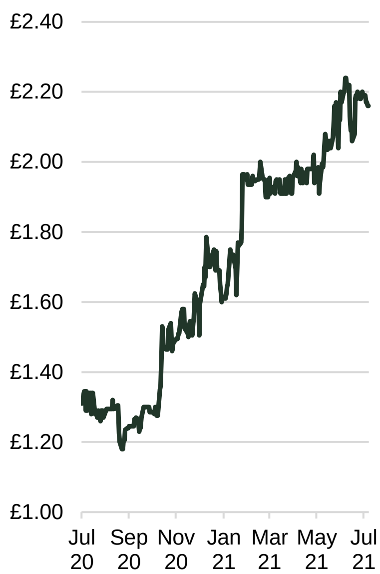
Wilmington PLC

WIL | Small Cap | Media | 216p | £189m

Full Year Trading Update – New Operating Structure

1 Year Chart



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MiFID II – this research is deemed to be a minor, non-monetary benefit.

*The full year trading update confirmed that trends outlined at the H1 results have been maintained with the information and data core of the business actually ahead YoY and margin benefits from digital event transition offsetting lower face to face revenues. Overall, the full year performance is now expected to be ahead of prior expectations, and we are **upgrading our estimates accordingly** for FY21E and beyond. We also note the materially better than expected balance sheet outcome; with working capital benefits and a small asset disposal driving a £17.7m net debt outcome, some £10m better than expected.*

We believe Wilmington is exiting the pandemic in good shape. The organisational restructure, which we cover in more detail below, is more than a superficial change with a clear focus on regulatory and compliance markets that offer structural growth opportunities. Combined with better commercial execution and internal product and service innovation, this should increase confidence around the mid-single digit organic future growth profile. The strengthening of the balance sheet increases the optionality around accretive M&A. We see very little of this progress reflected in the valuation, where the discount to the peer group remains stubbornly wide despite Wilmington faring well through the pandemic and making significant internal progress.

- **FY update:** The positive, underlying trends outlined at the H1 results have been maintained resulting in full year group revenue largely unchanged on FY20. The Information & Data core is growing organically with the Education & Training business offering further recovery upside.
- **Balance Sheet:** Net debt of £17.7m is materially better than expected and further underpins the equity valuation. Net debt to EBITDA is now comfortably below 1x, creating more flexibility around capital allocation and potential accretive M&A.
- **Organisation restructure:** In June, Wilmington announced the result of a multi-year ground-up review of its business. At the headline level the group has committed to a core focus on the global Risk & Compliance markets. The group structure has been simplified to capture all of the group's activities into two main divisions; Information & Data and Education & Training
- **Estimates:** We are upgrading our FY21E/FY22E revenue estimates by +4%/+5% and our FY21E/FY22E adj PBT estimates by +6%/+11% as margin benefits continue to flow through. We now look for £17.7m of net debt in FY21E, falling to £10.7m in FY22, representing less than 0.5x net debt / EBITDA.

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June, £m	Sales	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2019A	122.5	19.3	17.2	9.1	-33.9	12.5	4.2
FY 2020A	113.1	11.9	10.6	-	-27.7	20.5	-
FY 2021E	*113.1*	*14.8*	*13.2*	*5.6*	*-17.7*	*16.3*	*2.6*
FY 2022E	*119.3*	*16.6*	*14.8*	*6.2*	*-10.7*	*14.6*	*2.9*
FY 2023E	*125.3*	*18.4*	*16.4*	*6.5*	*-1.2*	*13.1*	*3.0*

