

# Euromoney Institutional Investor

Q3 in line

Euromoney's Q3 trading update indicated overall trading performance in line with management expectations and we have not changed our FY19 estimates. The recent capital markets day took a deeper dive into the Investment Research and Fastmarkets operations and how management is working on transforming them into '3.0' B2B information service businesses, built into clients' workflows. Given the group's earnings resilience, subscription base and attractive cash conversion, the rating disparity with peers still appears excessive.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	428.4	106.5	76.4	30.6	16.9	2.4
09/18	414.1	109.2	81.3	32.4	16.9	2.5
09/19e	398.0	99.0	73.5	34.0	17.6	2.6
09/20e	418.0	105.0	77.9	35.5	16.6	2.8
09/21e	445.1	117.3	87.1	37.0	14.8	2.9

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

## PDMI still leads revenue performance

Q319 revenue trends followed the recent pattern with Asset Management soft (-9%) and Pricing, Data and Market Intelligence (PDMI) strong, ahead by 6%, up from +3% in H119. The quarterly progression by segment and revenue type is shown below. Asset Management (which comprises both Investment Research and the Institutional Investor brand) remains a challenged market, but the pace of decline is reportedly slowing. Moves to cut costs here have allowed margins to hold up, as well as giving some scope to reinvest in the sales function and upgrading the product set. Having had an exceptionally strong Events performance in H119, Banking & Finance reverted to a more usual trading pattern, up 1%.

## Capital recycling

Group strategy is predicated on recycling capital to improve the quality of the assets and drive higher revenue growth. Some of this is self-help; some is M&A-driven. Cash on the balance sheet was £41.2m as at end June (up from £29.3m at end March), with the improvement partly stemming from further Mining Indaba proceeds of £8.7m. The group has an undrawn committed revolving credit facility of £240m, with an uncommitted £130m accordion, giving plenty of firepower for potential acquisitions, as well as resource for organic investment. Price reporting agencies that could fit into the developing Fastmarkets brand umbrella would obviously be an attractive option.

## Valuation: Substantial discount persists

ERM's shares are up 8% since the start of 2019, having peaked at 1,414p at the time of the interim results in May and since drifting back. They remain valued at a significant discount to global financial data peers, which currently trade at a FY1 EV/EBITDA of 16.7x and 14.6x FY2. Parity on the average of FY1 and FY2 EV/EBITDA would imply a 1,455p share price, 13% ahead of the current level. Given the earnings resilience, subscription base and attractive cash conversion, this disparity still appears excessive.

Trading update and CMD

Media

19 July 2019

**Price** **1,290.00p**

**Market cap** **£1,409m**

\$1.24/£

Net cash (£m) at 30 June 2019 41.2

Shares in issue 109.2m

Free float 99.0%

Code ERM

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 4.9 4.4 (7.9)

Rel (local) 4.2 4.3 (4.8)

52-week high/low 1,414.00p 1,132.00p

### 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

Final results 21 November 19

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## Q3 showing similar trends to H1

The brief trading update indicated that performance was overall in line with management expectations and consequently we have not changed our estimates, although it may be the case that the mix that we have anticipated within the figures may not be completely aligned.

### Exhibit 1: Quarterly progression by revenue type

Year-on-year change	Q119	Q219	Q319
Subscription & Content	1%	(0%)	(1%)
Advertising	(1%)	(5%)	(6%)
Events	3%	3%	3%
Total	1%	1%	0%

Source: Euromoney Institutional Investor

The Subscription and content revenues (62% of H119 revenues) dipped in Q3, weighed by the performance of the Asset Management activity. Events (30% of H119 revenues) had another good quarter, helped by the Telecoms sector and a rebound at Fastmarkets events. By segment, the structural and cyclical issues persist at Asset Management, with the subscription book of business holding up reasonably well, but client revenues apportioned by votes falling away as those budgets are reallocated post MiFID II. Institutional Investor also continued to be weak (FY18 revenues: -1%) due to Brexit impacting the European memberships sold out of the UK, as flagged at the time of the H1 results.

