Euromoney Institutional Investor

Outlook

Market information

Media

Euromoney has established a strong base from which to grow, particularly in the Pricing, data and market intelligence segment where its tools and products are increasingly built into client workflows. Continued challenging trading in Asset management is factored into our numbers, which have been lifted to reflect the completion of the BoardEx acquisition (PBT, EPS +7% FY19, +8% FY20). The group has plenty of firepower to fund further acquisitions. The proposed distribution of the DMGT shareholding removes the constraint on liquidity and should allow the rating to reflect the attractive cash flow characteristics and high quality of earnings.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	428.4	106.5	76.4	30.6	15.9	2.5
09/18	414.1	109.2	81.3	32.4	14.9	2.7
09/19e	409.0	105.3	78.2	34.9	15.5	2.9
09/20e	432.1	111.5	82.7	36.8	14.7	3.0
09/21e	460.3	120.1	89.1	39.6	13.6	3.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Acquisition strategy driving forecast upgrades

We have now included the acquisitions completed in February in our numbers. As anticipated, the transactions should be earnings enhancing, lifting EBITDA, PBT and EPS by 7–8% in both FY19 and FY20. We also publish our first thoughts on financial prospects for FY21. The more active portfolio management is now coming through clearly in growing EPS, from the plateau of the first half of the decade, flowing through to a progressive dividend. The group still has considerable cash resource (forecast at £74m for end FY19), as well as up to £370m in debt facilities, giving plenty of scope to look at further transactions. Management's preference is for businesses that operate in semi-opaque markets, have proprietary data or unique IP, provide "must-have" information or services to their clients, clearly create value when integrated with ERM's existing business and have high operating leverage, with the potential to achieve net margins in excess of 30%.

DMGT proposed distribution

Having reduced its ERM holding to 49% in December 2016, speculation over DMGT's intentions regarding the balance continued. Rather than place it in the market, DMGT has announced its intention to distribute the stake to its existing shareholders (bar the Rothermere family). This should greatly improve the liquidity in the stock and remove a barrier to investment from some potential investors.

Valuation: Undeserved discount

Euromoney's shares continue to trade at a notable discount to global financial data peers, currently valued at a current year EV/sales of 3.8x, EV/EBITDA of 14.3x and P/E of 21.4x. Parity on average of FY1 EV/EBITDA and P/E would imply a share price of 1,587p, 31% ahead of the current price. Given the resilience of the earnings, high level of subscription income and attractive cash conversion, this valuation disparity appears excessive, even before the lifting of the perceived overhang.

13 March 2019

Price	**1,214p**
Market cap	**£1,326m**
	$1.32/£
Net cash (£m) at 30 September 2018	78.3
Shares in issue	109.2m
Free float (pre-DMGT distribution)	50.8%
Code	ERM
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(6.5)	3.8	(9.8)
Rel (local)	(6.9)	(0.5)	(8.2)
52-week high/low		1450.00p	1132.00p

Business description

Euromoney Institutional Investor (ERM) is a global, multi-brand information business that provides critical data, price reporting, insight, analysis and must-attend events to financial services, commodities, telecoms and legal markets.

Next events

Interim results	16 May 2019
Final results	21 November 2019

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Edison profile page

Euromoney Institutional Investor is a research client of Edison Investment Research Limited

Investment case

Euromoney is a high-quality business providing essential B2B information to global and specialist markets, encompassing pricing discovery, market intelligence and events.

The group was majority-owned by DMGT until December 2016, when the latter reduced its holding from 67.9% of the equity to 49%. This removed a major barrier to investment in ERM for some potential shareholders. DMGT now plans to distribute this residual stake to its own shareholders (excluding the Rothermere holding). The only common shareholder of note is Lindsell Train, which holds 4.9% of ERM shares and 16.0% of DMGT and so, on a mechanistic basis, would hold 14.6% of ERM post distribution.

Management adopts an active portfolio management approach, with seven acquisitions and nine disposals of note since December 2016.

We view the key elements of the investment case including the following:

- The group owns strong brands across an increasingly diverse set of global markets. The largest segment is now Pricing, data and market intelligence (42% of group FY18 revenues), where underlying growth was 18% in FY18 over the prior year.
- The Asset management segment (40% of group revenues) has been most challenged recently, with pressure on market spending on research exacerbated by the introduction of MiFID II. Action has been taken to rationalise the product suite, reduce overheads and reinvest the savings in areas such as digital technology, sales and marketing. The Q119 subscription revenue decline of 4% was in line with FY18 trends, but was improved from the 6% decline in Q118.
- ERM's products and outputs are increasingly embedded into its clients' workflows.
- It has high levels of recurring and repeated revenues (subscriptions accounted for 56% of FY18 revenues).The group is targeting growing its licensing income, which will further improve the quality of earnings. Advertising now comprises less than 10% of group revenue (FY18: 9%).
- ERM has inherently strong cash conversion characteristics, averaging 102% conversion of operating profit to operating cash flow over FY08–18. Underlying cash conversion, adjusting for exceptional items and other working capital movements, was 102% in FY18 and 118% in FY17.
- We expect ERM to end the current financial year with net cash of £74m, despite net spend of £57m on acquisitions and paying out dividends of £38m (assumes no further deals).
- M&A will continue to be motivated by improving the quality of the portfolio. Areas such as pricing in opaque and semi-opaque markets are particularly attractive.
- We expect the recent acquisitions of BoardEx and The Deal to be earnings enhancing in their first year, as was indicated by management at the time of the original announcement. Our FY19 revenue forecast is raised 2%, PBT is raised 7% and EPS is raised 7%. For FY20e, we raise revenue by 5%, and PBT and EPS by 8%. We made no other changes to our model except for the acquisitions.

