EDISON

# Euromoney Institutional Investor

Year-end update

## Digital information for business

Media

**Euromoney's year-end trading update showed its revitalised strategy post the DMGT holding reduction is starting to come through in performance. Improved conditions in the commodities sectors and in banking are also boosting underlying results from the pricing and events segments. Overshadowing immediate prospects, though, is uncertainty across the asset management sector, exacerbated by the imminent implementation of MiFID II. This is reflected in a valuation at a sizeable discount to peers, despite the growth in earnings, strong cash flow and step up in dividend.**

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 09/15 | 403.4 | 107.8 | 70.1 | 23.4 | 16.2 | 2.1 |
| 09/16 | 403.1 | 102.5 | 66.5 | 23.4 | 17.1 | 2.1 |
| 09/17e | 427.0 | 105.0 | 76.5 | 30.0 | 14.9 | 2.6 |
| 09/18e | 457.0 | 110.6 | 81.7 | 34.0 | 13.9 | 3.0 |
| 09/19e | 475.0 | 119.9 | 88.7 | 35.2 | 12.8 | 3.1 |

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

## FY17 results touch ahead of forecasts

The indicated FY17 PBT of £105m is slightly ahead of our previous forecast of £103.7m, benefiting from the inclusion of RISI from April and currency tailwinds. The expected net debt position of £160m was also a little better. That said, Q4 revenues were down 2% like-for-like, with events revenues (30% of group) down 8%. This was after a good Q2 and Q3 and reflects the decision not to repeat some events due to geopolitical uncertainties. Subscription revenues were flat, but this masks a good performance in the pricing, data and market intelligence, offset by weakness in asset management ahead of the introduction of MiFID II. We have adjusted our numbers to reflect the update and made minor tweaks to our FY18e projections. We are now publishing our first forecast for the following year.

## Asset management main question mark

The release of the (benign) DMGT corporate shackles has given the group the flexibility to move faster towards its target of improving the quality of earnings and making the group's products and services more central to clients' activities. April's acquisition of RISI has also broadened the reach into a new market area (forest products) that fits with target attributes, such as price opacity. The trading backdrop to the asset management business, though, is overshadowing progress elsewhere and the uncertainty is set to continue as firms feel their way through the changes.

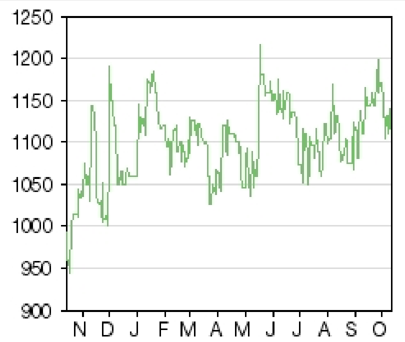
## Valuation: Discount overdone

Our valuation methodology, using historical and forward revenue and EBITDA multiples, shows the group continuing to trade at a discount. This has opened out to over 25% to peers, reflecting concerns regarding the impact of trading weakness in the asset management segment. We would argue that this is overdone, especially given the strong cash flow and higher payout ratio. A reverse DCF shows that the current price indicates either there is no potential for top line growth or that margins slip from their current levels, both of which we feel are unlikely scenarios.

**12 October 2017**

| | |
|---|---|
| **Price** | **1,139.00p** |
| **Market cap** | **£1,243m** |
| | £1:US$1.32 |
| Net debt (£m) at 30 September 2017 | 160 |
| 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 | 1.8 | 8.6 | 13.1 |
| Rel (local) | 0.0 | 5.2 | 5.1 |
| 52-week high/low | | 1216.0p | 944.0p |

### 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

| | |
|---|---|
| Finals | 23 November 2017 |
| Trading update | 25 January 2018 |

### Analysts


Fiona Orford-Williams +44 (0)20 3077 5739

Bridie Barrett +44 (0)20 3077 5700

media@edisongroup.com

Edison profile page


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

# Investment summary

## Company description: Digital information for business

ERM operates a portfolio of brands supporting the business community in the financial and other sectors around the world. It seeks to be the authoritative 'voice' in the segments in which it operates, supplying research and data that inform decision making, staging conferences and events that bring together key individuals, and providing the content in online and offline form to give those individuals the background and context in which to drive their own businesses forward. Its revenues come in the form of subscriptions, sponsorship, delegate fees and advertising. The group has grown through a combination of organic growth and acquisition, a recipe that has delivered a comparatively resilient performance over the cycle. The transition from a business that was effectively a specialist publisher into an extensive online resource has opened up the possibilities to leverage further the brand portfolio and the expertise and IP that has been built within the group over the years.

## Valuation: Deepened discount

While the sell-down of the DMGT shareholding from 67% to 49% has improved the theoretical liquidity in the shares, the valuation has broadly drifted sideways, opening up a wider gap between the group and its quoted peers across the financial publishing, B2B media and relevant software companies. Euromoney is currently trading on a discount of over 25% to these groups, which we feel overstates the potential financial impact of current concerns regarding the asset management client base. The group has very strong inherent cash generation and a DCF confirms that the current share price is not taking this fully into account. On a WACC of 8%, it is indicating that there is no prospect of top line growth in the medium term or that margins will reduce. On modest 2% mid-term growth and stable EBITDA margins, our DCF indicates a share price of 1,267p.

## Financials: Sound progress

The combination of organic growth, particularly in pricing, data and market intelligence, with the benefit of acquisitions should mean a good progression in earnings over the next three years, even as the boost from currency tailwinds unwinds. Our forecasts were slightly exceeded by the figures quoted in the trading update, with the consequent adjustments to our FY18e income statements coming in at less than 1%. Our FY19e figures show the benefits of portfolio restructuring and acquisitions starting to come through more strongly. The group now has the freedom to use its balance sheet and has the facilities in place to allow for further deals, with the strong cash conversion characteristics giving good levels of comfort.