### Exhibit 2: Progression by segment

Year-on-year change	H119	Q319
Asset Management	(3%)	(9%)
PDMI	3%	6%
Banking & Finance	4%	1%
Total	1%	0%

Source: Euromoney Institutional Investor

Cash conversion remains strong, and we model a further increase in Q4, with a figure of £81m projected for the September year end.

## Positioning for market conditions

The format of the capital markets day gave the opportunity for segmental management from Investment Research, recent acquisition BoardEx and Fastmarkets to present their businesses in greater detail. It is notable that there is no attempt by management to skate over the market and internal challenges in Investment Research.

## Investment Research

Key takeaways from the presentation on Investment Research:

- MiFID II has permanently altered the landscape
- The shift from active to passive fund management has had an impact on fees and led to a re-evaluation of budgets and value.
- Independent research remains an important part of the decision framework.
- Sell-side providers are under the most pressure and it is from them that BCA and Ned Davis Research (NDR) are most likely to be able to win share.
- Investment Research has been using the capital it has released through cutting costs to give a clearer market proposition, improved product and greater sales resource.

ERM has honed its brands and brand positioning to highlight the relative strengths of BCA Research and NDR. BCA is the larger of the two, with a book of business (the annualised value of its contracts at any point) of \$71m, 2.5x that of NDR and a slightly higher average contract value. Between the two, management reckons they account for 22% of the total independent research market, leaving plenty of addressable (fragmented) market to target. Asia is identified as a key area of interest. BCA focuses more on macro and generates around half its revenues in the US. NDR's largest line of business is in delivering insights to institutional investors and wealth managers and it is this latter segment that is growing the fastest.

The division has restructured to facilitate the two brands sharing common functions such as marketing, finance and technology, but retaining separate sales, research and HR functions.

Analysis of revenues and deal flow allowed management to identify that the weakness lay with new business generation rather than pricing. The clearer market proposition and revamped websites and touchpoints should also professionalise and modernise the client interface. BCA's three-month moving average of new subscription sales in the US is now picking up.

The next stage is to develop more of what the CEO describes as '3.0' business – ie providing information in the formats where it can be embedded into the client's workflow and be an integral part of the industry structure. For example, NDR is starting to provide indices for investment vehicles such as ETFs and BCA is providing interactive charting.

## **BoardEx**

The presentation and demonstration of the BoardEx platform was more to give a better understanding of this asset, which was acquired in February 2019 for \$87.3m in cash, representing 3.5x FY18 revenues. This is a global C-Suite relationship mapping tool, with information about 1.2 million individuals and 1.8 million organisational profiles, going back for 19 years.

All data is from public sources such as press releases, public announcements and corporate websites, verified by a team of 340+ researchers in Chennai, India. Algorithms identify the likely strength of relationships (people who served on the same boards will score more strongly than those who attended the same university). The application can be integrated into clients' CRM and in-house platforms, including Salesforce.

Key target markets include financial and professional services, for applications that can range from business development, through know-your-customer and towards predictive analysis.

The pricing structure is based on enterprise, rather than seat, licensing, with average revenue per client around the \$43k mark, with nearly half of licences on a multi-year basis. It had 360 clients as at end December 2018.

Being part of the Euromoney Group will accelerate its expansion, particularly across the financial sectors.

## **Fastmarkets**

Fastmarkets comprises four elements: price reporting (it assesses over 5.5k prices); market intelligence and forecasting; analytics; and events. The company's own video, below, provides a clear description of how the pricing process comes together.

### Exhibit 3: Fastmarkets pricing procedures



Source: Euromoney Institutional Investor

It charges for the data on the basis on which the client uses it, ie for primary use such as setting benchmarks for transactions and valuing inventory or secondary uses, such as analysing market trends or tracking exposure to market movements and by how crucial it is to the underlying business purpose. Frequent use for core business decisions will require a core data licence; regular use for non-core decisions might require a secondary licence, whereas ad-hoc usage could be better covered through a subscription arrangement.