Company description: Global B2B information

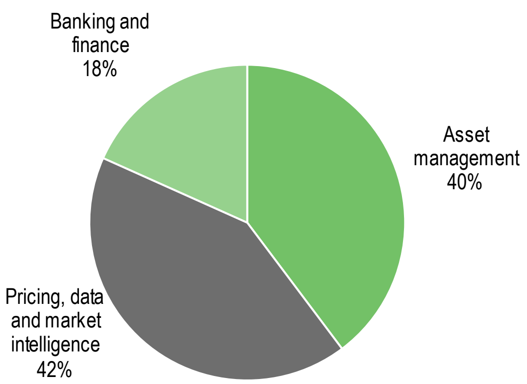
ERM is an international digital media group with leading brands in B2B markets, primarily financial and commodity markets. It has transitioned from a traditional print business to one that derives the bulk of its revenues from subscriptions and events, with advertising now reduced to under 10% of FY18 group revenues. 56% of FY18 revenues were on a subscription basis. ERM services global markets and provides essential information that enables its clients to carry out their businesses.

ERM's long-standing shareholder, DMGT, has recently announced its intention to distribute its remaining 49.02% shareholding among shareholders on its own register, excluding the Rothermere family. The arrangement is subject to approval at a class meeting scheduled for 26 March and requiring 75% approval. DMGT reduced its holding from 67.9% of the equity to 49% in December 2016, removing a major barrier to investment in ERM for some potential shareholders. 13.0m shares were placed with investors and 19.2m bought back for cancellation, at 975p. While this change reduced the issued share capital and mechanistically boosted the EPS, the primary effect has been one of culture, with the proverbial 'cutting of the apron strings'. Euromoney was given full autonomy over its balance sheet (debt facilities were previously provided by the parent company) and strategic direction, although historically DMGT had always been very supportive. It now has its own independent banking relationships, with its inherent healthy cash flow characteristics making it an attractive trading partner. This latest distribution obviously increases liquidity in the shares and removes the spectre of an overhang, even if there had been no prospect of a hasty or ill-prepared transaction.

With the earlier buyback, ERM incurred additional borrowing cost, as well as the whole cost of other functions that were previously provided by or shared with DMGT, such as tax and treasury, internal audit and legal resource. Consequently, the group added to its internal HR, and IT and M&A resource (at a cost of around £1m per quarter).

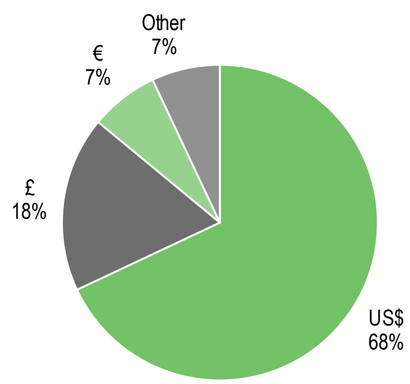
The structural change allowed an acceleration of the transition already being put into place by CEO Andrew Rashbass, who joined the group in October 2015. His root and branch review of the group identified the key underlying attributes of the constituent businesses and ascribed a position for each on quadrants of cyclical and structural strength or weakness. More details are given below.

Exhibit 1: FY18 revenue by segment



Source: Company accounts, Edison Investment Research

Exhibit 2: FY18 revenue by currency



Source: Company accounts, Edison Investment Research

ERM owns leading brands across a number of different verticals, with the most important centred on the asset management, commodities and investment banking markets, with other core areas including telecoms and energy. It also has businesses providing digital resource – information and tools – for research and investment markets. Across various brands, the group runs conferences and seminars primarily focused on the financial and commodities markets.

Refreshed leadership team

Euromoney group was founded in 1969 by Sir Patrick Sergeant (then City editor of the Daily Mail), backed with a corporate loan – the origin of DMGT's shareholding in the group's equity. He remains on the board as a non-executive and is the group's president. On the retirement of executive chairman Richard Ensor at the end of FY15 (after 39 years with the group), Andrew Rashbass was appointed to the board. Shortly after, his role was changed to a more conventional CEO position, with operational management no longer represented on the main board. Andrew Rashbass was previously CEO of Reuters, the news division of Thomson Reuters, which he joined in 2013. Before that, he spent 15 years at The Economist Group, where from 2008 he was CEO, leading its transformation from a traditional print business into a leading digital title. He was also MD of Economist.com and publisher of The Economist Newspaper.

CFO Wendy Pallot joined in August 2018 from Bloomsbury Publishing, replacing long-standing CFO Colin Jones, who has retired. Wendy had been at Bloomsbury since 2011, and prior to that had been with GWR Group and GCap Media. As of 1 March, a new chairman has taken over from the acting chairman. He is Leslie Van de Walle, current chairman of Robert Walters and SIG, and deputy chairman of Crest Nicholson, senior independent director of DCC and a non-executive director of HSBC UK Bank. Leslie was group CEO at Rexam and before that at United Biscuits plc. He will also chair the Remuneration Committee. Post the DMGT share distribution, the two non-executive directors nominated by DMGT will leave the board, which will then consist of Andrew Rashbass, Wendy Pallot, the chairman and five other independent directors.

Managing the portfolio to optimise growth

Euromoney's strategy was revised post the arrival of Andrew Rashbass, once a strategic review had been completed. This identified that there were many very good businesses within the group, but there had been little in the way of portfolio management, particularly in exiting or disposing of activities that no longer fitted. Post review, group companies needed to justify their own retention. There was no change to the central plank of the growth strategy for a mix of organic growth and growth by acquisition. The acquisition policy remains built around attracting businesses with strong, entrepreneurial leadership, encouraged to stay with the business after the transaction. The best elements of the previous decentralised structure were retained (entrepreneurial spirit, keeping close to the customers), while allowing better access to a strengthened central resource covering elements such as finance, HR, marketing etc.