## Sensitivities: Asset management confidence key

The key current sensitivity is how the changes within the asset management sector play out and the extent to which nervousness as those changes go through prompts line-by-line review of client spend as contracts come up for renewal. The translational impact of currency moves has been a substantial help recently, given that the group earns about 60% of its revenues in US$ and reports in sterling. With acquisitions a core element of the growth strategy, there will always be sensitivity centred on the implementation and integration risk, while for any digitally based business model, there will always be issues around platform and data security. The possible disposal of the Global Markets Intelligence Division would be inherently dilutive until the capital released could be recycled into higher margin opportunities.

## Company description: Digital B2B information

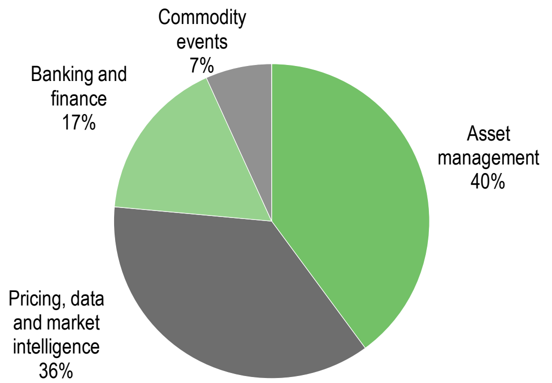
ERM is an international digital media group with leading brands in B2B markets, primarily financial and commodity markets. It has transitioned from a traditional print business to one which derives the bulk of its revenues from subscriptions and events, with advertising now reduced to under 10% of group revenues (H117).

ERM's long-standing shareholder, DMGT, reduced its holding from 67.9% of the equity to 49% in December 2016, meaning that results are no longer consolidated and removing a major barrier to investment in ERM for some potential shareholders. Of the 32.2m shares involved, 13.0m were placed with investors and 19.2m bought back for cancellation, all at a price of 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 now has 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 is now forming its own independent banking relationships, although its inherent healthy cash flow characteristics make it an attractive trading partner. The new arrangement also gave management the freedom to review its dividend policy.

As well as the extra borrowing cost, Euromoney now needs to bear 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. The group has added to its internal HR, and IT and M&A resource. We have factored these elements into our modelling at around £1m per quarter.

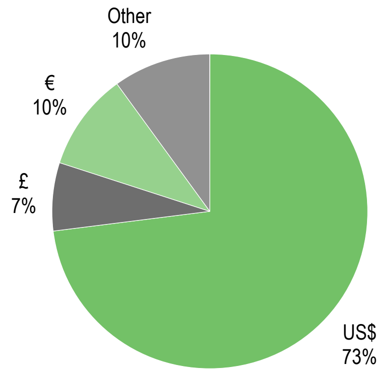
This structural change has allowed an acceleration of the transition already being put into place by CEO Andrew Rashbass, who joined the group in October 2015. His root and branch review of the group identified the key underlying attributes of the constituent businesses and ascribed a position for each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

**Exhibit 1: FY17e revenue by segment**




Source: Company accounts, Edison Investment Research

**Exhibit 2: H117 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 the commodities markets. ERM is also well known for its long-standing expertise in emerging markets and derives around a quarter of its revenues from them, either directly or indirectly.

## Generational change in leadership

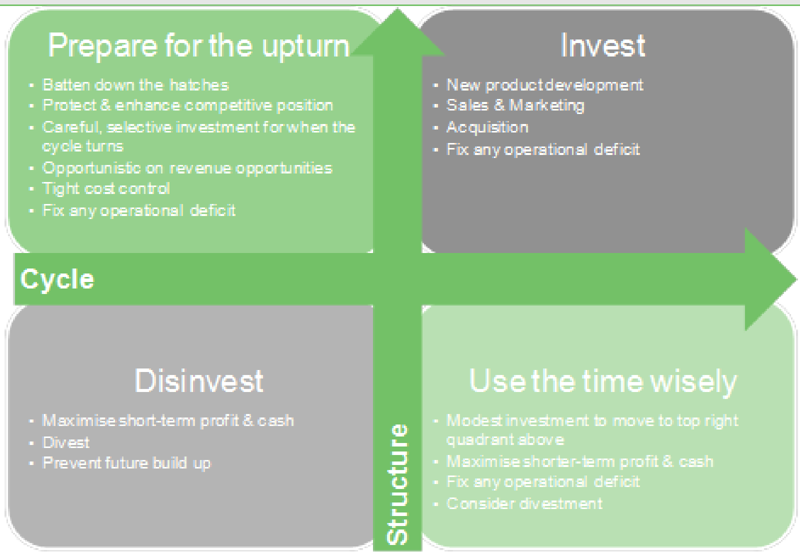
Euromoney group was founded in 1969 by Sir Patrick Sergeant, who was then City Editor of the Daily Mail, backed with a corporate loan, which is the origin of DMGT's shareholding in the group's equity. He remains on the board as a non-executive and is the group's president. On the retirement of executive 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 Colin Jones joined the group in 1996, but has recently expressed his wish to retire by the summer of 2018 and the search has begun for a suitable replacement.

## Managing the portfolio to optimise growth

Euromoney was traditionally run as a collegiate set up, with a small head office providing central services. The ties had been gathering closer in recent years, as digital delivery increasingly became the norm. While acquisitions always formed part of the growth strategy, once businesses had arrived, they generally stayed, with a high degree of autonomy and minimal active portfolio management. Companies were relatively siloed, with little transference of expertise, best practice or contact. Most have grown well post acquisition, but where the underlying opportunity has failed to live up to its original promise, they have slipped into the 'long-tail'.

