Wilmington PLC

WIL | Small Cap | Media |124p |£109m

Update: *Better than expected*

1 Year Chart

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Wilmington has provided a further update on both trading and the balance sheet / liquidity position. Key headline was a better than previously anticipated revenue and profit performance through the worst of the pandemic. Furthermore, Wilmington has prudently sought to relax its debt covenants alongside increasing its available debt facility headroom in order to de-risk calendar H2, fiscal H1.

The better than initially expected performance through fiscal Q4 has its roots in two effects; firstly, the ability to replace a portion of lost physical event revenue with digital alternatives. Here our sense is that Wilmington has not only surprised itself but will mark it out from peers for whom the digital transition has not been uniformly successful. Secondly, the information element to the business has held up well. This is less of a surprise although, in our mind, this resilience of the Wilmington business has been somewhat overlooked by the market over the last few years.

The success of transitioning physical events to digital is important in two regards. Firstly, is the financial impact in the current year. Although not wholly offsetting lost physical event revenue, what at first looked like a c.56% downgrade to FY 20 PBT is now more likely to be c.40%. Secondly, is the evidence it provides to the agility of the Wilmington business to react to fast unfolding events. Similarly to the resilience of the Information and Data business, we believe the market has not viewed Wilmington in such a fashion in the past.

With greater clarity on the FY 20 outcome; the current FY 20 PE of 11.9x, on a materially reduced FY 20 profit number is an undemanding foundation for the share price if FY 21 delivers any material profit recovery.

- **Near term impacts not as severe as first thought:** Wilmington now sees both revenue and profit for the year ended June 2020 coming in towards the top end of the range previously indicated, implying revenue of c.£113m and adjusted PBT of c.£12m.
- **Balance sheet headroom increased:** Despite the better than expected revenue and profit performance, Wilmington has prudently sought to gain further covenant headroom and increased overall debt facility headroom in order to de-risk calendar H2, which is more working capital intensive than H1.
- **Dividends will resume:** Historically, Wilmington has been a healthy dividend payer and the company has re-iterated the intent to resume dividends as soon as the trading environment normalises.
- **Valuation:** Throughout 2019 we saw Wilmington steadily re-rate upwards as the market responded to the new CEO and growing clarity around the long-term organic growth strategy. Based on the improved near-term guidance the current FY 20 PE is 12.6x, which suggest any earnings growth in FY 21 will benefit the share price.

1st July 2020

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YE – November	Revenue, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	PER x	Yield %
FY 2017A	120.3	21.9	18.7	8.5	-40.0	6.6	6.9
FY 2018A	121.3	22.5	19.6	8.8	-39.6	6.3	7.1
FY 2019A	122.5	19.6	17.2	9.1	-33.9	7.2	7.3
FY 2020E	*112.0*	*11.5*	*10.5*	*0.0*	*-30.0*	*11.9*	*0.0*

Source: Radnor Capital Partners

Trading update

On 25th June, Wilmington announced an update on trading and company banking arrangements (link here). Wilmington's year end is June. Prelims are expected on 17 September 2020.

For the time being, Wilmington's formal market guidance remains suspended, in light of the ongoing uncertainty caused by COVID-19. Hence, at this stage, our own FY 20/21 financial forecasts are withheld. However, we provide some detailed analysis below on key current trends, together with commentary around prior expectations.

'The Group is pleased to announce that it now expects both revenues and profits to be towards the top end of that range'

In their previous Covid-19 related trading update, on 25th March (link here), Wilmington had been early to update the market as to the initial view on potential outcomes for FY 20, June period end. The key headlines were:

- Revenue of between £108m and £113m and
- Adjusted PBT of between £8.5m and £12m

For reference, Wilmington H1 20 Revenue/Adjusted PBT was as follows (Dec period end): £59.5m / £6.9m. Further, FY 19 Revenue/Adjusted PBT was as follows: £123m / £19.3m.

As a point of further reference, prior to the first Covid-19 update, consensus estimates for FY20 group revenue had been £125m, +2% organic growth vs FY19 and PBT of £19.3m.

Therefore, we can conclude that Wilmington has been profitable in H2 against the difficult backdrop of COVID-19 and has delivered a FY profits outcome at the top end of market expectations. Given the scale of disruption from March onwards (ie, the company's final fiscal quarter) and the face to face nature of a material component of Wilmington's business (c.35%), this is an impressive outcome in our view. It should also be noted that Wilmington is ordinarily H2 weighted, so the Covid-19 pandemic could not have impacted at a worse time.