The corporate strategy revolves around two core principles:

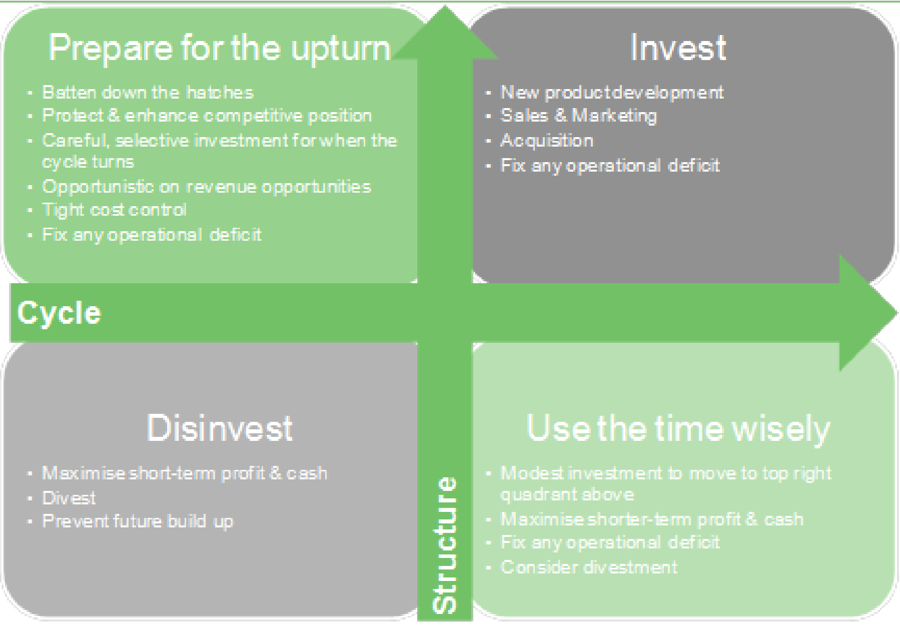
- **Moving towards** what management describes as '**3.0' business models**. A 1.0 business in this area would be in print and advertising-driven, centred on product and on 'broadcast'-mode only. A 2.0 business is one that has moved to digital delivery and is more focused on its customers and their requirements, with a greater proportion of subscription revenues. The 3.0 business model is about solving customer problems and becoming truly embedded in their work flows. Revenues are more biased toward licensing or even with the sharing of the benefit obtained by the client through using the product or service.
- **Identifying individual business in quadrants** reflecting their point in the cycle and their structural strengths or weaknesses, and using this to determine the priorities for capital allocation.

Within the portfolio, the strategy revolves around:

- Investing around the big themes, with a preference for semi-opaque markets, areas of inefficiency, disruptive technologies or methodologies, areas with meaningful barriers to entry

- Transforming the business model: orienting towards products and services that are 'must haves', rather than 'nice to have', with a 3.0 model (see above). Preference for operations that can be created once then sold multiple times.
- Recycling capital through active portfolio management.

Exhibit 3: Quadrant strategies



Source: Euromoney Institutional Investor

Acquisitions are prioritised on the following characteristics:

- Operate in semi-opaque markets
- Have proprietary data or unique intellectual property
- Provide "must-have" information or services to their clients
- Clearly create value when integrated with ERM's existing business
- Have high operating leverage and potential to achieve net margins in excess of 30%

This approach has resulted in a much more active approach to portfolio management than under the previous regime, with the key transactions in the recent past set out below.

Exhibit 4: Portfolio management

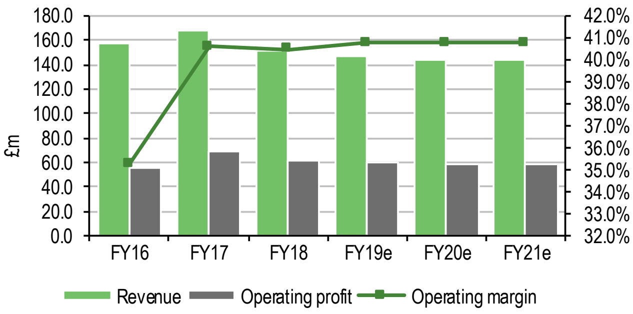
Acquisitions	Date	Price	Implied sales multiple	Implied op profit multiple
BroadGroup	Mar 17	49% for £0.6m		
RISI	Apr 17	US$124.5m	3.8x	14.6x
Layer123	Apr 17	61% for £6.4m + £0.7m deferred (option to buy-out minority in Feb 18,19,20 for max £5.0m)	4.4x	9.5x
TowerXchange	Dec 17	£6.5m + £2.1m earn-out	2.5x	7.2x
Extel	Mar 18	£2.7m + £0.1m deferred	2.7x	27.0x
Random Lengths	Aug 18	US$16.8m + $0.3m WC + $2.0m earn-out	4.9x	21.4x
BoardEx/ The Deal	Jan 19	$87.3m	3.5x	Not disclosed
Disposals	**Date**	**Price**		**Profit/loss on disposal**
HedgeFund Intelligence	Dec 16	£2.2m less WC £0.1m		Loss £4k
II Intelligence	Dec 16	US$0.9m + $0.5m deferred		US$2.7m
Euromoney Indices	Mar 17	£1.9m less WC £0.1m		Loss £1.8m
Latin Finance	Mar 17	US$3.9m-$1.1 WC adj		US$4.3m
Adhesion & WBWE	Oct 17	€13.6m		€12.2m
Dealogic	Dec 17	15.5% stake for $135m		
II Journals	Jan 18	US$3.8m + $0.8m deferred		$5.9m post release of $2.3m deferred revenue
GMID	Apr 18	US$180.5m		US$127.9m
Indaba	Oct 18	£30.1m		4.1x sales, 7.9x op profit, profit £18.4m

Source: Euromoney Institutional Investor news flow

Segmental descriptions

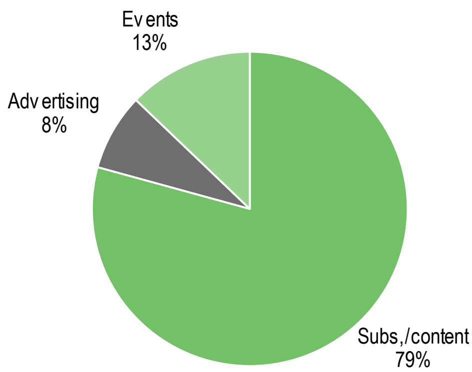
Asset management (39% of FY18 revenues)

Exhibit 5: Segmental record and forecasts



Source: Company accounts, Edison Investment Research. Note: Pre-reallocation of Commodity Events.

Exhibit 6: Segmental revenue by type FY18



Source: Company accounts, Edison Investment Research. Note: Pro-forma post re-allocation of Commodity Events.