The incoming CEO's strategic review resulted in a revised strategy which was instigated from early 2016. The core conclusion was 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 now need to justify their retention within the group. There is no change to the central plank of the growth strategy for a mix of organic 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. Management is aiming to keep the best elements of the previous decentralised structure – the entrepreneurial spirit, keeping close to the customers, while allowing better access to a strengthened central resource covering elements such as finance, HR, marketing etc.

**Exhibit 3: Quadrant strategies**



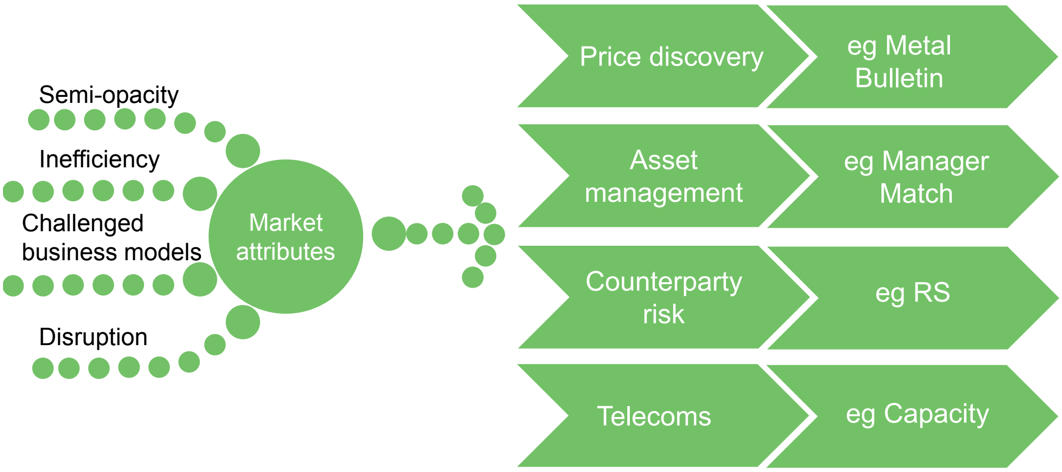

Source: Company

Existing businesses were placed into one of four quadrants: stronger or weaker cyclicality against stronger or weaker structural positioning. Obviously, these categorisations are dynamic, with the passage of time and changes in external or internal influences, the individual businesses may naturally move between quadrants.

Placing a company in the top right quadrant, where clear strengths have been identified (with greater granularity than historically), would indicate that it should be the focus for investment to maximise returns, while positioning in the bottom left would point to a disinvestment strategy – but not necessarily disposal, with a focus on reducing the drag. 'Bottom right' companies are those where the cycle is acting in their favour but where there are weaknesses in the business model. For these, the choice is either modest investment to correct the underlying issues or optimising performance with the aim of obtaining a better price for any sale, ie 'using the time wisely'. 'Top left' positioning indicates a business which is structurally advantaged but not yet in a growth phase of its cycle and which should therefore be a focus for tight cost control and selective investment.

Within this structure, management has identified some key themes which inform decision making.

**Exhibit 4: Key strategic themes**




Source: Company

The market attributes identified above (Exhibit 3) indicate where management sees the most advantageous opportunities to gain an embedded and collaborative position with clients under their vision for the latest industry iteration, B2B Media 3.0. This sees the supplier having moved from 1.0 (the original business model), where it provides goods and services and sells them to customers, through 2.0, where customer requirements dominate the process into 3.0, where the supplier works alongside the client jointly to achieve solutions, thereby becoming more embedded in the workflow (and more difficult to dislodge). The second thematic element is more specifically identifying attractive industry segments. For price discovery, semi-opaque markets are an obvious target area. The group has extensive experience in using price reporters, validating and publishing the data. Metal Bulletin is an authority in its markets, as is Air Finance in its field, while the recently acquired RISI adds forest products. The timing of the focus on asset management may not be precise, but the changes in the market will open opportunities for new ways of doing business, such as Manager Match, which is an online platform that helps allocators identify suitable managers. Counterparty risk in insurance is of interest, particularly in the post-trade market, where reinsurance is used as a substitute for core capital. Telecoms is a global market that broadens the base, with a focus on aspects such as support for pricing evaluation for spectrum.

ERM's financial results are presented in two formats: broken down by business segment and by revenue type. Previously (prior to FY16), financial reporting was by activity type, which had part-masked the business drivers.

Revenue growth over the period from 2006-2016 can broadly be attributed 25% as organic, 40% from net acquisitions/disposals and 35% from post-acquisition growth. Acquisitions have always formed a core element of the growth strategy and, over that period, the group spent just under £400m, with the acquisition of RISI (and the smaller Layer123) in April 2017 taking that running total over £500m.

The acquisition criteria are that opportunities should have:

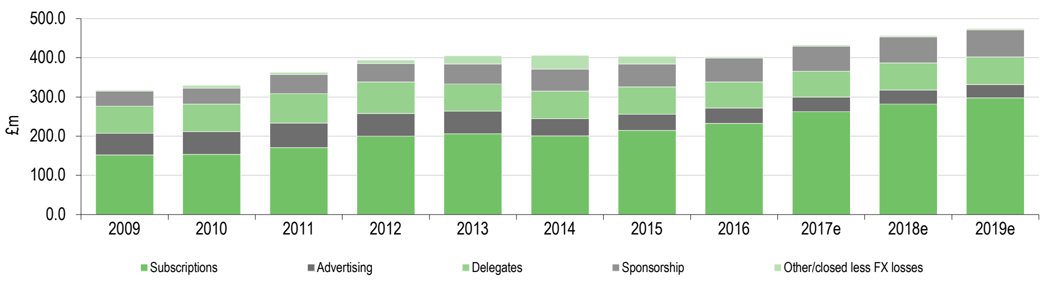
- A strong fit with Euromoney's strategy
- Clear synergies with existing group businesses
- Global or cross-border customer bases, or with the potential to internationalise
- Market-leading brands
- Proprietary, highly valued, paid-for data or unique intellectual property
- High operating leverage and potential to achieve net margins in excess of 30%

They should obviously also stack up as a financial proposition.

## Improving the quality of earnings

The operating model is predicated on optimising the 'build once, sell many times' principle, along with building the recurring and repeatable revenue streams and maintaining good levels of pricing, ie staying clear of commoditised products. All of these should drive operating leverage and margin.

**Exhibit 5: Revenue history and forecasts by type**



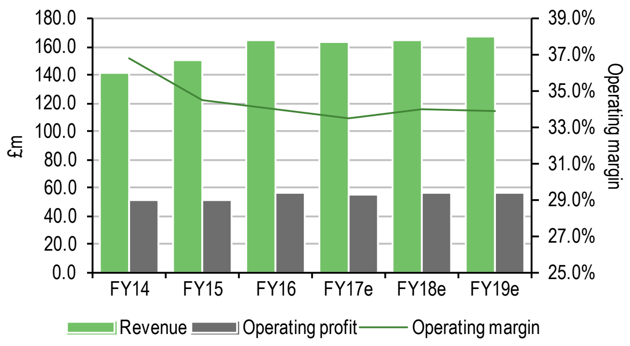

Source: Company accounts, Edison Investment Research

The long-term record by revenue type, as shown in Exhibit 5, gives a clear picture of how the business has transitioned, as print has decreased in importance and the proportion derived from advertising revenues has fallen, reaching levels where the continuing diminution no longer has meaningful impact. Levels of decline have diminished, as the print assets have focused on longer shelf-life, thought-leadership pieces. There has been a drive to improve the quality and visibility of earnings through growing the subscription base, currently sitting at around 60% of group revenues, with advertising at 10% and events (delegates and sponsorship together) at 30%.

## Segmental descriptions

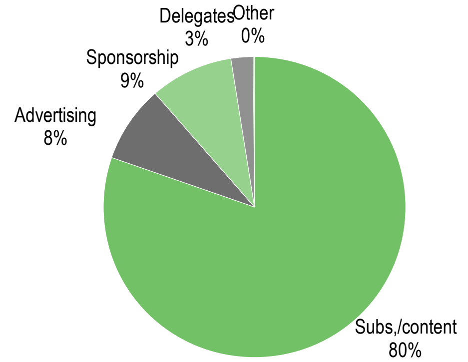
### Asset management (38% FY17e revenues)

**Exhibit 6: Segmental record and forecasts**




Source: Company accounts, Edison Investment Research

**Exhibit 7: Segmental revenue by type FY17e**




Source: Company accounts, Edison Investment Research

The asset management segment is primarily a subscription business, delivering 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 over recent periods, 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, BCA Research and Ned Davis Research (bought August 2011). 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.

At the half year, underlying growth was flat and it is this part of the business where there are currently the greater levels of uncertainty as the sector positions itself for the introduction of MiFID II, with clients questioning each line of cost with increased levels of scrutiny. Our forecasts assume that market conditions will remain difficult for the time being, but this will remain under review.

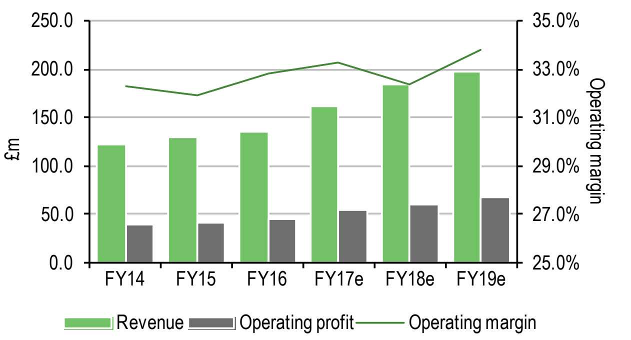
**Exhibit 8: Asset Management key brands**

- BCA Research
- Institutional Investor
- Ned Davis Research

Source: Company

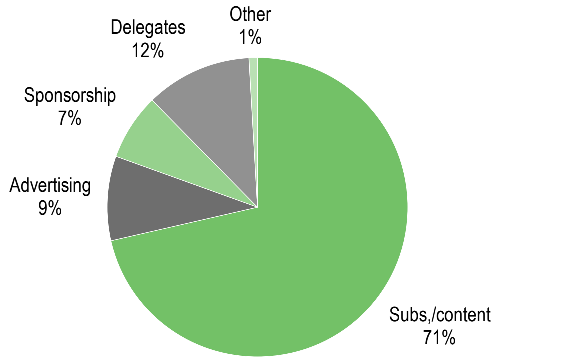
## Pricing, data and market intelligence (38% FY17e revenues)

**Exhibit 9: Segmental record and forecasts**




Source: Company accounts, Edison Investment Research

**Exhibit 10: Segmental revenue by type**




Source: Company accounts, Edison Investment Research

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, which provides pulp and paper industry intelligence, will raise the proportion generated via the US to around a third on a pro-forma basis. As the commodities cycle has turned, Metal Bulletin has 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.

RISI is a recent acquisition, joining the group in April 2017 at a price of €125m in cash. Its FY16 revenues were $29.6m, with EBITDA of $7.7m (margin of 26%). Its revenues are derived predominantly from selling subscription products and have high renewal rates. This will lead to a slight margin dilution within the segment in the current year, but we would anticipate that this corrects in FY19e.