The +10% share price response to the trading update, should be viewed as a combination of both relief that the more pessimistic initial scenario has proven just that, too pessimistic, but also that Wilmington has clearly shown itself to be quick on its feet in responding to the pandemic. We believe this latter point could have a marked effect in how Wilmington is perceived out in the broader market.

Investors should also note the resilience of the Group's information and data businesses, together with the successful conversion of traditional events and training to virtual variants. The ability to operate remotely at scale is clearly critical in current circumstances.

Trading update – divisional detail:

Wilmington – across its operating divisions – has been unable to run any face to face events or training from March onwards, but virtual and online variants have been successful in limiting the downside revenue impact in H2. At the same time, the conversion to virtual has also yielded cost savings that are helping to protect some of the margin impact.

We then highlight the following FY20 performance trends, by revenue type:

Networking events (c.15% of annual Group revenues)

'No face to face conferences and events have been held since March, and none are currently planned for the second half of 2020'. Both the Compliance Week Annual Conference and RISE Nashville, which are usually significant events for the Group have been converted into virtual events'

The Compliance Week Annual Conference ran successfully over two days in mid-May and was attended online by around 1,000 delegates and sponsors. RISE Nashville, which is material for Wilmington, has been rebranded as RISE National and took place virtually over 26, 29 and 30 June 2020

Education and training (c.40% of annual Group revenues)

'No face to face training has taken place since March. The focus of each of the training businesses has been on converting as many courses as possible to virtual which has helped mitigate some of the decline that we had originally anticipated'

There are clearly a range of mix effects to take account of in this business. For example, demand for short-period training (i.e. 2 day courses or shorter) is lower than would have been expected ordinarily. However, registrations for extended training programs such as ICA diplomas have continued at normal levels. There is ongoing customer demand for virtual variants of the summer induction programs for investment banks.

Information and Data (c.45% of annual Group revenues)

'No material impact on demand for data and information products. 65% of data and information products are sold via subscription, typically on an annual basis'

Although much of the "better than expected" has been driven by the ability of the company to replace potentially lost physical revenue with digital alternatives, the resilience of the Information and Data has been very important. We believe the quality of earnings from this segment of the Wilmington business has been under-appreciated by the broader market for some time now, largely due to being overshadowed by news-flow from other segments. The key caveat in this segment remains the visibility over renewal rates.

Overall, the currently lack of firm visibility around the timing of any sustainable resumption in physical events is the key driver behind the understandable decision to keep guidance withdrawn. Clearly, the final results will provide an opportunity to give more clarity on this.

Trading update – broader observations:

Aside from organic growth assumptions, another factor to bear in mind is currency. Wilmington's major non-Sterling revenues are in US Dollars and Euros. During FY20, the US Dollar has strengthened marginally against Sterling while the Sterling Euro exchange rate was consistent with prior year.

Looking forward to H1 21, there is a lower weighting for Wilmington of conferences and events than the second half. In line with most other B2B companies, the central assumption is that there will be no face to face networking events during the rest of calendar year 2020. Alternative virtual events will be run, with the flexibility to convert back as appropriate.

The switch to digital learning and training was already well underway, prior to COVID-19. However, changing delivery formats is clearly impacting the traditional Events business model. Although Wilmington has not broken out operational cost savings undertaken to date, we would assume they are comprised of:

- Physical event costs (ie, venue hire and stand construction)
- Event trainer costs
- Reduced training materials and related publications
- Event related variable remuneration costs

FY20-21 is clearly an exceptional operating period. However, for reference we note Wilmington's historic EBITA margin has been in the 17%-20% range.

Net debt and banking arrangements

Wilmington has also provided further detail on its banking arrangements. In context, H1 20 net debt (period end Dec) was £41.3m. The group retains significant current liquidity, with £19m of cash and undrawn bank facilities of £16m at the end of May. Our understanding is that cash collection has been very satisfactory through H2, and the Group has also benefited from various, well-flagged Government support measures.

In common with many UK plc's since Covid-19 started, Wilmington had already cancelled their dividend (interim, due April 20) with a cash saving of £3.6m. We are therefore encouraged to note that '*the Board remains committed to resuming the payment of dividends as soon as trading conditions permit*'.