The Asset management segment is primarily a subscription business, which, along with annual membership fees, made up 80% of FY18 segmental revenues. The subscription products primarily deliver independent information to help inform investment decisions, supplemented with news and data to provide context. It is predominantly North America based (over 90% of segmental revenues). It also runs various networks and conferences that bring the various subsector participants together, alongside forums and memberships. This aspect of the business has been expanded, broadening the customer base within the client organisations and positioning the various Euromoney-owned brands within the client decision-making process. The key operations are the Institutional Investor brand offering (46% of the segment); BCA Research (39%); and Ned Davis Research, bought August 2011 (15%). BCA is based in Montreal, Canada, and is one of the world's leading providers of global macroeconomic research; Ned Davis is US-based and provides independent financial research to institutional and retail investors. Institutional Investor has been extending its brand reach through high-level networking events and through new capital introduction networks. These should deliver revenues from introduction fees, data service and platform fees, but also from basis points on the capital.

It is the Asset management segment that has been the chief area of concern within the business over recent periods. This stemmed initially from the increased rigour within the regulatory environment post the financial crisis that led to heavy fines being imposed for non-compliance, in turn causing a diminution of confidence within ERM's client base. More recently, management's view is that the introduction of MiFID II has been a specific hindrance to the businesses of Ned Davis and BCA, with much of the sell-side loss-leading. This is widely anticipated to lead to a shake-out. Despite this, renewal rates have held up better than had been anticipated. New business, however, has been particularly hard to come by.

In response to the challenging market conditions, management instigated a programme of cost reduction in August 2018, taking out £7m through a combination of product rationalisation (six of 20 products at BCA were withdrawn), restructuring and reducing the number of offices. The objective has not been to send this saving all to the bottom, but to part reinvest to upgrade the savings into sales and marketing, digital technology and product development.

Institutional Investor has been more resilient, with FY18 revenues down 1% on prior year.

During FY18, ERM also bought the Extel brand, best known for its surveys, for £2.7m, which now reports in this segment.

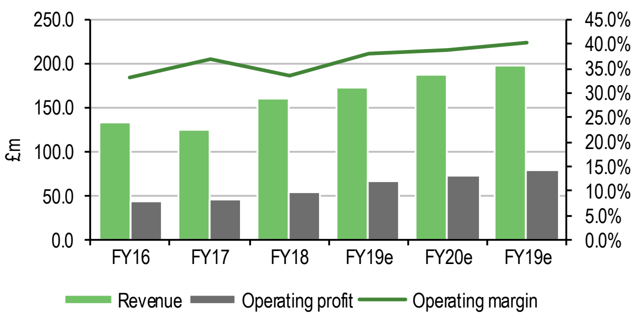
Exhibit 7: Asset management key brands

BCA Research	Institutional Investor Extel	Ned Davis Research

Source: Euromoney Institutional Investor

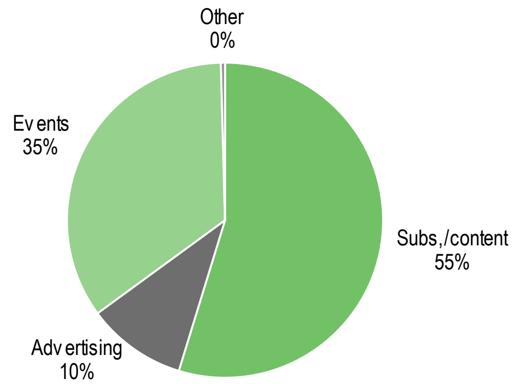
Pricing, data and market intelligence (43% FY18 revenues)

Exhibit 8: Segmental record and forecasts



Source: Company accounts, Edison Investment Research. Note: Pre-reallocation of Commodity Events.

Exhibit 9: Segmental revenue by type



Source: Company accounts, Edison Investment Research. Note: Pro-forma post re-allocation of Commodity Events.

This segment has a broader geographic base, where the UK generated the largest proportion of revenues (although these could have been derived from many other originating countries). The acquisition of RISI in FY17, which provides pulp and paper industry intelligence, raised the proportion of revenues generated via the US to around a third on a pro-forma basis. RISI was purchased for €125m in cash (see Exhibit 4 for multiples). Its revenues derive predominantly from selling subscription products and it has high renewal rates.

As the commodities cycle turned, Metal Bulletin (now within Fastmarkets Metals & Mining) moved from being a 'top left' business to a star performer shifting into the 'top right'. It falls directly into one of the key target areas for ERM's growth – being the provider of market and pricing information in opaque and/or inefficient markets. With the move into the 'top right', investment in Metal Bulletin was stepped up. The acquisition of FastMarkets in August 2016 improved its market proposition further through adding an online platform for real-time data delivery in metals and mining price reporting. It has also given the group a recognisable umbrella brand applicable to a wide range of end markets and is currently used for metals and mining and for forest products, centred around RISI.

Gaining accreditation from the International Organization of Securities Commissions (IOSCO) for lithium pricing is an important landmark for the group and shows the way forward for other commodity markets. The objective is to move from reference pricing, through benchmarking and – ideally – towards this type of exchange pricing. This truly embeds the data into clients' workflows and constitutes a significant barrier to entry.

The recently-completed acquisitions of BoardEx and The Deal complement Euromoney's existing offering, particularly within the investment community, banks and professional services sectors. BoardEx is an executive profiling and relationship mapping platform. Its proprietary software is embedded in the workflows of its customers who use it for business and corporate development, executive search and Know Your Client compliance activities. It can be directly integrated into a client's CRM system.

The Deal delivers data, news and intelligence on mergers and acquisitions, activist investing, private equity and restructuring. Its digital subscription product is one of the market-leading brands in deal-driven intelligence across the US. Its data, particularly on the individuals involved in a transaction, provides further depth to the relationship mapping output of the BoardEx platform.

The residual events from the previous Commodity events segment will now be reported within this segment, as this reflects the way that they are now managed.

