unbundling of research from dealing commissions

Background

Proposals from ESMA and the UK's FCA look to unbundle research and make it a separately paid for service. The possible changes are also designed to increase transparency (end-investors know what they are paying for) and the quality of research (only good research theoretically being paid for). Research as a separately priced service means that independent providers can emerge and compete on price. In its feedback statement in February 2015, the FCA noted research could be paid by either the asset manager or by using a separately identified 'research payment account' funded by a specific, separate charge to its client, which is agreed and disclosed upfront.

The final outcome is not yet clear. We see a range of potential impacts, which could include (i) lower overall commissions including the effect of potentially incurring a VAT charge, which the current arrangements do not; (ii) a focus on quality research; (iii) research capacity reduced; (iv) coverage of smaller stocks may reduce disproportionately as the fee for research relative to the value of investments is too high; and (v) pressure on market revenue may lead to consolidation.

Timetable

The FCA has indicated it wants to implement its proposals at the same time as ESMA, and the UK timetable is thus driven by this.

- 28 September 2015: ESMA submitted draft regulatory technical standards (the European Commission has three months to endorse with a further three months' extension option).
- Early 2016: Final delegated acts to be adopted by the Commission.
- June 2016: MiFID II transposed into national law and FCA policy rules on implementation.
- January 2017: Delegated acts to apply within member states.

[1] Please refer to Numis's Pillar 3 Disclosures Document.

Impact on Numis specifically

We believe that management will have been actively engaging with its clients to establish their likely behaviour under the new regime and the most appropriate alternative pricing and service structures. We believe the impact on Numis is likely to be in the range of 5-10% of group profit with the probability that it is at the lower end of this range:

- US-generated commissions are not subject to MiFID II. With group commissions broadly 40% execution and 60% research-driven, and pressure focused on the latter element, we estimate that the aggregate revenue affected by the changes is c £12m. If this revenue drops by a quarter it would reduce group revenue by c 3% and group profits by c 10%. Additionally, there are likely to be administrative costs associated with the new procedures.
- The profit effect is likely to be mitigated by:
  - Impact on staff remuneration with the group bonus pool affected by group performance.
  - There is likely to be more differentiated pricing on execution depending on liquidity and the size of deals, which may result in some uplift in trading book profit.
  - Market share gains from smaller players that do not have the broad, award-winning sector coverage in Numis's model, which is likely to be critically important in the new environment.
- Consolidation among peers is likely to have mixed effects. Disruption to the market could be a positive, while on the downside peers may achieve a greater critical mass.
- Clearly, the reduction in overall market fees is a negative.

Sensitivities

Scenarios

Exhibit 15: Cost income ratio and profit sensitivities to different revenue environments

(£000s)	-20%	-10%	Base	10%	20%
Revenue	81,200	91,350	101,500	111,650	121,800
Total costs	(66,584)	(70,339)	(75,349)	(78,155)	(80,388)
Op. profit (incl. share-based payouts pre-except.)	14,616	21,011	26,151	33,495	41,412
CIR (%)	82	77	74	70	66
Profit change from base case (%)	(44)	(20)	0%	28	58

Source: Edison Investment Research. Note: Based on 2016 forecast.

Numis is sensitive to the level of, and sentiment towards, equity markets. It also has operational gearing in that much of its costs are fixed. The group bonus pool is determined from group profits while the fixed element of remuneration is higher than some peers. Exhibit 15 illustrates the relative gearing and in particular we see an upside bias from the structure of variable remuneration. In more extreme downside scenarios there will be an adverse bias once the variable bonus pot is eliminated, with the fixed-cost element then accounting for all costs.

Bonus payments

The European Parliament, through its Capital Requirements Directive, put in place a set of rules over 'bankers' bonuses'. Bonuses are limited to 100% of salary in any given year, or 200% of salary with the agreement of shareholders. A minimum of 25% of any bonus exceeding 25% of salary must be deferred for at least five years to encourage bankers to "take a long-term view". The UK authorities used their discretion to determine that Tier Three firms such as Numis can dis-apply these requirements. The European authorities are questioning whether the UK authorities were entitled to use such discretion, arguing that the rules allowed discretion for tighter bonus limits, but not their elimination altogether. This argument between authorities may conclude before the year end, but both the timing and the implementation are currently unclear. For Numis the number of staff affected is very small and they are generally staff that already have large shareholdings or incentives in place.

Valuation

Our valuation approaches (DDM and Gordon's growth) indicate an average fair value of 239p, ie around the current price. The key upside will come from above forecast growth driven by either market share gains from the quality client base or above expected market appreciation. The lack of public forecasts makes prospective peer comparisons weak. Adjusting for £75m of forecast FY16 cash Numis trades on a 2016e P/E of just 7.2x, with a yield of 5% nearly twice covered by earnings.