**Exhibit 11: Pricing, data and market intelligence key brands**

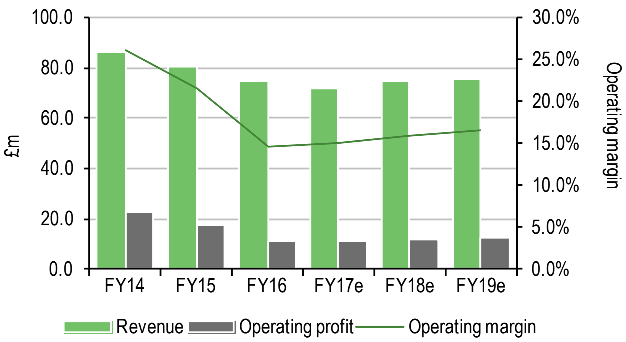
| | | |
|---|---|---|
| ■ Metal Bulletin | ■ CEIC* | ■ Capacity |
| ■ RISI | ■ Telcap | ■ Legal Media Group |
| ■ EMIS* | ■ Insurance Insider | |

Source: Company data. Note: *Currently subject to review of strategic options.

In an announcement in early September 2017, ERM stated that it was looking at 'strategic options' for its Global Markets Intelligence Division, having received external indications of interest. This division consists of CEIC and EMIS, currently reported in this segment. Based in Hong Kong, it has been part of the group's emerging markets offering and reported FY16 revenue of c $52.7m (£37m) and adjusted EBITDA of c $14.5m (£10m) (margin of 27%) and accounted for approximately £30m of intangibles/goodwill in the FY16 balance sheet. A disposal would therefore be inherently dilutive until the capital is recycled into higher margin opportunities. Exposure to emerging markets remains an important strand of Euromoney's business model.

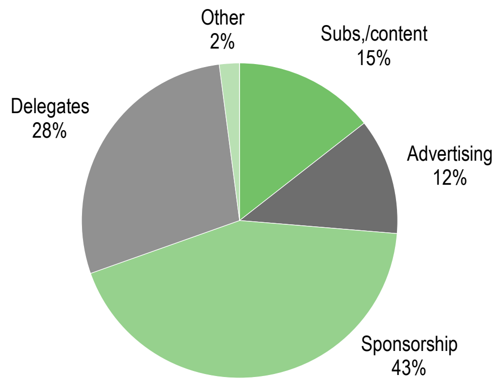
## Banking & finance (17% FY17e revenues)

**Exhibit 12: Segmental record and forecasts**




Source: Company accounts, Edison Investment Research

**Exhibit 13: Segmental revenue by type**




Source: Company accounts, Edison Investment Research

Over recent years, the banking side of the group has suffered from buy-side pressures as the regulatory environment became more onerous and confidence levels flagged. We are not expecting a spectacular recovery short term, but more a steady rebuild. The Euromoney brand has been one that was positioned in the 'bottom left' quadrant on initial assessment but which has since been shifted into 'top left'. This primarily involves leveraging the brand 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.

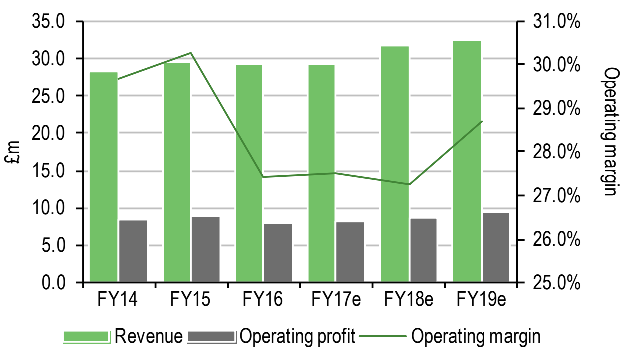
**Exhibit 14: Banking & finance key brands**

| | | |
|---|---|---|
| ■ Euromoney | ■ IMN | ■ Global Capital |

Source: Company

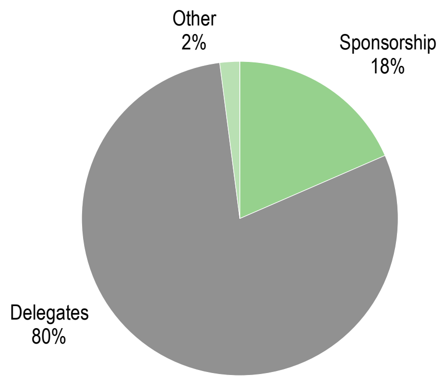
## Commodity events (7% FY17e revenues)

**Exhibit 15: Segmental record and forecasts**




Source: Company accounts, Edison Investment Research

**Exhibit 16: Segmental revenue by type**




Source: Company accounts, Edison Investment Research

The commodity side of the group is self-evidently the one most exposed to the swings and roundabouts of cyclicality and conditions have been starting to improve over the last couple of reporting periods. We expect this to continue through FY18e and into FY19e.

**Exhibit 17: Commodity events key brands**

| | | |
|---|---|---|
| ■ Global Grain | ■ Mining Indaba | ■ Adhesion |
| ■ (Metal Bulletin) | ■ Coaltrans | |

Source: Company

## Sensitivities

- 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 been easing off of late and a 'new normal' may be being 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 currently facing major regulatory change through the implementation of MiFID II, which comes into force in January 2018.
- Currency: Approximately two-thirds of revenue (including 30% of UK revenues) and around 60% of operating profits are generated in US dollars. 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$ 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. A one cent movement prompts revenue +/- £1.4m, PBT +/- £0.6m.
- 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: Content consumption: the information world, notably in developed markets, continues to move to digital and away from print. The group's strong brands give it good leverage regardless of medium and its remaining print products are being reoriented to longer shelf-life, thought leadership-type content. 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.
- Exposure to EM: ERM has historically benefited from the faster economic growth seen in emerging markets. Despite their current unpopularity, reflecting the dependence of many of their economies on commodities, they will continue to offer substantial opportunities as conditions ameliorate.

# Valuation

## Peer valuation

We have looked at the valuation of ERM in comparison to three peer categories: global technology software companies in business services (principally US based); business-to-business media companies, principally based in Europe; and financial information companies (Thomson Reuters, Envestnet, Morningstar, Dun and Bradstreet, FactSet, Verisk and IHS Markit).

**Exhibit 18: Comparison of valuation between Euromoney and global quoted peers**

| | Aggregate market cap (US$) | TTM EBITDA margin | TTM rev growth | EV/TTM rev (x) | EV/TTM EBITDA (x) | Forward EV/rev | Forward EV/EBITDA |
|---|---|---|---|---|---|---|---|
| Business intelligence | 2,710 | 13.6% | 13.5% | 3.0 | 12.2 | 2.8 | 12.0 |
| Financial & accounting | 3,329 | 24.6% | 5.0% | 3.7 | 16.4 | 3.5 | 16.0 |
| Vertical – finance | 6,669 | 34.5% | 8.5% | 4.4 | 14.0 | 4.2 | 13.6 |
| Weighted software companies | 12,708 | 26.2% | 7.9% | 3.9 | 14.5 | 4.2 | 13.1 |
| B2B media businesses | 45,792 | 20.3% | 10.4% | 3.7 | 16.9 | 3.3 | 11.4 |
| Financial information companies | 48,966 | 28.0% | 2.2% | 5.3 | 16.9 | 5.2 | 14.1 |
| **ERM** | | **26.3%** | **5.9%** | **3.5** | **13.2** | **3.1** | **11.3** |
| Discount to software comparatives (on average of relevant multiples) | | | | | | | 25.9% |
| Discount to B2B media stocks (on average of relevant multiples) | | | | | | | 17.3% |
| Discount to financial information stocks (on average of relevant multiples) | | | | | | | 35.2% |

Source: Bloomberg, Software Equity Group, Edison Investment Research. Note: TTM = trailing 12 months. Prices as at 10 October 2017.

The market valuations of the three subsectors that we have looked at (software, B2B and financial publishing) move in and out of alignment, with the financial information companies currently the higher rated, particularly on sales multiples. Euromoney is trading at a notable discount to all these groups, which may be indicting that there is concern over a potential overhang of the remaining share held by DMGT. We would consider this risk to be overstated, with DMGT having passed the end of its ‘orderly market’ agreement in July and with the price already clearly above the level of the previous disposal (975p).

## DCF also indicates subdued pricing

**Exhibit 19: Reverse DCF**

| | | Medium-term growth rate | | | | |
|---|---|---|---|---|---|---|
| | | 0.00% | 1.00% | 2.00% | 3.00% | 4.00% |
| EBITDA margin | 25.00% | 10.42 | 11.02 | 11.65 | 12.32 | 13.02 |
| | 26.00% | 10.89 | 11.51 | 12.17 | 12.87 | 13.60 |
| | 27.00% | 11.35 | 12.00 | 12.69 | 13.42 | 14.19 |
| | 28.00% | 11.82 | 12.50 | 13.21 | 13.97 | 14.77 |
| | 29.00% | 12.28 | 12.99 | 13.74 | 14.52 | 15.36 |
| | 30.00% | 12.75 | 13.48 | 14.26 | 15.08 | 15.94 |

Source: Edison Investment Research

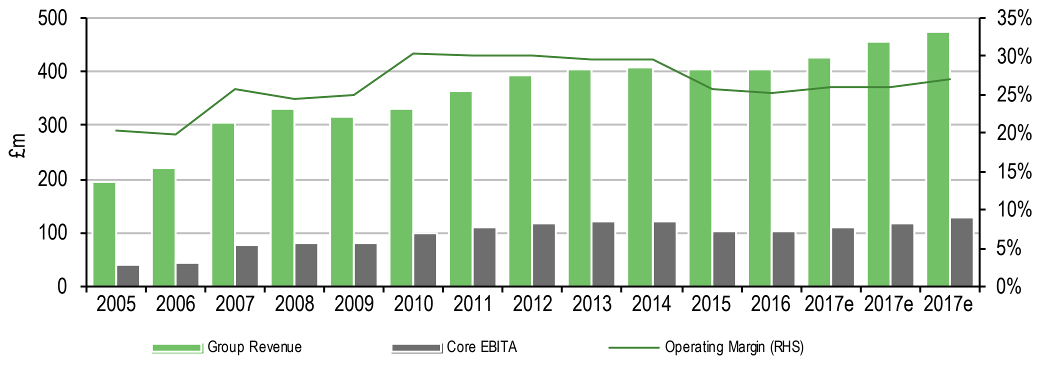
Rather than look at a conventional DCF flexing the WACC and terminal growth rates, we have looked to see what the model indicates under various scenarios for EBITDA margin and medium-term top-line growth rates beyond our forecast period. We have used a WACC of 8%. At an EBITDA margin of 27% over the medium term (2020-26) and on a modest revenue growth rate of 2% our model is indicating a valuation of 1,269p per share, some 13% ahead of the current share price. The current share price is suggesting that either there is no potential for top line growth or that margins slip from their current levels, both of which we feel are unlikely scenarios.

# Financials

## 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. With the added headwinds of the travails of financial markets, along with a new CEO that might have proved disruptive, broadly maintaining revenues over 2012-16 is a creditable performance.

**Exhibit 20: Long-term financial record**




Source: Company accounts. Edison Investment Research

Historically, the business ran with normalised operating margins at around the 30% level (being EBITA pre-impairment and share option costs). The current view is that to look to return to that sort of level would necessitate a reduction in levels of investment in the group and compromise its longer-term growth opportunities. Post the DMGT sell down, the additional costs now borne by the group and the investment in infrastructure equate to a reduction of 0.5%-1.0% in operating margin. This means that the group as currently configured should continue to run at the 25-27% level, although if the right businesses are identified and bought in the price discovery segment, this could be a point or two higher.

People costs in FY16 were at 41% of revenues, with generally below market salaries and higher incentive-based costs (sales commission, bonuses for delivery), with around half of total pay variable by performance.