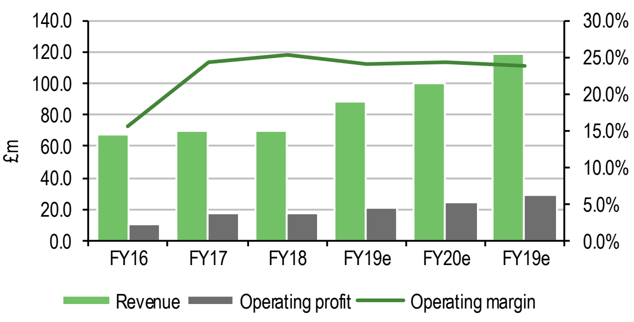
Exhibit 10: Pricing, data and market intelligence key brands

Fastmarkets	Telecoms	Specialist Information
Forest Products Metals & Mining	Capacity ITW Layer123 Tower Exchange BroadGroup	Legal Media: IFLR; Managing Intellectual Property Project & Asset Financing: AirFinance; IJ Global Insurance: Insurance Insider; Reactions Derivatives: Euromoney Tradedata; Total Derivatives BoardEx, The Deal

Source: Euromoney Institutional Investor data

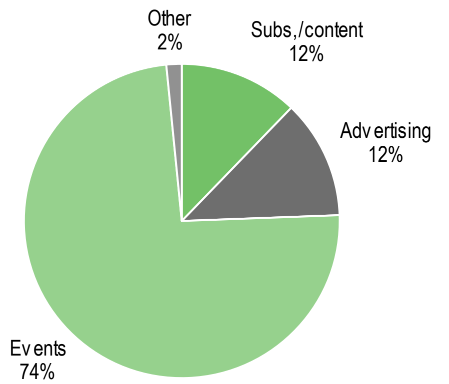
Banking and finance (18% of FY18 revenues)

Exhibit 11: Segmental record and forecasts



Source: Company accounts, Edison Investment Research.
Note: Pre-reallocation of Commodity Events.

Exhibit 12: Segmental revenue by type



Source: Company accounts, Edison Investment Research.
Note: Pro-forma post re-allocation of Commodity Events.

Over recent years, the banking side of the group suffered from buy-side pressures as the regulatory environment became more onerous and confidence levels flagged. The recovery is not spectacular, but more a steady rebuild. The Euromoney brand is being leveraged through awards and content that aspires to thought leadership, which can be delivered across multiple channels. Rather than a publisher that carries advertising, Euromoney wants to be viewed as a marketing partner.

FY18 should have seen this business turn the corner with the focus on fewer, higher-margin events, as implemented in the prior year.

Exhibit 13: Banking & finance key brands

- **Banking & finance**:
  Euromoney
  IMN
  Global Capital
  Euromoney Conferences

Source: Euromoney Institutional Investor

Sensitivities

We regard the key sensitivities to the financial performance to be:

- Dependence on the finance industry: ERM was founded to serve the information needs of the finance industry and remains highly reliant on this GDP-dependent industry. Over 80% of revenue derives from financial markets globally. Euromoney showed a resilient performance through the major downturns of 2001–03 and 2008–09. Post the financial crisis, the fundamentals have shifted, with a significant increase in regulation and compliance controls. With the requirements for more robust capital structures, banks have disinvested from the riskier elements of their portfolios and alternative providers of finance have been emerging. The phase of punitive fines from the regulators has eased off (although these have not totally disappeared) and a ‘new normal’ is now established. The banks, though, have become more attuned to their discretionary spending and the focus on controlling costs and overheads is unlikely to go away. The asset management sector is facing major regulatory change stemming from the implementation of MiFID II, which will likely lead to a phase of consolidation in the sector.
- Currency: Just over two-thirds of revenue (including 30% of UK revenues) and around 63% of operating profits are generated in US dollars. The group reports in sterling, therefore there is potential for swings in the reported results stemming from the difference between operating and reporting currencies. Euromoney sells to many countries, but invoices mainly in US dollars and sterling, leaving the group exposed to swings in the £/US$ rate. The group hedges 80% of forecast US dollar revenues for the coming 12 months and up to 50% for a further six months, but the FX risk on the translation of overseas profits is not hedged. Management estimates that a one cent movement shifts revenue ±£1.7m, and operating profit ±£0.7m.
- Brexit: Uncertainty has been and continues to be – for the time being – an issue that may inhibit customers from making business decisions over capital outlay and over operational costs such as subscriptions and event attendance. These issues are not specific to ERM. The news flow also continues to lead to volatility in FX.
- Acquisition risk: With acquisitions a key component of the growth strategy, there will be perennial questions on opportunities that may be missed and variation in market prices paid. The group has a good record for not overpaying, although this may mean that phasing may be lumpy, with an additional risk relating to deal execution and integration.
- Speed of technological change: Patterns of content consumption continue to shift, although it is arguable that the main thrust of the shift from print to digital has now taken place. The group’s strong brands give it good leverage regardless of medium and its remaining print products have

been reoriented to longer shelf-life, thought leadership-type content, with *Institutional Investor* having moved to digital-only during FY18 after 51 years. The continued decline of advertising revenue is built into the model.

- Data security risk: The group holds large quantities of commercially sensitive data.
- Regulatory risk: This risk could be internal or external. The impact of the introduction of MiFID II is already being seen across the asset management industry, expressed as a reluctance to invest ahead of clarity on the potential business impacts. The group is itself now acting within some regulated markets in areas such as ascertaining counterparty risk in reinsurance, or, for example, in Manager Match, where it is helping asset allocators find the right managers.
- Travel risk: Conferences, seminars and training account for c 30% of group profits, with the perennial attendant potential disruptions to international travel from events outside of the group's control.

Valuation

We have looked at Euromoney's pricing in comparison to other quoted stocks with comparable elements of their businesses, although, as usual, calling these stocks 'peers' implies a degree of similarity that is not necessarily accurate. We have then also carried out DCF analysis, both in the traditional way and through a reverse process where we vary the EBITDA margin and medium-term growth rate.

Peer group comparison

Firstly, we have compiled the relevant valuation metrics of a number of companies providing financial or business-critical information in a B2B context.