Further out, however, the likely reduction in profitability that the Group could experience as a result of COVID-19 means that covenant risks during the second half of FY20 did need to be managed. The critical points here are twofold:

1) The covenant tests are based on trailing EBITDA hence as we move through the year, higher pre-Covid profit months will be replaced by lower post-Covid profit months. This is a higher delta than the expected actual change in absolute net debt;

2) The natural seasonality of Wilmington's working capital peaks during Q3 / Q4 which coincides with the likely peak impacts from point 1

Hence it is very encouraging to note a temporary and material relaxation of covenant limits, to take account the most pessimistic trading scenarios, which we understand to be materially worse than the current trading outlook implies. Our interpretation of the expanded limits is around having sufficient headroom rather than expectation of the actual outcome. The new covenant limits are as follows:

Testing date	Original Limit (x)	New Limit
30 Sep 2020	3.0 x	5.0 x
31 Dec 2020	3.0 x	6.5 x
31 Mar 2021	3.0 x	5.5 x
30 Jun 2021	3.0 x	4.5 x
30 Sep 2021	3.0 x	3.0 x

The Board has also agreed in principle with its lenders to access £15m of additional facility headroom through the Coronavirus Large Business Interruption Scheme ("CLBILS") for 12 months from July 2020. This is very prudent in our view and enlarges the overall liquidity provision in the event of a material, further deterioration in trading. Facility agreements for the additional £15m are expected to be formalised in July.

Wilmington – the broader context

In profile, Wilmington's underlying businesses serve a range of professional verticals, internationally. Wilmington is not a consumer facing business, nor is it reliant on above the line advertising. We consider B2B (business-to-business) more resilient than B2C (business-to-consumer) through the cycle, and particularly in the aftermath of COVID-19. Wilmington is a provider of data, information, education and networking events in Risk & Compliance (35% of Group revenue), Healthcare (38%) and Professional (27%) categories.

Healthcare:

Wilmington's Healthcare businesses offer market and customer intelligence. In addition, the division runs events and offers a small amount of online training. In terms of breadth of revenue type; Healthcare is one of the more diverse segments within the group. However, it is also one of the more data rich in terms of internal, proprietary resource and therefore offers material opportunities for new product and service development.

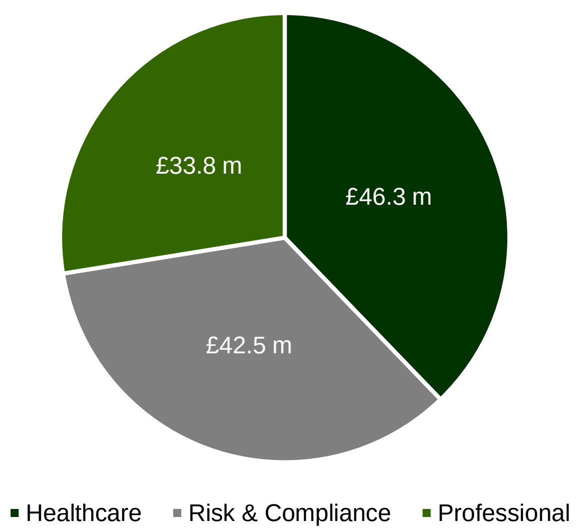
Risk & Compliance:

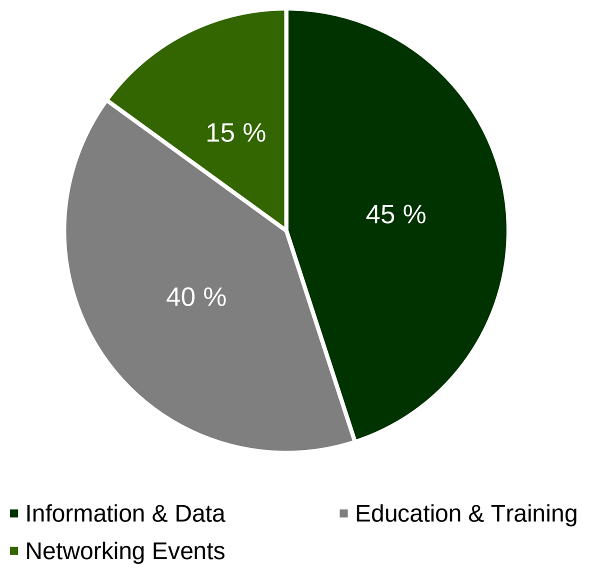
The main Compliance business is the International Compliance Association ('ICA') which was developed organically within Wilmington. Other Compliance businesses run professional development programmes for wealth managers, by offering subscription services for provision of detailed information on regulations in the UK pensions industry and from subscriptions to Compliance Week. The Risk businesses serve the global insurance industry, primarily with in-depth regulatory information, market intelligence and analysis. This is Wilmington's most profitable operating division.

