EDISON

Euromoney Institutional Investor

Full year results

Pricing vs asset management

Media

Euromoney's FY17 results were as indicated at the year-end update, "perhaps a little better", with FY18 having started on track. Our forecasts are broadly unchanged on these figures, adjusted for the disposal of Adhesion/WBWE. The strategic transition put in place over the last two years is driving stronger underlying growth, with ongoing recycling of capital into better businesses. The overhanging cloud remains MiFID II, which is deterring new business from asset managers. This should work its way through and meanwhile the pricing-based businesses are making good progress. Strong cash flow makes further acquisitions likely. The rating does not reflect the improving underlying earnings quality.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	403.1	102.5	66.6	23.4	17.4	2.0
09/17	428.4	106.5	76.4	30.6	15.1	2.6
09/18e	440.0	109.0	80.2	31.0	14.4	2.7
09/19e	460.0	117.5	87.0	34.0	13.3	2.9

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

Dealogic a logical deal

Euromoney has also announced that it is to sell on its minority stake in Dealogic for approximately $135m (retaining the use of required data). This was bought for €59.2m in November 2014, equivalent to a 32% pa return on capital uplift plus the profits that it has earned in the interim period - £3.9m at the pre-tax level in the year just ended. The disposal will be reflected in our figures once the deal completes. At the balance sheet date, the group categorised two businesses as held for sale (CEIC and EMIS), having been previously subject to strategic review. It is clear that there will be a meaningful reduction in net debt, with the intended CEIC and EMIS disposals putting the group back into a substantial net cash position. Holding cash at current interest rates would be earnings' dilutive and we would anticipate that acquisitions are front of mind, although timing will always be uncertain.

Divergence of fortune between segments

Pricing, Data & Market Intelligence performed well with 5% underlying segmental revenue growth for the year (H117:+3%, H217:+7%), although planned investment resulted in operating profits down by 6%. In Asset Management the timing was reversed with underlying 1% H117 growth turning to a decline of 5% in H217. Renewal rates are holding up well. The shortfall is in new business as potential clients wait to see how MiFID II will affect their overall budgets. Operating profit improved, though, with reduced investment plans. These segments are dominated by subscription and content revenues, with attractive working capital profiles.

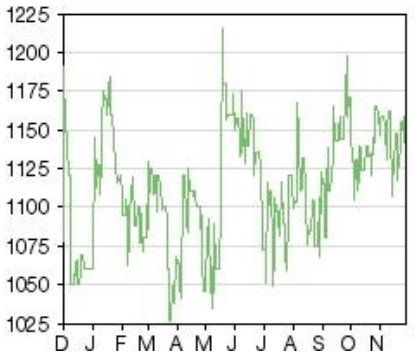
Valuation: Discount overdone

The group continues to trade at a discount to peers (see Outlook note), reflecting concerns over asset management exposure. 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.

29 November 2017

Price	**1158.00p**
Market cap	**£1263m**
	£1/US$1.32
Net debt (£m) at 30 Sept 2017	154.6
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	(2.0)	6.2	13.3
Rel (local)	(0.4)	6.2	3.9
52-week high/low	1216.0p		1000.0p

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

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

Outlook dependent on segmental balance

Management has been open about the current challenges facing its customers in the asset management sector, not just from MiFID II but from the shift away from active managed funds to passive. However, there are growing parts of the relevant pie, notably in alternative assets and in active specialties and these will obviously be the focus for investment within this sector.

Overall, the group's book of subscription business (which represents sales rather than revenues and which represents around 60% of total revenue) stood in October at 18.1% higher than a year previously, but slightly below the 19.2% on which it ended the financial year. This is at reported £/US$ rates and currency will obviously be less of a tailwind this year. The underlying book of business at constant currency and netting off acquisitions was 0.8% ahead in October, a small improvement on the end-September number of +0.4%. However, this number masks a divergence between the business segments, with Pricing, Data & Market Intelligence up by 8.5% like-for-like, partially offset by Asset Management being down 5.9%.

Active portfolio management continues

The process of recycling capital continues, although the process is now one of divesting good businesses into better or more appropriate ones. There is very little left of the companies that were identified as being a drag on the group's progress on the establishment of the strategy as set out a couple of years ago. The quadrant descriptions (see our Outlook note published on 12 October 2017) are constantly shifting with cyclical and structural changes to markets, so management deliberately does not define the proportions of revenue falling into each.

Since January 2016, the group has acquired six businesses, three falling in FY17, including RISI bought for $125m in April 2017. Seven businesses have been sold, with a further two, CEIC and EMIS now categorised as held for sale from having been under strategic review. The key themes for investment remain unaltered; management looks for opportunities in semi-opaque markets, where there is inefficiency, disruption and/or barriers to entry. With larger, high-profile deals generally on high multiples, the most attractive opportunities can be found from within other groups where they do not sit comfortably, rather than being subject to offers in the open market. Ideal candidates also fit within the 'create once, sell many times' arena.