Since we last looked at this data, Dun & Bradstreet has been taken private by a consortium of shareholders (CC Capital, Cannae Holdings, Black Knight and Thomas H. Lee Partners), with the deal completing in February 2019. This was prior to the reporting of its full year figures for 2018, but we estimate that the deal was struck at around a 4.0x EV/sales multiple and at 20.6x EV/operating income. Compared to the other quoted stocks, this is at a discount on the former multiple and a premium on the latter.

Share price performance on a one-year view has been quite divergent across this group reflecting their varied business models and markets, on average rising by 7% over the last 12 months. Euromoney's shares hit a high of 1,450p in June 2018 and a low of 1,132p on Christmas Eve 2018, so are now trading at around 10% off this low. Nevertheless, there is a clear rating discrepancy: 18% on current year EV/EBITDA and 26% on P/E. Given the resilience of the earnings, high level of subscription income and attractive cash conversion, this discrepancy appears to us to be excessive. The group's free cash flow (FCF) yield is also well ahead of this set of peers.

Exhibit 14: Peer group valuations

Name	Price – reporting currency	Quoted currency	Ytd performance (%)	Market cap (m)	EV/sales 1FY (x)	EV/EBITDA last* (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E last* (x)	P/E 1FY (x)	P/E 2FY (x)	FCF yld 1
THOMSON REUTERS CORP	72.10	C$	37	36,160	4.7	20.3	19.6	14.7	371.3	49.0	29.0	0.7
ENVESTNET INC	61.40	US$	8	2,956	3.5	19.8	17.8	15.1	405.0	29.1	24.7	4.7
MORNINGSTAR INC	124.30	US$	28	5,294					25.8			3.5
SWISSQUOTE GROUP HOLDING-REG	48.20	CHF	(2)	747					14.0	12.3	11.5	5.4
WILMINGTON PLC	1.89	GBp	(23)	171	1.7	8.5	8.0		10.7	9.8		(1.7)
INFORMA PLC	7.15	GBp	1	8,954	4.2	15.3	11.9	11.4	15.2	13.8	13.0	5.6
ITE GROUP PLC	0.66	GBp	12	494	2.9	14.9	11.5	10.4		14.0	12.6	4.4
ASCENTIAL PLC	3.62	GBp	(9)	1,463	4.1	15.4	12.7	11.7	76.4	19.7	17.8	4.9
RELX	16.41	GBp	13	32,365	5.0	14.2	13.9	13.1	22.8	18.1	16.8	1.6
GLOBALDATA	6.10	GBp	4	721	4.5	41.5	18.9	16.9		26.5	23.2	2.5
Mean					3.8	15.5	14.3	13.3	17.7	21.4	18.6	3.2
Median					4.2	15.3	13.3	13.1	24.3	18.1	17.3	3.9
EUROMONEY**	12.44	GBp	3	1,359	3.0	11.2	11.7	10.6	15.3	15.9	15.0	4.9
Discount to mean					-20%	-40%	-18%	-21%	-13%	-26%	-19%	56%

Source: Edison Investment Research, Refinitiv. Note: *Outliers excluded from mean. **Based on Edison forecasts. Prices as at 4 March 2019.

Closing the valuation gap on a current year EV/EBITDA basis would imply a share price of 1,504p; on a P/E basis, 1,670p.

The quality of the group's earnings and, particularly, its attractive cash conversion characteristics should suggest that the rating should stand at a premium and that, to date, this has been countered by the limited liquidity. With the proposal that the DMGT holding now be distributed, this constraint on the multiple would be removed, although there may be some short-term fluctuations as shareholders optimise their positions.

DCF sense check

Exhibit 15: DCF varying WACC and terminal growth rate (p/share)

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	11.0%	833	876	930	999	1191
	10.0%	914	971	1,044	1,142	1,279
	9.0%	1,014	1,092	1,305	1,342	1,560
	8.0%	1,143	1,254	1,408	1,640	2,027
	7.0%	1,316	1,480	1,884	2,137	2,959
	6.0%	1,556	1,818	2,256	3,130	5,752
Break-even WACC		7.1%	7.8%	8.5%	9.2%	9.9%

Source: Edison Investment Research

Exhibit 16: Reverse DCF varying EBITDA margin and medium-term growth rate (p/share)

		Medium-term growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
EBITDA mgn	25.00%	1,116	1,154	1,193	1,233	1,274
	26.00%	1,156	1,195	1,236	1,279	1,322
	27.00%	1,196	1,237	1,280	1,324	1,369
	28.00%	1,236	1,279	1,323	1,369	1,416
	29.00%	1,275	1,320	1,367	1,415	1,463
	30.00%	1,315	1,362	1,410	1,460	1,511

Source: Edison Investment Research

Although we share some of the market scepticism over the use of DCFs to provide definitive valuation targets, given the degree of subjectivity over the inputs, we have presented both a conventional and a reverse DCF here to show what our model indicates under various scenarios for EBITDA margin and medium-term top-line growth rates beyond our forecast period. Under the conventional methodology, using a WACC of 8% and terminal growth rate of 2% suggests a share price of 1,254p, fully supporting the current share price. An EBITDA margin of 27% over the medium term (2022–27) and a modest revenue growth rate of 3%, compared to the revenue CAGR for FY17-21e of 3.6% (see below).

Assuming WACC of 8%, the current share price implies that on a maintained EBITDA margin of 27%, the medium-term revenue growth rate would drop to 2%, or that if medium-term growth were to be maintained at 3.6%, then the EBITDA margin would drop to 25.6%, both scenarios that seem unlikely to us.

Financials

Revised numbers for acquisition

Exhibit 17: Changes to forecasts

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY19e	72.9	78.2	+7	98.1	105.3	+7	101.2	108.5	+7
FY20e	76.9	82.7	+8	103.6	111.5	+8	106.8	114.8	+7
FY21e	N/A	89.1	N/A	N/A	120.1	N/A	N/A	123.5	N/A

Source: Edison Investment Research

We have now added in BoardEx and The Deal, completed in February 2019, to our numbers. As indicated by management at the announcement of the purchase, we anticipate the deal to be earnings enhancing, with the revisions to forecasts as shown above. We have made no changes to our assumptions on the balance of the business at this juncture. The last trading news was the Q1 results (see our note published 1 February). Interim results are scheduled for 16 May.