Peer comparisons

Exhibit 16: Key peer comparisons

	Price	Market cap (£m)	2014 P/E (x)	2014 yield (%)
Numis (Sept)	244	281	11.1	4.2
Arden Partners (Oct)	39	8	49.0	1.7
Cenkos Securities	179	109	5.0	9.8
Panmure Gordon	80	12	13.4	1.9
Shore Capital	425	103	19.0	2.4

Source: Company reports, Thomson, Edison Investment Research. Note: *Edison full-year forecast. Prices at 10 November 2015.

The publicly available forecasts for brokers are limited, so we have included historic measures.

Gordon's growth model (261p)

Exhibit 17: Gordon's growth model and sensitivities

	Base	+1% ROE	-1% COE	+1% Growth
Return on equity (%)	20.00	21.00	20.00	20.00
Cost of Equity (%)	10.75	10.75	9.75	10.75
Growth (%)	5.00	5.00	5.00	6.00
P/BV (x)	**2.61**	**2.78**	**3.16**	**2.95**
BVps 2016 (P)	104.5	104.5	104.5	104.5
Less one off capital repatriation	-26.5	-26.5	-26.5	-26.5
Adjusted BVPS 2016 (p)	78.0	78.0	78.0	78.0
Implied value (p)	**203.6**	**217.1**	**246.4**	**230.0**
Near term performance discount/ premium	15%	15%	15%	15%
Implied value post premium(p)	234.1	249.7	283.4	264.5
Plus one off	26.5	26.5	26.5	26.5
Total value	**260.6**	**276.2**	**309.9**	**291.0**
Variance from base (p)		15.6	49.3	30.4

Source: Edison Investment Research

As an advice-rich and regulatory capital-light business, Numis should have a sustainable return on equity well above its cost of capital. Accordingly, we have assumed a 20% sustainable return and a cost of equity of 10.75% and growth of 5%. The COE reflects the expected 2015 dividend paid relative to closing equity and is what investors actually receive from the company. Our 2015/16 estimated ROE is c 25% and equity growth 8% and 9%, respectively. With near-term performance ahead of long-term assumptions we build in a 15% premium to reflect outperformance. We also make an adjustment assuming a one-off distribution of £30m reflecting the group's surplus capital (this actually reduces the valuation as it is valued at par rather than 2.61x book).

Dividend discount model (217p)

We use our explicit forecasts of dividends for 2015-16. For 2017 we take the 2016 normalised diluted EPS (23p), increase it by 5% and assume a two-thirds payout, ie a dividend of 16.1p. We then increase the dividend number by 5% pa for a further nine years and apply a 10x multiple for terminal value. All payments are subject to a 10.75% discount rate (cost of equity). We have also included a one-off capital distribution of £30m (26.5p/share) to reflect surplus capital in the group. On these assumptions, the fair value is 217p, of which 33% is attributable to the terminal value.

Financials

For 2015 we have the H115 published numbers and the trading statement issued on 1 October. Forecasting a growing franchise in a volatile business is fraught with potential error. For 2016 we have chosen to recognise that 2015 has been a good year, and to assume some, but modest, growth and a more normal trading gains environment. In terms of costs we have built in a modest leverage benefit.

Exhibit 18: Financial summary

£000s	2010	2011	2012	2013	2014	2015e	2016e
Year end 30 September							
PROFIT & LOSS							
Revenue	51,940	54,203	50,076	77,658	92,862	96,500	101,500
Cost of Sales (excl. amortis and depreciatn)	(44,118)	(45,437)	(42,179)	(52,723)	(62,427)	(65,236)	(68,049)
Share-based payments (and NI) *	(7,740)	(7,170)	(6,324)	(5,968)	(6,130)	(6,231)	(6,473)
EBITDA	82	1,596	1,573	18,967	24,305	25,033	26,978
Depreciation	(511)	(391)	(373)	(397)	(384)	(650)	(750)
Amortisation	(104)	(75)	(49)	(62)	(77)	(77)	(77)
Op. profit (incl. share-based payouts pre-except.)	(533)	1,130	1,151	18,508	23,844	24,306	26,151
Net finance income	649	570	181	561	477	269	500
Non-recurring items *	0	(2,208)	0	0	0	0	0
Investment revenues*	59	688	2,817	3,550	49	64	64
Profit before tax (FRS 3)	175	180	4,149	22,619	24,370	24,639	26,715
Profit before tax (norm*)	7,856	8,870	7,656	25,037	30,451	30,806	33,124
Tax	(276)	(851)	(848)	(4,555)	(4,311)	(4,928)	(5,343)
Profit after tax (FRS 3)	(101)	(671)	3,301	18,064	20,059	19,711	21,372
Profit after tax (norm *)	6,826	7,397	6,704	20,588	25,761	25,508	27,396
Avg diluted no of shares outstanding (m)	110.8	109.3	111.6	115.6	117.2	118.0	118.0
EPS – diluted normalised (p)	6.16	6.77	6.01	17.80	21.98	21.61	23.21
EPS – diluted FRS3 (p)	(0.09)	(0.61)	2.96	15.62	17.11	16.70	18.11
Dividend per share (p)	8.00	8.00	8.00	9.00	10.50	11.00	12.00
EBITDA margin (%)	0.2%	2.9%	3.1%	24.4%	26.2%	25.9%	26.6%
Operat mgn (pre GW and except.) (%)	(1.0%)	2.1%	2.3%	23.8%	25.7%	25.2%	25.8%
BALANCE SHEET							
Fixed assets	5,254	4,233	3,947	4,491	4,337	6,310	5,883
Current assets	333,196	296,244	320,505	306,870	425,910	360,942	368,506
Total assets	338,450	300,477	324,452	311,361	430,247	367,252	374,389
Current liabilities	(231,391)	(200,886)	(227,377)	(204,534)	(320,170)	(250,586)	(250,586)
Long term liabilities	(349)	0	0	0	0	0	0
Net assets	106,710	99,591	97,075	106,827	110,077	116,666	123,803
CASH FLOW							
Operating cash flow	2,863	(659)	4,118	44,891	21,164	14,358	27,514
Net cash from investing activities	466	301	(107)	177	323	(2,250)	50
Net cash from (used in) financing	(21,991)	(13,345)	(9,810)	(9,763)	(17,958)	(18,700)	(20,000)
Net cash flow	(18,662)	(13,703)	(5,799)	35,305	3,529	(6,592)	7,564
Opening cash	74,266	55,370	41,778	35,854	71,205	74,518	67,595
Fx effect	(234)	111	(125)	46	(216)	(331)	0
Closing net cash	55,370	41,778	35,854	71,205	74,518	67,595	75,159

Source: Numis, Edison Investment Research. *Normalised profits are before share-based payouts, non-recurring items and investment revenues.

Contact details

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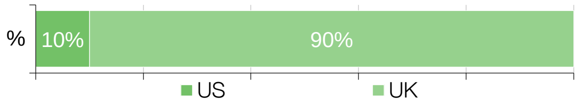
Revenue by geography



Management team

Non-exec chairman: Gerald Corbett DL

Gerald's external appointments currently include the chairmanship of Betfair and Britvic. Previously Gerald has been a director of 12 public companies, five of which he has chaired (including Moneysupermarket.com and SSL International). His executive career included FD roles with Redland and Grand Metropolitan. Gerald was CEO of Railtrack between 1997 and 2000.

CEO: Oliver Hemsley

Oliver Hemsley is the founder and CEO of Numis. Oliver is responsible for Numis's strategic development as well as the day to day management of the main trading entity, Numis Securities Limited.

Group finance director: Simon Denyer

Simon is a chartered accountant having spent five years with Price Waterhouse before moving to the banking arm of Schroders, where he spent five years performing a number of finance and risk roles. Simon then moved to Citigroup where he spent a further six years in the investment banking arm before joining Numis in 2006.

Executive director: Marcus Chorley

Marcus Chorley joined Numis in 2008 and is head of equities. Marcus held positions at Warburg's and UBS from 1991-2006, was MD head of euro mid-caps and then head of sales at Kaupthing Singer & Friedlander until 2008.

Executive director: Lorna Tilbian

Lorna heads the Media banking franchise. She joined Numis in 2001 after Sheppards (1984-88), SG Warburg (director, 1988-95) and WestLB Panmure (executive director, 1995-2001). Lorna appears in Campaign's A List 2015 and has served as a Cabinet Ambassador (an Ambassador for Creative Britain) for the DCMS. Lorna is also a non-executive director of Jupiter Primadona Growth Trust and ProVen VCT.

Executive director: David Poutney

David Poutney joined Numis in 2001 and is head of corporate broking. David has had a long and distinguished career in the City, previously having started his career in commercial banking with Midland Bank before becoming a number one ranked financials analyst at a number of leading firms starting just prior to the Big Bang in 1985.

Principal shareholders	(%)
Nortrust nominees (GVO)	9.31
Oliver Hemsley (CEO)	8.14
Aviva	6.70
Capital	5.85
David Poutney (executive director)	5.40
Unicorn Asset management	4.94
Lorna Tilbian (executive director)	4.92
Edward H Farquhar	3.60
Aberdeen Asset Management	3.43

Companies named in this report

Arden Partners (ARDN), Cenkos (CNKS), Panmure Gordon (PMR), Shore Capital (SGR)