EDISON

Euromoney Institutional Investor

Interim results

Finding its wings

Media

The interim figures show a mixed picture of head- and tailwinds, but with a definite improvement in Q217 over Q117, particularly in the events business. The loosening of the DMGT relationship is facilitating a faster implementation of the strategy to drive profit growth, with the benefit set to show more strongly in FY18. We have adjusted our forecasts to reflect the RISI acquisition in April, with underlying trading in line. The step-up in the dividend payout reflects the group's strong underlying cash generation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/15	403.4	107.8	70.1	23.4	16.8	2.0
09/16	403.1	102.5	66.5	23.4	17.7	2.0
09/17e	438.6	103.7	74.6	30.0	15.8	2.5
09/18e	466.0	111.2	82.3	34.0	14.3	2.9

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

Benefits (and costs) of independence

The reduction of DMGT's shareholding has had various impacts, with the share buyback element earnings enhancing, but with higher financing costs. ERM is now managing its own balance sheet and has had to establish 'normalised' corporate banking relationships. It has also had to take on some of the corporate services previously shared, such as tax, treasury and internal audit, and boost its resource in M&A, HR, legal, etc. This cost £1m in H117, with £3m expected for current year, and £4m in FY18. Corporate decision-making has been speeded up, facilitating the recycling of capital into group companies and acquisitions fitting most closely to its strategic objectives (like RISI, which clearly fits with the price discovery segment). Euromoney has also now acted on its earlier promise to review the dividend payout ratio. Our forecast dividend for the current year now stands at 30.0p, from 26.5p.

Mixed underlying markets

The underlying markets remain mixed, although the elements have switched round, with the banking, finance and commodity sectors lifting off their lows, while the asset management sector is facing pressures from regulatory changes and the ascendancy of passive fund management. Foreign exchange continues to be favourable (80% of subscriptions are US$-denominated), adding 0.2% to the adjusted operating margin in H117. Some benefit continues into H217, although Q3 sees the anniversary of the Brexit vote. Stripping the currency element out, the current level of the subscription book of business is 1.54% ahead of the prior year.

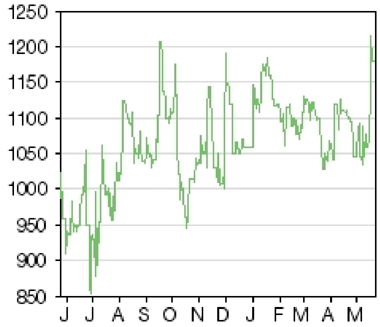
Valuation: Discount to peers remains

With potential liquidity much improved, the element of discount on those grounds is largely eliminated. Our valuation methodology, using historical and forward revenue and EBITDA multiples, shows the group continuing to trade at a discount of around 8% to peers. The positive impact of management strategy to improve the quality of the underlying earnings should start to come through into FY18. Provided that the balance of underlying markets stays at least neutral, the discount rating should narrow.

23 May 2017

Price	**1,180.00p**
Market cap	**£1,287m**
	$1.30/£
Net debt (£m) at end March 2017	83.6
Shares in issue	109.1m
Free float	41.5%
Code	ERM
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	7.3	9.2	22.3
Rel (local)	2.3	5.6	1.0
52-week high/low		1216.0p	852.5p

Business description

Euromoney Institutional Investor (ERM) is an international B2B information and events group. Its portfolio of over 50 specialist businesses spans macroeconomic data, investment research, news and market analysis, industry forums and institutes, financial training and excellence awards.

Next events

Trading update	Est 21 July 2017
Final results	23 November 2017

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Edison profile page

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

Pulling the levers

More active portfolio management

While Euromoney has an extensive history of buying assets, they have historically been run as entrepreneurial businesses, realising little in terms of economies of scale or from the transfer of best practice. The intention under the new regime is to support the businesses more from the centre, with the resources now being put into position. While acquisitions have been a key theme, disposals have not, and this is a distinct change. Since the start of the calendar year, there have been three purchases, of which RISI was far and away the most significant at a cost of $125m (post the half-year balance sheet date). There were also four disposals: Hedge Fund Intelligence and II Intelligence both in December 2016, and Euromoney Indices and LatinFinance both in March 2017. As described in previous notes (March 2016, May 2016, November 2016), CEO Andrew Rashbass has described the portfolio in terms of four quadrants along axes of structural strength/weakness and position in the trading cycle. The issues that placed assets in the bottom left corner a year ago have now been dealt with. This is not to say that that quadrant is now empty. Market changes and management actions will be moving the positioning around. Metal Bulletin for example is now cited as a 'top right'; the Euromoney brand has moved from 'bottom left' to 'top left'.

Potential signs of turn

Exhibit 1: Revenue change by quarter

Year-on-year % change	Q116	Q216	Q316	Q416	Q117	Q217
Subscriptions & content	2%	0%	1%	2%	1%	2%
Advertising	-2%	-16%	-14%	-12%	-16%	-10%
Events	-14%	-13%	0%	-9%	-14%	2%
Total	**-6%**	**-6%**	**-1%**	**-4%**	**-5%**	**1%**

Source: Euromoney Institutional Investor. Note: Like-for-like, excluding FX, acquisitions.