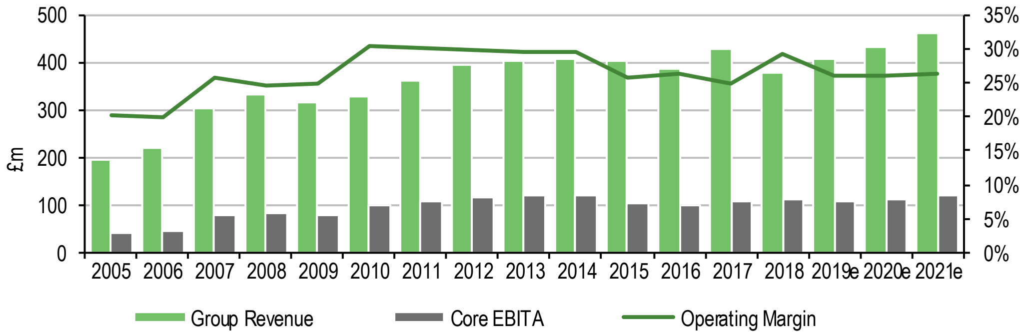
We have also published our initial thoughts on FY21 to show how we would expect the currently configured group to develop. Future acquisitions, though, could change this materially and we would expect that there will continue to be further material transactions.

Good long-term earnings record

We have shown the segmental financials in the descriptions above, with brief discussions on drivers. The group has a very resilient longer-term financial record, particularly considering the cyclicality of its underlying markets and the substantive structural shift that has been implemented away from a print-based, advertising-driven model to a digital one, where investment in IP drives high levels of recurring income through subscriptions (or, in management's terminology, the shift from a 1.0 to a 3.0 business model).

Over the 15 years to the end of our forecast period in FY21, the revenue CAGR is 5.0%, with the core EBITA CAGR over the same period 7.0%. For the five years FY17–21, the revenue CAGR would be 3.6%, with EBITA improving at 3.5%, despite the well-documented issues around the Asset management segment.

Exhibit 18: Long-term growth record



Source: Euromoney Institutional Investor accounts, Edison Investment Research

As of FY19, following the disposal of Mining Indaba, the residue of Commodity Events (£20.6m of revenue) will be reported within the remaining three segments: Asset management (where events would represent around 13% of pro-forma FY18 segmental revenue), Pricing, data and market intelligence (35%) and Banking & finance (74%).

Asset management performance edged better in the second half of FY18 with the first benefits of the £7m cost reduction programme, with a 5% revenue reduction in H118 followed by a 3% reduction in H2 to give a 4% fall for the year. Given that Institutional Investor's decline was just 1%, Ned Davis and BCA must therefore have slipped 6% across the year. Given the continuing issues surrounding the sector, we have not assumed any benefit from the market, rather continuing with a 3% revenue reduction in FY19, 2% in FY20 and flat in FY21.

As at end FY18, the annualised contracted value of subscriptions was 5.2% lower than the prior year (adjusted for currency and net M&A). The rate of decline at BCA stabilised over H218, while the smaller Ned Davis Research showed some amelioration. II memberships were ahead, which may reflect these being funded from marketing budgets, rather than from research budgets. The withdrawal of products referred to on page six, above, should have little if any impact on forward revenues, as most will be substituted with other products and the overall quality of the book of business should improve.

Pricing, data and market intelligence is the strongest growth driver within the group, with FY18 underlying growth of 12% in subscriptions and 6% in events (boosted by Telcap's Capacity Europe event in H118). Adjusted operating profit in FY18 was ahead by 18%. Our modelling shows continuing operating margin expansion here across the forecast period as the strategy laid out in the segmental descriptions above plays out.

The main kicker on margin of the reorientation of the **Banking & finance** operations will have been in FY18.

At a group level, the detrimental impact on operating margin from supplementing the head office functions previously shared with DMGT should now largely have worked through. Management estimates that this was a drag of 0.7% on operating margin in FY18. Our modelling, which now includes recently purchased BoardEx and The Deal, assumes that operating margins settle back in FY19 to just below 26%, reflecting the change in mix of the group's revenues (margins are highest in the Asset management segment). The trends for segmental operating margins are shown in the charts on pages 6–8.

With the corporate activity, on top of the inherent highly cash generative nature of the activities, the group has a particularly strong balance sheet and the interest payable should be notably lower in FY19 and forward. Our model indicates a net charge of £0.7m, against the £2.6m paid in FY18.

There are obviously many moving parts to the tax charge, but the overall effective rate in FY18 was 20%, from 19% the year before. The payment of a dividend from Canada and the consequences of other restructuring brought the expected rate for FY19 down to 20% from 23%, as disclosed at the time of the final results to September.

Inherently strong cash flow

ERM is an inherently strong generator of cash. With so much of the group's revenue based on subscriptions and events, the bulk of the cash comes in from customers before the product is delivered. This has enabled the group to invest in growth and fund its acquisition programme without running up any significant amount of debt.

Cash conversion was 98% in FY18 (FY17: 110%), and even better on an underlying basis at 102% (FY17: 118%). The average cash conversion across the 16 years from FY06 to our forecast FY21 is 105%; and 101% for the five-year period FY15–19.

In FY18, ERM made three significant disposals, generating £124.6m of cash inflow, net of costs, working capital and cash balances disposed and giving a profit on disposal of £86.8m. It also disposed its 15.5% in Dealogic for £100.1m, generating a net profit on disposal of £71.7m.

To date in FY19, the group has disposed of Mining Indaba to ITE for £30.1m and purchased BoardEx and The Deal for $87.3m.

Balance sheet gives plenty of acquisition firepower

Proceeds from disposals in FY18 were part used to repay the previous term loans, while the scale of the RCF was increased from £130m to £240m. Covenants require the group to keep net debt below three times EBITDA, with interest cover of at least three times on a rolling 12-month basis.