Professional:

The Professional division provides education and training for professionals employed in three target communities; accountants in practice and in business, lawyers and investment bankers. This includes CPD and 'refresher work' based on changes in law. Changes to the regulatory landscape (i.e. Brexit and General Data Protection Regulation) offer opportunities for Wilmington to leverage its knowledge base to assist clients and customers with the change.

Fig 1: Wilmington – FY 19 divisional and revenue by type split





Source: FactSet, Radnor

Wilmington has a number of quoted UK peers. In terms of sector context, the UK has always been the home to a number of major B2B publishers and Events organisers (including conferences, seminars, corporate training).

In the absence of international travel, physical cross-border events have been scrapped across the board in recent months. The challenge for operators is therefore to monetize delegate and sponsor relationships in a virtual environment, until such time that physical or face-to-face resumes.

The 'mood music' in the UK quoted B2B Media sector, since March has been predictably downbeat. Forward investor guidance is uniformly withdrawn. At the same time, there is clearly a lot of virtual innovation underway, as customers adapt to a fully digital working environment. We highlight in brief, a selection of company comments and developments, which have been published in recent weeks:

Informa (AGM update)*: At Informa, our Subscriptions businesses continue to perform resiliently against a tough market backdrop, whilst our Events businesses - in the absence of physical exhibitions, events and conferences - are working closely with customers to provide alternative digital services'.*

Centaur (AGM update): '*the Group faces two COVID-19 challenges. First, our lead generation and telesales operation, has experienced a sharp fall in revenue as a number of its clients have experienced disruption to their own businesses. Our flagship events ….. may be affected by extended requirements for social distancing. To ensure that our content can be delivered effectively and reliably to our audiences, we are incorporating enhanced digital delivery to supplement or replace physical activities'.*

Euromoney (H1 results): '*Commencing in February, we started to cancel or postpone live events as a result of covid-19, as governments and corporations placed restrictions on travel and face-to-face meetings. Events cancelled and postponed as a result of covid-19 reduced H1 20 revenue growth by 5ppt and operating margin by 2ppt. We have already run 44 virtual events during the covid-19 affected period'.*

To date, Wilmington has been the first UK listed B2B company to report trading ahead of its initial Covid-19 expectations and our sense is that the Wilmington digital event alternative experience has had a more positive effect than for others. This is partly due to the starting mix between large and small scale events at Wilmington being more favourable (ie, small event heavy) but also an element of rapid internal response, which will be especially pleasing for Wilmington shareholders.

Note, Informa has also raised c£1bn in fresh equity capital to strengthen its balance sheet against the negative impact of COVID19. Elsewhere, Hyve Group, the pure play exhibitions group has successfully completed a major rights issue.

Wilmington – investment thesis

We initiated coverage (although without FY21 and beyond forecasts) in our 1st April 2020 note *Evolution, interrupted* (link here).

Normally, this note would have focused on Wilmington's evolving growth strategy; the strength of its underlying niche information, training and business service verticals; and critically, the impact of the new management team. We would have explored how the successful execution of the organic growth strategy could transform what has, historically, been a solid but unspectacular share price performer.

Critically, this initiation would have stepped investors through a forward-looking financial model and examine how Wilmington's financial returns could evolve and examine the valuation implications (including multiple expansion). Instead of course, the focus in the short-medium term has been how the company has navigated COVID-19.

We did however, highlight the three themes which, heading into Covid19 had been the underpinning of Wilmington's organic growth focus.

Sales and marketing - the objective here is to accelerate organic growth through a combination of internal, cultural evolution and the adoption of new processes and platforms. Historically, many of the Wilmington businesses had traditionally concentrated on maintaining existing customer relationships, and not focussed enough on seeking out new opportunities and clients.

The implementation of a new CRM system is being rolled out, replacing many disjointed, legacy systems. A more unified approach to sales processes has included the physical relocation of sales teams to a new centralised location or 'sales hub' in the London Head Office building. The group has also launched a Sales Academy aimed at improving sales skills across the Group by adopting best practices that have had proven success elsewhere.