Subscriptions continue to grow modestly, boosted by new products and investment ensuring that the offer is fresh. The implication from management's comments is that the figure for Q217 at 2% would have been notably higher but for the frustration of the sectoral headwinds in the asset management sector. Subscription/content revenues derived from pricing, data and market intelligence grew by 3% as Metal Bulletin improved its performance, helped further by the acquisition of FastMarkets in September 2016. The RISI acquisition fits well with this segment. It provides price reporting and market intelligence services in the forest products (ie paper and pulp) segment. The purchase price was 4.2x pro forma revenues, 16.2x pro forma EBITDA.

The continuing decline in advertising is entirely as expected, but is rapidly diminishing in significance, now representing just 8% of H117 revenue. The interesting segment is events, where the gain is diluted by the last of the drag from commodity events and training closed in prior periods, and from portfolio changes that have seen the emphasis shift from smaller to larger events. Split out into the elements of sponsorship and delegates, revenues from the former were ahead 5% y-o-y in Q217, having been down 14% in Q117; the latter recovered from -14% in Q117 to +1% in Q217.

Changes to forecasts

Exhibit 2: Revised forecasts

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
2016	66.5	66.5	N/A	102.5	102.5	N/A	104.2	104.2	N/A
2017e	72.6	74.6	+3	100.0	103.7	+4	109.6	114.2	+4
2018e	77.0	82.3	+7	103.9	111.2	+7	115.8	123.7	+7

Source: Euromoney Institutional Investor accounts, Edison Investment Research

Exhibit 3: Financial summary

£m	2014	2015	2016	2017e	2018e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	406.6	403.4	403.1	438.6	466.0
Cost of Sales	0.0	0.0	0.0	0.0	0.0
Gross Profit	406.6	403.4	403.1	438.6	466.0
EBITDA	122.7	109.4	104.2	114.2	123.7
Adjusted Operating Profit (before amort. and except.)	119.8	106.7	101.4	109.9	118.5
Intangible Amortisation	(16.7)	(17.0)	(16.7)	(17.8)	(17.8)
Exceptionals	2.6	33.4	(37.3)	0.0	0.0
Capital Appreciation Plan	(2.4)	2.5	0.0	0.0	0.0
Operating Profit before ass's & fin. except'ls	103.3	123.1	47.4	92.1	100.6
Associates	0.3	2.4	(1.8)	(2.4)	(2.4)
Net Interest	(1.6)	(1.3)	(1.7)	(3.9)	(4.9)
Exceptional financials	(0.6)	(0.9)	0.0	0.0	0.0
Profit Before Tax (norm)	116.2	107.8	102.5	103.7	111.2
Profit Before Tax (FRS 3)	101.5	123.3	43.9	85.8	93.4
Tax	(25.6)	(17.6)	(12.9)	(20.7)	(22.3)
Profit After Tax (norm)	90.8	90.2	89.6	83.0	88.9
Profit After Tax (FRS 3)	75.9	108.2	31.0	65.2	71.0
Average Number of Shares Outstanding (m)	126.5	126.4	126.5	112.8	107.7
EPS - normalised fully diluted (p)	70.6	70.1	66.5	74.6	82.3
EPS - (IFRS) (p)	59.1	83.5	24.3	57.5	65.7
Dividend per share (p)	23.0	23.4	23.4	30.0	34.0
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	30.2	27.1	25.9	26.0	26.6
Operating Margin (before GW and except.) (%)	29.5	26.5	25.2	25.1	25.4
BALANCE SHEET					
Fixed Assets	564.2	579.1	601.9	625.7	625.7
Intangible Assets	545.4	531.4	551.1	574.1	574.1
Tangible Assets	18.6	9.5	14.9	15.7	15.7
Investments	0.1	38.3	35.9	35.9	35.9
Current Assets	86.0	110.1	170.3	129.6	158.8
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	68.4	83.7	79.0	85.7	87.6
Cash	8.6	18.7	84.2	36.2	63.5
Other	9.1	7.7	7.1	7.7	7.7
Current Liabilities	(208.9)	(210.8)	(249.4)	(225.4)	(233.4)
Creditors	(208.4)	(209.8)	(249.0)	(224.9)	(232.9)
Short term borrowings	(0.5)	(1.0)	(0.4)	(0.5)	(0.5)
Long Term Liabilities	(84.7)	(33.2)	(45.3)	(243.4)	(218.4)
Long term borrowings	(45.7)	0.0	0.0	(200.0)	(175.0)
Other long term liabilities	(39.1)	(33.2)	(45.3)	(43.4)	(43.4)
Net Assets	356.5	445.2	477.5	286.6	332.8
CASH FLOW					
Operating Cash Flow	110.2	109.5	102.2	106.6	117.1
Net Interest	(1.1)	(1.1)	0.1	(3.9)	(4.9)
Tax	(22.5)	(13.7)	(16.8)	(17.6)	(19.0)
Capex	(6.3)	9.4	(3.5)	(12.2)	(4.5)
Acquisitions/disposals	(58.9)	(15.6)	13.2	(100.0)	0.0
Equity Financing / Other	(21.5)	(4.4)	0.0	(187.7)	0.0
Dividends	(29.0)	(29.4)	(29.1)	(33.4)	(36.2)
Net Cash Flow	(29.3)	54.6	66.1	(248.1)	52.4
Opening net debt/(cash)	10.9	37.6	(17.7)	(83.8)	164.3
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	2.6	0.7	0.0	0.0	0.0
Closing net debt/(cash)	37.6	(17.7)	(83.8)	164.3	111.9

Source: Euromoney Institutional Investor accounts, Edison Investment Research

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