Exhibit 19: Banking facilities

Facilities	£m	Purpose
Committed RCF	240	Acquisitions & working capital
Uncommitted accordion	130	Additional acquisitions
Total	**370**	

Source: Euromoney Institutional Investor

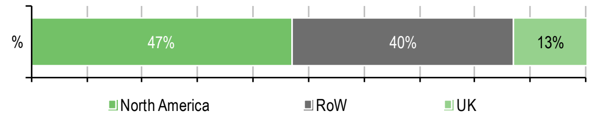
As at the year-end, the balance sheet carried net cash of £78.3m and our modelling for FY19 currently indicates a slightly lower net cash balance of £74.1m by end FY19, before rising more steeply through the natural cash generation over the following years. Obviously, this does not take account of any further acquisitions.

Three times our FY19e EBITDA would be £325m. With the available cash resource, this gives potential acquisition fire power of around £400m.

Exhibit 20: Financial summary

£m	2017	2018	2019e	2020e	2021e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	428.4	414.1	409.0	432.1	460.3
Cost of Sales	0.0	0.0	0.0	0.0	0.0
Gross Profit	428.4	414.1	409.0	432.1	460.3
EBITDA	110.3	112.9	108.5	114.8	123.5
Operating Profit (before amort. and except.)	107.1	110.7	106.1	112.2	120.8
Intangible Amortisation	(20.8)	(22.7)	(24.0)	(24.0)	(24.0)
Exceptionals	(31.3)	81.4	0.0	0.0	0.0
Capital Appreciation Plan	0.0	0.0	0.0	0.0	0.0
Operating Profit before ass's & fin. except'ls	55.1	169.4	82.1	88.2	96.8
Associates	3.3	1.1	0.0	0.0	0.0
Net Interest	(4.0)	(2.6)	(0.7)	(0.7)	(0.7)
Exceptional financials	(13.7)	(6.6)	0.0	0.0	0.0
Profit Before Tax (norm)	106.5	109.2	105.3	111.5	120.1
Profit Before Tax (FRS 3)	40.7	161.2	81.5	87.6	96.2
Tax	(19.8)	(21.6)	(21.1)	(22.3)	(24.0)
Profit After Tax (norm)	86.6	87.6	84.2	89.2	96.1
Profit After Tax (FRS 3)	37.3	109.7	60.4	65.3	72.1
Average Number of Shares Outstanding (m)	112.5	107.4	107.5	107.5	107.5
EPS - normalised (p)	76.4	81.3	78.2	82.7	89.1
EPS - (IFRS) (p)	18.1	129.8	56.1	60.6	67.0
Dividend per share (p)	30.6	32.4	34.9	36.8	39.6
EBITDA Margin (%)	25.8	27.3	26.5	26.6	26.8
Operating Margin (before GW and except.) (%)	25.0	26.7	25.9	26.0	26.2
BALANCE SHEET					
Fixed Assets	648.8	615.6	641.1	616.2	591.3
Intangible Assets	594.0	588.2	621.1	596.6	572.1
Tangible Assets	24.4	23.1	15.7	15.3	14.9
Investments	30.4	4.3	4.3	4.3	4.3
Current Assets	127.8	165.7	148.4	208.5	269.7
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	64.5	68.3	69.5	75.6	80.6
Cash	4.4	78.3	74.1	128.2	184.4
Other	58.9	19.1	4.7	4.7	4.7
Current Liabilities	(267.5)	(245.3)	(254.3)	(270.3)	(283.8)
Creditors	(267.5)	(245.3)	(254.3)	(270.3)	(283.8)
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Long term liabilities	(212.3)	(42.4)	(57.9)	(57.9)	(57.9)
Long term borrowings	(168.9)	0.0	0.0	0.0	0.0
Other long term liabilities	(43.4)	(42.4)	(57.9)	(57.9)	(57.9)
Net Assets	296.8	493.6	477.3	496.6	519.3
CASH FLOW					
Operating Cash Flow	118.2	108.6	111.8	116.1	122.9
Net Interest	(1.5)	(2.8)	0.1	0.1	0.1
Tax	(21.8)	(38.9)	(18.6)	(19.6)	(21.1)
Capex	(10.9)	(4.9)	(2.0)	(2.1)	(2.3)
Acquisitions/disposals	(99.9)	195.8	(57.2)	0.0	0.0
Equity Financing / Other	(193.0)	2.7	0.0	0.0	0.0
Dividends	(31.3)	(34.8)	(38.2)	(40.3)	(43.4)
Net Cash Flow	(240.2)	225.6	(4.2)	54.1	56.2
Opening net debt/(cash)	(83.8)	154.6	(78.3)	(74.1)	(128.2)
Redemption of pref	0.0	0.0	0.0	0.0	0.0
Other	1.8	0.0	0.0	0.0	0.0
Closing net debt/(cash)	154.6	(78.3)	(74.1)	(128.2)	(184.4)

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
8 Bouverie Street London EC4Y 8AX UK +44 (0)20 7779 8888 www.euromoneyplc.com	

Management team

CEO: Andrew Rashbass	CFO: Wendy Pallot
Andrew has broad international experience, managing quality editorial products while also growing digital revenues. From 2013 to 2015 he was CEO of Reuters, the news division of Thomson Reuters, a global business information group. Before joining Reuters, he spent 15 years at The Economist Group, where for the last five years he was CEO, leading its transformation from a traditional print to a leading digital business. Before that he was publisher of The Economist.	Wendy joined in August 2018 from Bloomsbury Publishing, replacing long-standing CFO Colin Jones, who has retired. Wendy had been at Bloomsbury since 2011, and prior to that had been with GWR Group and GCap Media.
Chairman: Leslie Van de Walle	
Leslie took over the chair on 1 March 2019. He is also current chairman of Robert Walters and SIG, and deputy chairman of Crest Nicholson, senior independent director of DCC and a non-executive director of HSBC UK Bank. Leslie was group CEO at Rexam and before that at United Biscuits plc. He will also chair the Remuneration Committee.	

Principal shareholders (pre DMGT distribution)	(%)
DMG Media Investments	49.02
Standard Life	6.21
Invesco	5.63
Heronbridge	4.46
Lindsell Train	3.78
Wise Investments	3.59
Woodford Inv Mgmt	3.14

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