Internal digital investment – Capital expenditure over the last three years has been running at higher than normal levels as the group has upgraded its "plumbing", from which it is now seeing the clear benefits. Although the heavy lifting has been done in bringing Wilmington closer together and more efficient as an organisation; focus will now shift towards more growth-oriented measures. Below is an extract from the interim results announcement:

"Looking beyond this financial year, it is becoming clear that in order to drive the growth aspirations for the medium term, the business needs to invest further in its technology and digital content to ensure that its product portfolio is positioned in growth areas. Those investments will include the integration of existing technologies to improve user experience, development of more structured data platforms to enhance the monetisation of existing data assets and acceleration of the on-going transition from face to face to online and blended learning."

External product development – There is a dual approach to new product development. The first prong is to ensure that relevant products are identified quickly through existing customer interactions. The second prong is to focus on speed to market and then an iterative approach to product refinement and evolution. An example of new products successfully launched would be online student dashboards in the investment banking training business, which allows both students and tutors to track progress on their training programme in real time. In total five products were signed off by the group Investment Committee in H1 vs only two in the same period last year.

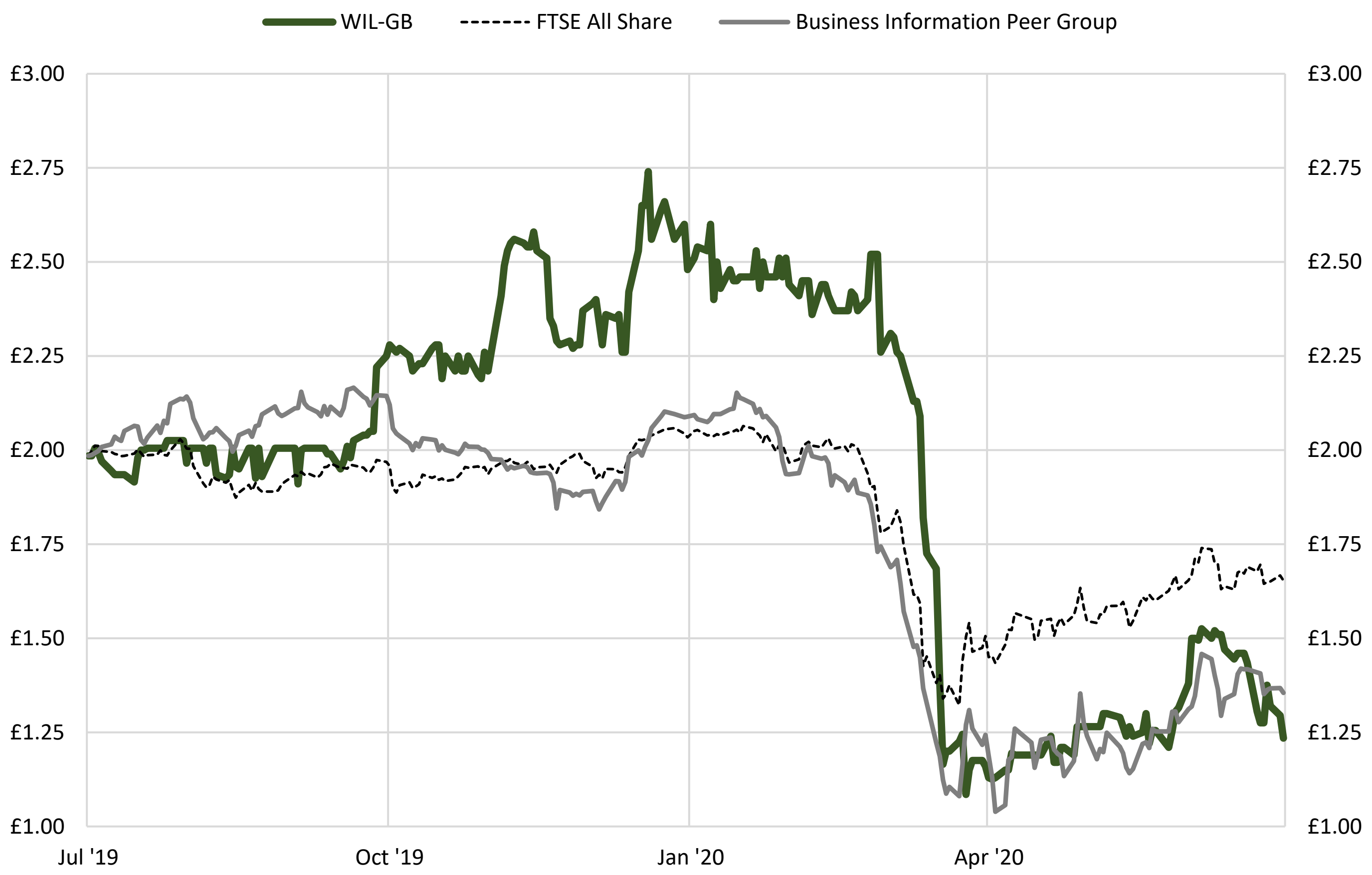
Portfolio Management - Following a thorough review of the business portfolio, Wilmington had identified two businesses, CLT (in Professional) and Inese (in Risk & Compliance), where the ability to add value appears limited. In combination, these businesses currently deliver annually around £7m of revenue and £0.5m of profit. Our understanding is that Covid-19 does not change the decisions made around these businesses. However, the timing of any potential transactions is likely to be disrupted, in line with the wider business community. The use of proceeds from any disposals will be applied to reduce indebtedness and/or support internal growth initiatives.

Wilmington – price performance in-line with peers

Given the withdrawal of guidance from across the peer group; forward looking comparative valuations are difficult to draw. It also becoming increasingly clear that Wilmington is likely to deliver a more resilient earnings performance compared to the purer play events business; where earnings volatility over the next 12 months is likely to be extreme even by 2009 – 2010 standards.

In Figure 3 below, we show Wilmington's share price performance compared to both the FTSE All Share and the more immediate Business Information peer group. For ease of comparison we have rebased both the All Share and peer group to Wilmington's share price.

Figure 3: Wilmington share price relative to Business Information peer group – last 2 years



Source: FactSet, Radnor

With the upwardly revised FY 20 guidance we can tentatively assume an EPS figure for FY 20 of c.10.5p, implying a forward PE of 11.9x. This sits comfortably in the middle of Wilmington's five-year FY1 PE range of 10x – 15x. Therefore, our sense would be that any FY 21 guidance that suggest earnings growth ahead of FY 20 would be immediately reflected in the share price.

Key Estimates

Wilmington PLC

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Price (p):	**124 p**
Market Cap:	109 m
EV:	139 m

PROFIT & LOSS

Year to 30 June, £m	2016	2017	2018	2019	2020E
Risk & Compliance	*38.8*	*42.3*	*42.1*	*42.5*	-
Professsional	*36.7*	*39.5*	*34.5*	*33.8*	-
Healthcare	*30.2*	*38.6*	*44.7*	*46.3*	-
Group revenue	**105.7**	**120.3**	**121.3**	**122.5**	**112.0**
Op. Exp.	(77.5)	(90.2)	(90.8)	(93.9)	(91.3)
Central costs	(3.5)	(3.9)	(3.8)	(4.2)	(4.3)
EBITDA	**24.7**	**26.2**	**26.7**	**24.5**	**16.4**
- margin %	*23.4%*	*21.8%*	*22.0%*	*20.0%*	*14.6%*
Depr & Amort	(2.1)	(2.3)	(2.2)	(2.8)	*(2.9)*
EBITA - Adjusted	**22.6**	**23.9**	**24.5**	**21.7**	**13.5**
Associates & JV's	-	-	-	-	-
Net Bank Interest	(1.9)	(2.0)	(2.0)	(2.1)	(2.0)
PBT - Adjusted	**20.7**	**21.9**	**22.5**	**19.6**	**11.5**
Goodwill	(5.5)	(6.0)	(6.4)	(5.0)	(5.0)
Share option costs	(0.6)	(0.6)	(0.6)	(0.2)	(0.7)
Exceptionals	(18.0)	0.5	(13.1)	0.4	-
Other Financial Items	-	-	-	-	-
PBT - IFRS	**(3.4)**	**15.9**	**2.3**	**14.7**	**5.8**
Tax - Adjusted	(4.3)	(4.8)	(4.5)	(4.1)	(2.3)
Tax rate - Adjusted	*21.0%*	*21.8%*	*20.2%*	*20.9%*	*20.0%*
Minority interests	-	-	-	-	-
No. shares m, diluted	88.8	88.8	88.0	88.2	88.0
Adj EPS (p), diluted	**17.6**	**18.7**	**19.6**	**17.2**	**10.5**
Total DPS (p)	8.1	8.5	8.8	9.1	-

CASH FLOW

Year to 30 June, £m	2016	2017	2018	2019	2020E
EBITDA	24.7	26.2	26.7	24.5	-
Working Capital	(0.7)	0.5	(1.0)	1.9	-
Provisions / Exceptionals	(0.2)	(0.1)	(0.0)	0.0	-
Gross Op Cashflow	**23.9**	**26.7**	**25.7**	**26.4**	**-**
Cash Tax	(3.2)	(3.9)	(4.7)	(3.9)	-
Cash Intererest	(1.5)	(1.7)	(1.9)	(1.9)	-
Minority Divs	(0.0)	(0.1)	(0.1)	(0.5)	-
Net Op Cashflow	**19.1**	**21.0**	**18.9**	**20.1**	**-**
Capex	(1.5)	(2.9)	(5.0)	(3.7)	-
Free Cashflow	**17.6**	**18.1**	**13.9**	**16.4**	**-**
Dividends	(6.8)	(7.2)	(7.5)	(7.8)	-
M&A + Deferred	(14.8)	(20.3)	(1.8)	(1.6)	-
Other Non Operating	(2.1)	4.0	(4.2)	(1.3)	-
Net Cashflow	**(6.1)**	**(5.3)**	**0.4**	**5.7**	**-**
Net Cash (Debt)	**(34.7)**	**(40.0)**	**(39.6)**	**(33.9)**	**(30.0)**

BALANCE SHEET

Year to 30 June, £m	2016	2017	2018	2019	2020E
Intangibles	99.8	117.9	104.4	100.7	-
P,P+E	4.6	4.4	6.5	6.0	-
Tax Asset & Other	0.9	0.8	1.1	2.8	-
Total Fixed Assets	**105.4**	**123.2**	**112.0**	**109.5**	**-**
Trade Working Capital	(17.8)	(23.9)	(26.6)	(28.1)	-
Other assets / liabilities	(3.8)	(2.1)	(1.7)	(1.9)	-
Net Current Assets	**(21.6)**	**(26.0)**	**(28.3)**	**(30.0)**	**-**
Long Term Liabilities	(6.5)	(7.6)	(4.8)	(2.8)	-
Net Cash (Debt)	(34.3)	(39.6)	(39.6)	(33.9)	(30.0)
Net Assets	**43.0**	**50.0**	**39.3**	**42.8**	**-**

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE

Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Aberforth Partners	15.5%
Artemis	11.9%
GVQ Investment Mgmt	9.6%
Premier Miton	9.6%
NFU Mutual	4.8%
Columbia Threadneedle	4.3%
Burgundy Asset Mgmt	4.3%
Chelverton Asset Mgmt	4.3%
Schroder Inv Mgmt	3.5%
Aberdeen Standard	3.0%
	70.8%

Announcements

Date	Event
March 2020	Covid-19 Update & Dividend
March 2020	Covid-19 Update
February 2020	H1 results FY 2020
November 2019	Q1 trading update
September 2019	Final results FY 2019
June 2019	Full year trading update

RATIOS

	2016	2017	2018	2019	2020E
RoE	38.0%	34.3%	45.7%	36.1%	n/a
RoCE	29.1%	26.6%	31.0%	28.2%	n/a
Asset Turnover (x)	1.0x	1.0x	0.9x	0.9x	n/a
NWC % Revenue	12.4%	11.7%	9.3%	3.2%	n/a
Op Cash % EBITA	96.6%	101.7%	96.2%	107.9%	n/a
Net Debt / EBITDA	1.4x	1.5x	1.5x	1.4x	1.8x

VALUATION

Fiscal	2016	2017	2018	2019	2020E
P/E	7.0x	6.6x	6.3x	7.2x	11.9x
EV/EBITDA	5.6x	5.3x	5.2x	5.7x	8.5x
Div Yield	6.5%	6.9%	7.1%	7.3%	0.0%
FCF Yield	12.7%	13.0%	10.0%	11.8%	0.0%
Revenue growth		13.8%	0.8%	1.0%	-8.6%
EPS growth		5.9%	5.0%	-12.0%	-39.4%
DPS growth		4.9%	3.5%	3.4%	-100.0%

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