Source: Radnor Capital Partners

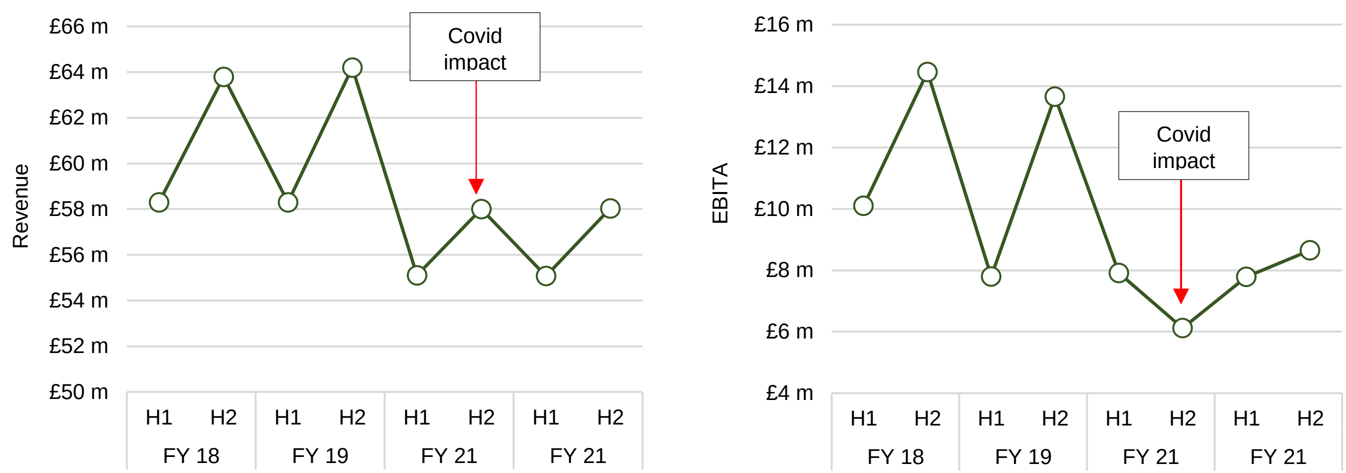
Full Year Trading Update: Key points

Key points from the Full Year trading update (year ended 30th June 2021) are as follows:

- Overall, the group ended FY21 **ahead of expectations** across all the key metrics; revenue, adjusted PBT and net debt
- Both the Information & Data and Training & Education divisions continued to show year on year improvements, resulting in full year revenue unchanged on FY20
- In a similar fashion to H1, which saw margin improvements, the combination of the positive revenue mix effects (higher gross margin digital event variants) and good internal cost controls, have seen adjusted profits coming in ahead of FY20 and the group seeing an improved operating margin compared to H1.
- It is worth re-iterating that at the half year, adjusted PBT was +1% on the prior year H1, whilst we now expect FY21 adjusted PBT to be up +25% on FY20.
- Net debt came in materially better than expected at £17.7m, driven by continuing tight working capital management and also a £4m disposal of a small, non-core asset.

The timing of the pandemic was especially challenging for Wilmington as it coincided with the seasonally more impactful second half (Wilmington has a June year-end), which historically has delivered c.52% of group revenue and c.60% of group EBITA. In Figure 1 below, we show the half yearly progressions of revenue and EBIT since FY18, two years prior to the pandemic.

Figure 1: Wilmington Revenue & EBITA progression by half year – FY'18 to FY'21E



Source: Company, Radnor

What is clear from the above is the extent to which margin has been recovered relative to revenue. We have discussed this effect in previous research notes but Wilmington was quick to transition its smaller scale, face to face training events to digital variants.

Although generating lower overall revenue, the cost to deliver these virtual events was lower than face to face alternatives, driving a higher gross margin. These smaller scale training events make up the lion's share of Wilmington's overall face to face exposure, with the headline RISE Nashville healthcare event the only material "large" event in the group portfolio. In the FY'20 final results (under the old reporting format) we saw a 51% decline in revenue from the Healthcare business which was entirely driven by the pandemic impact on this larger event.

We disuss our estimate upgrades in more detail below. At the headline level we have upgraded our full year EBITA estimate by +18% to £16.4m, implying £8.6m of EBITA delivered in H2 of the current year, up 40% on H2 FY20.

Estimate revisions: FY'21 PBT +6%, FY'22 PBT +11%

Figure 2 below, we show our headline revisions. We discuss the adoption of the new group reporting structure further below, and we show our revised estimates under the new reporting format.