So far 25% of (160) key accounts in metals have been migrated onto licence arrangements; 5% of clients across the Fastmarkets segment. This is early days and there is obviously considerable scope to drive this conversion. Multi-year deals and low levels of churn should mean greatly increased visibility – and quality – of earnings. IOSCO certification in three prices is a very good indicator of the quality of the data and compliance in how it is collected and collated.

There are plenty of opportunities to drive the licensing revenues on existing products, through more cross-sales and better use of CRM and by moving more towards the buyers as well as the producers of the relevant commodities. The business can also extend through developing new products, analytics and benchmarks in existing verticals. There are also opportunities to derive royalties from exchange contracts referencing Fastmarkets' prices, as well as adding new commodity verticals to the existing platform. In total, 14 exchange futures contracts are already trading, with three more due to launch shortly, including the well-publicised lithium contract for London Metal Exchange.

The platform allows for flexible dashboards, configurable by the client according to their needs and capable of being incorporated into their workflow and so clearly falling within the '3.0' business description.

The other businesses reported within PDMI (Telecoms, Specialist Information) were not covered on this occasion, nor the Banking & Finance segment or Institutional Investor.

**Exhibit 4: Financial summary**

	£m	2017	2018	2019e	2020e	2021e
Year end 30 September		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		428.4	414.1	398.0	418.0	445.1
Cost of Sales		0.0	0.0	0.0	0.0	0.0
Gross Profit		428.4	414.1	398.0	418.0	445.1
EBITDA		110.3	112.9	102.2	108.2	120.7
Operating Profit (before amort. and except.)		107.1	110.7	99.8	105.7	118.0
Intangible Amortisation		(20.8)	(22.7)	(24.0)	(24.0)	(24.0)
Exceptionals		(31.3)	81.4	14.0	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	89.8	81.7	94.0
Associates		3.3	1.1	(0.1)	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	99.0	105.0	117.3
Profit Before Tax (FRS 3)		40.7	161.2	89.0	81.1	93.4
Tax		(19.8)	(21.6)	(19.8)	(21.0)	(23.5)
Profit After Tax (norm)		86.6	87.6	79.2	84.0	93.9
Profit After Tax (FRS 3)		37.3	109.7	69.2	60.1	69.9
Average Number of Shares Outstanding (m)		112.5	107.4	107.5	107.5	107.5
EPS - normalised (p)		76.4	81.3	73.5	77.9	87.1
EPS - (IFRS) (p)		18.1	129.8	64.3	55.8	64.9
Dividend per share (p)		30.6	32.4	34.0	35.5	37.0
EBITDA Margin (%)		25.8	27.3	25.7	25.9	27.1
Operating Margin (before GW and except.) (%)		25.0	26.7	25.1	25.3	26.5
<b>BALANCE SHEET</b>						
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	155.4	210.7	272.1
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		64.5	68.3	69.7	73.1	77.9
Cash		4.4	78.3	81.0	132.8	189.4
Other		58.9	19.1	4.7	4.7	4.7
Current Liabilities		(267.5)	(245.3)	(251.6)	(266.7)	(280.0)
Creditors		(267.5)	(245.3)	(251.6)	(266.7)	(280.0)
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	487.0	502.3	525.5
<b>CASH FLOW</b>						
Operating Cash Flow		118.2	108.6	116.7	111.3	120.0
Net Interest		(1.5)	(2.8)	0.1	0.1	0.1
Tax		(21.8)	(38.9)	(17.4)	(18.5)	(20.6)
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)	(37.3)	(38.9)	(40.6)
Net Cash Flow		(240.2)	225.6	2.8	51.8	56.6
Opening net debt/(cash)		(83.8)	154.6	(78.3)	(81.0)	(132.8)
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)	(81.0)	(132.8)	(189.4)

Source: Company accounts, Edison Investment Research

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