As can be seen from the history and the modelling, Euromoney is inherently strongly cash generative, having only dipped below 100% cash conversion twice in the last 20 years. The effect is that despite the spend on the share buyback in the early weeks of the year and the substantial acquisition of RISI, net debt by end September had reduced to £155m (our forecast post-RISI was £164m). Edison's model shows it reducing to £112m and £59m by end of FY18e and FY19e respectively.

NED board changes

The changed status of Euromoney with regard to DMGT is reflected in the change of the two DMGT representative NEDs, with Viscount Rothermere and Paul Zwillenberg stepping down to be replaced by Tim Collier, DMGT's chief financial officer and Kevin Beatty, CEO of dmg media and DMGT executive director. Separately, three new NEDs are being appointed, bringing in additional market and technical expertise to draw on. They are in addition to the seven already in place (to become six on the retirement of John Botts as chairman at the upcoming AGM). David Pritchard is to be acting chairman while a permanent incumbent is sought. Andrew Rashbass, CEO, and Colin Jones, FD, are the sole executive directors, with no news as yet on Colin's successor ahead of his retirement by summer 2018.

Exhibit 1: Financial summary

£m	2015	2016	2017	2018e	2019e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	403.4	403.1	428.4	440.0	460.0
Cost of Sales	0.0	0.0	0.0	0.0	0.0
Gross Profit	403.4	403.1	428.4	440.0	460.0
EBITDA	109.4	104.3	110.3	117.6	126.5
Operating Profit (before amort. and except.)	106.7	101.5	107.1	113.7	122.3
Intangible Amortisation	(17.0)	(16.8)	(20.8)	(20.6)	(19.9)
Exceptionals	33.4	(37.3)	(31.3)	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	55.1	93.1	102.4
Associates	2.4	2.2	3.3	0.0	0.0
Net Interest	(1.3)	(1.1)	(4.0)	(4.7)	(4.8)
Exceptional financials	(0.9)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	107.8	102.5	106.5	109.0	117.5
Profit Before Tax (FRS 3)	123.3	48.4	54.4	88.4	97.5
Tax	(17.6)	(18.1)	(19.8)	(22.3)	(23.5)
Profit After Tax (norm)	90.2	84.5	86.6	86.7	94.0
Profit After Tax (FRS 3)	108.2	30.4	34.6	66.1	74.0
Average Number of Shares Outstanding (m)	126.4	126.5	112.5	107.3	107.3
EPS - normalised (p)	70.1	66.6	76.4	80.2	87.0
EPS - (IFRS) (p)	83.5	23.8	30.3	61.1	68.5
Dividend per share (p)	23.4	23.4	30.6	31.0	34.0
EBITDA Margin (%)	27.1	25.9	25.8	26.7	27.5
Operating Margin (before GW and except.) (%)	26.5	25.2	25.0	25.9	26.6
BALANCE SHEET					
Fixed Assets	579.1	601.9	648.8	610.5	589.9
Intangible Assets	531.4	551.1	594.0	560.1	538.8
Tangible Assets	9.5	14.9	24.4	20.1	20.7
Investments	38.3	35.9	30.4	30.4	30.4
Current Assets	110.1	170.3	127.8	151.1	206.8
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	83.7	78.6	64.5	70.4	73.6
Cash	18.7	84.2	4.4	22.2	74.7
Other	7.7	7.5	58.9	58.5	58.5
Current Liabilities	(210.8)	(249.4)	(267.5)	(241.5)	(251.8)
Creditors	(209.8)	(249.0)	(267.5)	(241.5)	(251.8)
Short term borrowings	(1.0)	(0.4)	0.0	0.0	0.0
Long Term Liabilities	(33.2)	(45.3)	(212.3)	(218.4)	(178.4)
Long term borrowings	0.0	0.0	(168.9)	(134.0)	(133.9)
Other long term liabilities	(33.2)	(45.3)	(43.4)	(84.4)	(44.4)
Net Assets	445.2	477.5	296.8	301.7	366.5
CASH FLOW					
Operating Cash Flow	109.5	103.8	118.2	106.4	123.3
Net Interest	(1.1)	(0.4)	(1.5)	(4.5)	(4.6)
Tax	(13.7)	(16.7)	(21.8)	(19.7)	(20.7)
Capex	9.4	(3.2)	(10.9)	7.5	(4.8)
Acquisitions/disposals	(15.6)	(3.8)	(99.9)	(12.5)	(3.0)
Equity Financing / Other	(4.4)	10.6	(193.0)	(0.0)	0.0
Dividends	(29.4)	(29.9)	(31.3)	(34.3)	(37.6)
Net Cash Flow	54.6	60.3	(240.2)	42.9	52.6
Opening net debt/(cash)	37.6	(17.7)	(83.8)	154.6	111.8
Redemption of pref	0.0	7.8	0.0	0.0	0.0
Other	0.7	(2.0)	1.8	0.0	0.0
Closing net debt/(cash)	(17.7)	(83.8)	154.6	111.8	59.2

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Euromoney Institutional Investor and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investments Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia