

Euromoney Institutional Investor

Embedded solutions

Euromoney's teach-in focused on Finance & Professional Services (FPS) within the newly reconfigured Data & Market Intelligence (DMI) segment. FPS represents 37% of pro forma group FY19 revenues including Asset Management; 59% without. Its attributes epitomise Euromoney's journey to becoming a fully embedded partner to its clients, with a high proportion of recurring revenues. Uncertainty regarding the Asset Management strategic review continues to undermine the share price, with the valuation at a wide discount to peers (c 37%), which we view as unjustified on fundamentals.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/18	390.3	99.9	73.6	32.5	16.5	2.7
09/19	401.7	104.6	77.7	33.1	15.6	2.7
09/20e	415.5	105.0	77.8	33.7	15.6	2.8
09/21e	428.0	111.0	82.3	35.0	14.7	2.9

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

FPS infrastructure in place

FPS now has a management and operational structure in place to enable it to grow its brands. It offers services in workflow solutions, market intelligence and support for business development. The group's shift towards a '3.0' business model, embedded in a client's workflow and with a growing proportion of licensing income, should accelerate top-line progress. Margin expansion potential is balanced by the need to continue to invest in product, sales and service. The top 11 brands in the portfolio account for 83% of FPS pro forma revenues, which are split 45% subscription, 42% events, 8% advertising and 5% other, with subscriptions the fastest-growing element (revenue CAGR of 8% in FY17–19).

Financing firepower

With a very recent Q120 trading update (see our January [update note](#)), no new financial information was given at the analysts' presentation and our forecasts are unchanged. The strategic review of the Asset Management segment, initiated in September 2019, is continuing. Regardless of the outcome, Euromoney has plenty of firepower for potential acquisitions, as well as resource for organic investment. It had £27.3m net cash at end December and an undrawn committed revolving credit facility of £240m (with an uncommitted £130m accordion). The group is inherently highly cash generative (with an average of 99% conversion of operating profit over the last 10 years).

Valuation: Discount persists

Global B2B information peers' shares performed very well over the last 12 months, climbing on average by 42%. The recent markdown in Euromoney's share price leaves it valued 6% below a year ago, having hit highs of around £15 prior to the announcement of the strategic review in September. This represents a discount of around 37% to peers across EV/EBITDA and P/E metrics, reflecting the uncertainty associated with the strategic review, despite the intrinsically strong business model.

Analysts' presentation

Media

11 February 2020

Price 1,212p

Market cap £1,324m

\$1.30/£

Net cash (£m) at 31 December 2019 27.3

Shares in issue 109.2m

Free float 99%

Code ERM

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.5) (8.2) (6.8)

Rel (local) (6.0) (10.1) (12.9)

52-week high/low 1,498.00p 1,152.00p

Business description

Euromoney Institutional Investor is a global, multi-brand information business that provides critical data, price reporting, insight and analysis to global and specialist markets.

Next events

Interim results 21 May 2020

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FPS showcase

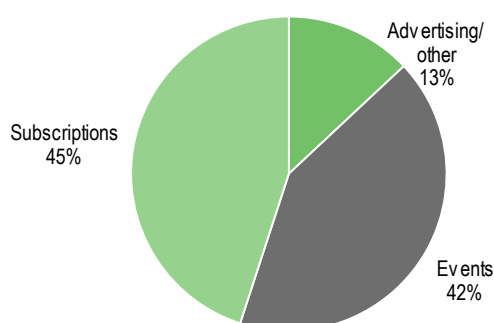
The presentation did not cover the Pricing segment or the Telecoms vertical within DMI.

FPS has been carved out of the previous Banking & Finance and Specialist Information divisions. It is led by Jeff Davis, who presented at the teach-in and joined the group with the purchase of BoardEx and The Deal in February 2019. The division also now has its own dedicated CFO and CTO, etc, in addition to the individuals heading the segments outlined below.

FPS is itself segmented into three: NextGen, IMN & Derivatives, and People Intelligence. NextGen is the largest of these, with revenues of £97m, followed by IMN & Derivatives (£40m), then People Intelligence (£19m).

Group strategy is predicated on driving toward a 3.0 business model (see our March 2019 [outlook note](#)), increasing the proportion of recurring revenues and the degree of 'stickiness' within clients. Management estimates that around 32% of FPS revenues would currently fall into this 3.0 category, in particular the people data/relationship mapping (within BoardEx and Wealth-X), derivatives data (IMN a key brand here) and in running Events focused on facilitating deals. Only around 8% of revenue is derived from advertising, with the balance in '2.0' activities with the potential to move towards 3.0. 3.0 businesses are capable of faster growth as they gain traction, typically growing in a range of 9–13%. There is always a danger, however, of trying to drive change faster than clients are comfortable with.

Exhibit 1: FPS revenue streams



Subscriptions	Events	Advertising/other
+8% revenue CAGR FY17–19	+2% CAGR FY17–19	-4% revenue CAGR FY17–19
93% net revenue renewal rate	>300 events run in FY19 (+28)	£9m revenues from Rankings and Thought Leadership, +5%
+7% book of business growth FY19	29% deal-making events	Advertising revenues £3m digital, £8m print

Source: Euromoney Institutional Investor, Edison Investment Research

The activities can be grouped into three elements:

- Workflow solutions: this could be hosting events whose explicit purpose is the facilitation of deals between participants, such as those run by GlobalCapital and Airfinance Journal or in learning solutions, where Euromoney has expertise.
- Market Intelligence and Market Data, primarily within the finance and legal segments, including insight and analytics.
- Business Development: helping clients grow their businesses through lead generation products, sponsored events, thought leadership and advertising.

The scale of the operation brings its own benefits, with websites migrated onto one platform and a unified CRM being rolled out over the next couple of years. The number of events, over 300, means that the group has the leverage to renegotiate deals with venues, rather than dealing with venues at a brand level.

NextGen more diverse portfolio

NextGen serves clients in the financial services and professional services sectors. Its key brands are shown below. Each is addressing very specific end-markets and has a high level of relevance within its specialism.

Exhibit 2: Key NextGen brands

Financial Services		% revenue by industry
Banking	Euromoney	29%
Asset Financing	IJGlobal, Airfinance Journal	17%
Insurance	Insurance Insider	14%
Capital Markets	GlobalCapital	12%
Transactions	The Deal	10%
Professional Services		
Legal	IFLR, Intl Tax Review, Managing Intellectual Property, Asialaw Profiles	18%

Source: Euromoney Institutional Investor

All are considered domain experts in their markets.

71% of NextGen's revenues are recurring and just under half are from the business development stream, supporting clients in building new commercial relationships. It has customers in over 150 countries, mostly served from London and New York. Five of the brands were showcased at the presentation, each outlining their activities and relevance to their audiences and, interestingly, identifying which of their attributes was useful for other brands in the portfolio.

IMN & Derivatives

The key brands within this segment are IMN, Tradedata, SRP and Total Derivatives, which have combined revenues of £39.5m, and a revenue CAGR of 9% over FY17–19. Markets addressed are structured finance and products (a global market), along with real estate (more domestically focused, using local expertise), with a smaller proportion in trading. Within structured finance, there are attractive opportunities to grow in Asia; for real estate the better prospects are in regional US.

31% of revenues are subscription, mostly through embedded information services, with another 50% from events focused on deal-making. The balance comes from other industry events and awards, which typically achieve a high margin.

Tradedata has built a strong business from identifying a point of friction within futures and options trading, and addressing it with a market-embedded solution. This has dramatically reduced error rates and speeded up trading. Expanding into ETFs provides a further growth opportunity.

People Intelligence

Again, primarily addressing the financial services and professional services segments, this operation provides workflow solutions (identification of candidates, meeting Know Your Customer requirements, getting connected) and business development facilitation (lead generation, fund raising, new sources of capital, new sources of wealth). With a 15% revenue CAGR in FY17–19 and a net renewal rate on subscription of 94%, there is clearly a lot more market to go for here. In the near term, the major opportunity is in cross-selling between BoardEx, acquired in February 2019, and Wealth-X, bought in November 2019 (see our [update note](#)).

Exhibit 3: Financial summary

	£m	2018	2019	2020e	2021e
Year end 30 September		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		390.3	401.7	415.5	428.0
Cost of Sales		0.0	0.0	0.0	0.0
Gross Profit		390.3	401.7	415.5	428.0
EBITDA		105.0	108.2	113.5	121.6
Operating Profit (before amort. and except.)		101.6	105.4	107.5	113.9
Intangible Amortisation		(22.7)	(25.1)	(25.6)	(25.6)
Exceptionals		81.4	0.0	0.0	0.0
Capital Appreciation Plan		0.0	0.0	0.0	0.0
Operating Profit before ass's & fin. except'ls		160.3	80.3	81.9	88.3
Associates		0.1	(0.1)	0.0	0.0
Net Interest		(1.8)	(0.7)	(2.5)	(2.9)
Exceptional financials		(6.6)	0.0	0.0	0.0
Profit Before Tax (norm)		99.9	104.6	105.0	111.0
Profit Before Tax (FRS 3)		152.0	79.5	79.4	85.4
Tax		(20.6)	(20.8)	(21.0)	(22.2)
Profit After Tax (norm)		79.3	83.8	84.0	88.8
Profit After Tax (FRS 3)		102.5	58.7	58.4	63.2
Average Number of Shares Outstanding (m)		107.4	107.6	107.6	107.6
EPS - normalised (p)		73.6	77.7	77.8	82.3
EPS - (IFRS) (p)		122.2	54.4	54.2	58.6
Dividend per share (p)		32.5	33.1	33.7	35.0
EBITDA Margin (%)		26.9	26.9	27.3	28.4
Operating Margin (before GW and except.) (%)		26.0	26.3	25.9	26.6
BALANCE SHEET					
Fixed Assets		616.5	433.9	430.9	404.5
Intangible Assets		588.2	405.4	401.1	379.6
Tangible Assets		24.0	23.2	24.5	19.6
Investments		4.3	5.3	5.3	5.3
Current Assets		165.7	397.4	419.1	473.5
Stocks		0.0	0.0	0.0	0.0
Debtors		68.3	49.0	62.3	64.2
Cash		78.3	50.1	59.9	112.3
Other		19.1	298.4	296.9	296.9
Current Liabilities		(262.2)	(273.2)	(217.3)	(225.0)
Creditors		(262.2)	(273.2)	(217.3)	(225.0)
Short term borrowings		0.0	0.0	0.0	0.0
Long Term Liabilities		(41.4)	(31.7)	(191.6)	(120.4)
Long term borrowings		0.0	0.0	(71.2)	(71.2)
Other long term liabilities		(41.4)	(31.7)	(120.4)	(49.2)
Net Assets		478.6	526.4	441.1	532.6
CASH FLOW					
Operating Cash Flow		108.6	92.4	110.3	121.7
Net Interest		(2.8)	(0.2)	0.1	(0.4)
Tax		(38.9)	(38.4)	(37.5)	(19.5)
Capex		(4.9)	(10.0)	(10.3)	(11.0)
Acquisitions/disposals		195.8	(48.4)	(15.8)	0.0
Equity Financing / Other		2.7	11.9	0.0	0.0
Dividends		(34.2)	(35.8)	(36.9)	(38.4)
Net Cash Flow		226.2	(28.5)	9.8	52.5
Opening net debt/(cash)		154.6	(78.3)	(50.1)	11.3
Redemption of pref		0.0	0.0	0.0	0.0
Other		0.0	0.3	(71.2)	0.0
Closing net debt/(cash)		(78.3)	(50.1)	11.3	(41.1)

Source: Company accounts, Edison Investment Research

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