At the half year, the underlying increase in the subscription book of business was running at 1.5% at constant currency, swelled to an increase of 15.8% by net M&A, but mostly through currency benefit. Advertising sales continued on the downward trend but only represented about 10% of revenue. Events had been preforming strongly. The full year results will be formally reported in November, but outline performance was given in the recent trading update. The underlying book of subscription business flattened out in H217, as the asset management sector became increasingly unnerved by the impending implementation of MiFID II, offsetting the good momentum from the pricing, data and market intelligence. Advertising continues to reduce, but at the lower rates, while events' revenues fell 8% in Q4, reflecting decisions not to run some events due to geopolitical risk. Overall, the trading update indicated that reported revenues would be up about 6% on prior year (down 1% underlying), implying a figure around £427m, with an adjusted PBT of £105m. Net debt would be 'no more than £160m'. Edison's previous published forecasts were for revenue of £438.6m, with PBT of £103.7m and net debt of £164m, so the pre-close update represent a slight improvement. We have adjusted our model to reflect the trading update and made minor changes to our FY18 figures. We have also now rolled out our modelling horizon to include FY19e, with all future figures based on current US dollar exchange rates (£1:$1.32).

The financial year just finished has been favourably influenced by the foreign exchange picture, with a positive impact of £5.9m at the adjusted PBT level outlined at the half year. The benefit in the second half will have been lower, with an average US$:£ rate of $1.29 (H216 was translated at an average of $1.38).

## Substantial cash flow, stepped up dividend policy

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.

Underlying cash conversion was 105% in FY16 (FY15: 104%). This has only dipped marginally below the 100% figure twice in the last 20 years.

The change of corporate priorities has also encompassed a review of the dividend policy, particularly given the reduced number of shares in issue post the cancellation of shares bought back from DMGT. Given the health of the underlying cash flow, the payout ratio has been increased form 33% to 40%. Each interim dividend will be set at one-third of the previous year's total dividend. Our forecast model indicates an FY17 dividend of 30.0p, ie a payout ratio just below 40%. 8.8p was paid at the interim stage. This would indicate an interim dividend of 10p for H118, an increase of 14% on the prior year.

## Starting to use the balance sheet

With the lifting of the need to run strategic decisions past DMGT, ERM is now starting to be able to use its balance sheet more efficiently. Debt was previously funded by the then parent company, and new facilities have had to be negotiated, as shown below. The first use of these was to fund the share buyback from DMGT, at a cost of £188m, with the balance above the term-loan met from cash resources.

**Exhibit 21: Banking facilities**

| Loan type | Amount (£m) | Purpose |
|---|---|---|
| Term-loan | 120 | Share buyback |
| Revolving credit facility | 130 | Acquisition & working capital |
| | 250 | |
| Accordion | 130 | Additional acquisitions |
| **Total facilities** | **380** | |

Source: Company

The costs of these facilities are ratcheted according to the level of net debt to EBITDA, starting at 1.25% over LIBOR for a ratio under 1.0x; then increasing to 1.5% below 1.5x; 1.75% below 2.0x; 2.0% below 2.5x and at 2.5% over LIBOR should net debt exceed 2.5x EBITDA (with a ceiling at 3.0x). Some of the debt has been hedged, with £32m of the term-loan swapped to a fixed 0.76% coupon and $80m of the same term loan locked in at 1.97%. The overall cost of putting in this structure was £3m.

The RISI acquisition was substantial and moved the balance sheet to a pro-forma net debt position of £186.9m as at the end of April 2017, from the £83.6m published at the end of half year in March. By the end of Q3, the figure had already come down to £173.1m, while the recent trading update outlined that the year-end position (end September) is expected to have been no more than £160m.

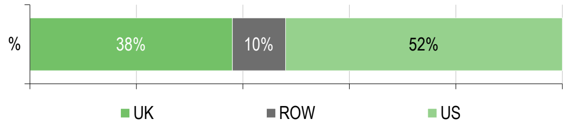
Our model currently shows that, with the current portfolio of business, we would anticipate the level of indebtedness to fall to just below £110m by end FY18 and below £50m by end FY19, clearly demonstrating the strength of the group's cash generation.

**Exhibit 22: Financial summary**

| £m | 2015 | 2016 | 2017e | 2018e | 2019e |
|---|---|---|---|---|---|
| 30-September | IFRS | IFRS | IFRS | IFRS | IFRS |
| **PROFIT & LOSS** | | | | | |
| Revenue | 403.4 | 403.1 | 427.0 | 457.0 | 475.0 |
| Cost of Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Profit | 403.4 | 403.1 | 427.0 | 457.0 | 475.0 |
| EBITDA | 109.4 | 104.2 | 112.3 | 123.3 | 132.5 |
| Operating Profit (before amort. and except.) | 106.7 | 101.4 | 109.1 | 119.3 | 128.2 |
| Intangible Amortisation | (17.0) | (16.7) | (19.5) | (19.5) | (19.5) |
| Exceptionals | 33.4 | (37.3) | 0.0 | 0.0 | 0.0 |
| Capital Appreciation Plan | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Profit before ass's & fin. except'ls | 123.1 | 47.4 | 89.6 | 99.8 | 108.7 |
| Associates | 2.4 | (1.8) | 0.0 | 0.0 | 0.0 |
| Net Interest | (1.3) | (1.7) | (4.1) | (8.7) | (8.4) |
| Exceptional financials | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit Before Tax (norm) | 107.8 | 102.5 | 105.0 | 110.6 | 119.9 |
| Profit Before Tax (FRS 3) | 123.3 | 43.9 | 85.5 | 91.0 | 100.4 |
| Tax | (17.6) | (12.9) | (19.9) | (22.1) | (22.8) |
| Profit After Tax (norm) | 90.2 | 89.6 | 85.0 | 88.5 | 97.1 |
| Profit After Tax (FRS 3) | 108.2 | 31.0 | 65.5 | 68.9 | 77.6 |
| Average Number of Shares Outstanding (m) | 126.4 | 126.5 | 112.8 | 109.1 | 109.1 |
| EPS - normalised (p) | 70.1 | 66.5 | 76.5 | 81.7 | 88.7 |
| EPS - (IFRS) (p) | 83.5 | 24.3 | 57.8 | 62.9 | 70.8 |
| Dividend per share (p) | 23.4 | 23.4 | 30.0 | 34.0 | 35.2 |
| EBITDA Margin (%) | 27.1 | 25.9 | 26.3 | 27.0 | 27.9 |
| Operating Margin (before GW and except.) (%) | 26.5 | 25.2 | 25.5 | 26.1 | 27.0 |
| **BALANCE SHEET** | | | | | |
| Fixed Assets | 579.1 | 601.9 | 625.7 | 625.7 | 625.7 |
| Intangible Assets | 531.4 | 551.1 | 574.1 | 574.1 | 574.1 |
| Tangible Assets | 9.5 | 14.9 | 15.7 | 15.7 | 15.7 |
| Investments | 38.3 | 35.9 | 35.9 | 35.9 | 35.9 |
| Current Assets | 110.1 | 170.3 | 132.2 | 152.7 | 214.7 |
| Stocks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debtors | 83.7 | 79.0 | 84.4 | 91.4 | 95.0 |
| Cash | 18.7 | 84.2 | 40.3 | 53.8 | 112.2 |
| Other | 7.7 | 7.1 | 7.5 | 7.5 | 7.5 |
| Current Liabilities | (210.8) | (249.4) | (238.2) | (246.4) | (256.4) |
| Creditors | (209.8) | (249.0) | (237.9) | (246.1) | (256.1) |
| Short term borrowings | (1.0) | (0.4) | (0.3) | (0.3) | (0.3) |
| Long Term Liabilities | (33.2) | (45.3) | (243.4) | (218.4) | (178.4) |
| Long term borrowings | 0.0 | 0.0 | (200.0) | (175.0) | (175.0) |
| Other long term liabilities | (33.2) | (45.3) | (43.4) | (43.4) | (3.4) |
| Net Assets | 445.2 | 477.5 | 276.4 | 313.7 | 405.7 |
| **CASH FLOW** | | | | | |
| Operating Cash Flow | 109.5 | 102.2 | 107.5 | 114.8 | 128.7 |
| Net Interest | (1.1) | 0.1 | (4.1) | (8.7) | (8.4) |
| Tax | (13.7) | (16.8) | (17.6) | (19.5) | (20.0) |
| Capex | 9.4 | (3.5) | (12.2) | (4.6) | (4.9) |
| Acquisitions/disposals | (15.6) | 13.2 | (100.0) | (12.5) | (3.0) |
| Equity Financing / Other | (4.4) | 0.0 | (187.6) | (0.0) | 0.0 |
| Dividends | (29.4) | (29.1) | (29.8) | (31.0) | (34.0) |
| Net Cash Flow | 54.6 | 66.1 | (243.7) | 38.5 | 58.4 |
| Opening net debt/(cash) | 37.6 | (17.7) | (83.8) | 160.0 | 121.5 |
| HP finance leases initiated | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Closing net debt/(cash) | (17.7) | (83.8) | 160.0 | 121.5 | 63.1 |

Source: Company accounts, Edison Investment Research

EDISON

| Contact details | Revenue by geography |
|---|---|
| 8 Bouverie Street<br>London<br>EC4Y 8AX<br>UK<br><br>www.euromoneyplc.com |  |



| Management team | |
|---|---|
| **CEO: Andrew Rashbass** | **CFO: Colin Jones** |
| 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, the 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 leading digital business. Before that he was publisher of The Economist. | Colin is a chartered accountant. He joined the company in July 1996 from Price Waterhouse, and was appointed finance director in November 1996. Colin has announced his intention to retire by the summer of 2018 and the process of selecting his successor has commenced. |
| **Chairman, John Botts** | **MD, Corporate Development: Christopher Fordham** |
| John Botts is senior adviser of Allen & Company in London and a director of several private companies. He was formerly non-executive chairman of United Business Media plc. | Christopher has been in his current role since Jan 2016. From October 2012 he was MD, and for twelve years previous to this, he was Development Dir, with responsibility for acquisitions. He was also Divisional Dir for many of the group's acquired businesses. Before ERM, he worked at The Economist Group and then at Haymarket Publishing for over a decade. |

| Principal shareholders | (%) |
|---|---|
| DMG Media Investments | 49.08 |
| Aberdeen Standard Life | 6.13 |
| Invesco | 6.01 |
| Woodford | 5.18 |
| Heronbridge | 4.83 |

**Companies named in this report**

Daily Mail & General Trust (DMGT); Thomson Reuters (NYSE: TRI), Envestnet (NYSE: ENV), Morningstar (NASDAQ: MORN), Dun & Bradstreet (NYSE: DNB), FactSet (NYSE: FDS); Verisk Analytics (NASDAQ:VRSK); IHS Markit (NASDAQ: INFO); Centaur (CAU); Informa (INF); ITE (ITE); RELX (REL); Tarsus (TRS); UBM (UBM); Wilmington (WIL)



| Frankfurt +49 (0)69 78 8076 960 | London +44 (0)20 3077 5700 | New York +1 646 653 7026 | Sydney +61 (0)2 8249 8342 |
|---|---|---|---|
| Schumannstrasse 34b | 280 High Holborn | 295 Madison Avenue, 18th Floor | Level 12, Office 1205 |
| 60325 Frankfurt | London, WC1V 7EE | 10017, New York | 95 Pitt Street, Sydney |
| Germany | United Kingdom | US | NSW 2000, Australia |