Figure 2: Changes to Radnor central case estimates

		Previous		**New**		***Change, %***	
	FY20A	2021E	2022E	**2021E**	**2022E**	**2021E**	**2022E**
Information & Data	56.6			57.2	58.3		
Education & Training	56.5			55.9	61.0		
Revenue	**113.1**	**108.9**	**114.0**	**113.1**	**119.3**	***+ 4%***	***+ 5%***
Information & Data	11.1			10.5	11.2		
Education & Training	8.0			11.2	12.3		
Central Overhead	-5.0	-5.0	-5.2	-5.3	-5.4	*+ 5%*	*+ 4%*
EBITA	**14.0**	**13.9**	**16.5**	**16.4**	**18.1**	***+ 18%***	***+ 10%***
- margin %	*12.4%*	*12.8%*	*14.5%*	*14.5%*	*15.2%*		
Adj. PBT	**11.9**	**14.0**	**15.0**	**14.8**	**16.6**	***+ 6%***	***+ 11%***
Adj. EPS (p)	**10.6**	**12.5**	**13.4**	**13.2**	**14.8**	***+ 6%***	***+ 11%***
Dividend (p)	0.0	5.3	5.8	5.6	6.2	*+ 6%*	*+ 6%*
Net Cash (Debt)	**-27.7**	**-27.6**	**-21.2**	**-17.7**	**-10.7**		

Source: Company, Radnor

This is the second upgrade we have pencilled in this year, the last being post the H1 results. However, the first upgrade was primarily business mix and cost efficiency led driving a profit upgrade (+18%) off a static revenue line. This time around, we are upgrading our revenue estimates (+4% for FY21 and +5% for FY22), reflecting the positive organic revenue performance from the Information & Data business in particular.

As a reminder, at the half year, Wilmington reported that non-events revenue had increased +1% YoY. Guidance at the half year had suggested that H2 would look broadly similar to H1. This has clearly been exceeded, with H2 revenue now expected to be c.£58.0m, a £3.0m improvement on the £55.1m reported in H1. We believe that both sides of the business; Information & Data and Education & Training have contributed to this better than expected top line performance.

Beyond the positive revenue and margin outcome, the most notable feature of the trading update was the reference to the better than expected balance sheet outcome, with year end net debt coming in at £17.7m, some £9.9m better than our original expectations.

The key drivers here are a small £4m asset disposal (further tidying up out of the Information & Data portfolio) and continuing working capital efficiency. This working capital inflow comes after a number of reversals of one-off working capital items that had benefited the prior year.

Organisational Change and Strategic Focus

On 10th June 2021, Wilmington announced a new group structure and operating model (link to RNS here). Whilst the most obvious outcome here was a simplification of the group's financial reporting structure into two primary business segments; **Information & Data** and **Education & Training**, this masks a more substantive internal exercise.

This announcement marks the culmination of a three year Board led review exercise (which itself incorporated Mark Milner's appointment as CEO). This exercise was extensive and revolved around an assessment of each of the individual business units within the group and whether they aligned with the key characteristics identified by the Board as being critical to future value creation.

These key points of assessment were:

1. **Digital Capabilities**
2. **Differentiated Offering**
3. **Product and Revenue Model**
4. **Data Enabled**
5. **Attractive Markets**
6. **Strong Leadership**

The outcome of this review has resulted in a number of small disposals / closures which resulted in the FY20 closure of the CLT business in England, sale of the CLT business in Scotland and the £4m asset disposal in H2 of the current year. Beyond this fine tuning of the portfolio; the remaining group businesses all share the above characteristics.

Beyond the value assessment of the individual components making up the group portfolio; the key outcome of the review has been a clear focus on and commitment to the **Governance, Risk** and **Compliance** themes as the "Silver Thread" (as described by Wilmington) connecting all the Wilmington group businesses.

Governance, Risk & Compliance opportunity

A key challenge for Wilmington historically has been to place the evolution and composition of its portfolio into a clear, strategic and consistent context. Opportunistic M&A with a subsequent lack of cohesion within the portfolio had been characteristics of the "old" Wilmington.

Over the last couple of years we have seen definitive signs of a material change in strategy. Leadership changes notwithstanding, we have seen a much greater emphasis on active portfolio management and internal investment and integration.

However, the strategic and market opportunity context has not been clearly articulated until now. We believe the key point here is around future direction and, critically, capital allocation, both external (M&A) and internal.

Wilmington has identified within the **Governance, Risk** and **Compliance** themes a number of specific end markets. The key point here is that existing Wilmington businesses are active in many, but **not all** of these categories. In effect, this defines the target universe for future Wilmington investment.

Figure 3: Governance, Risk and Compliance end markets

Governance	Risk	Compliance
Conduct	Prudential	Financial Crime
Ethics	Information Sharing	Money Laundering
Corporate Governance	Risk Management	Sanctions
Risk Management	Reputational Risk	Anti Corruption
Operational Resilience		Fraud
		Data Security
		Market Abuse
		Cyber Crime
		Business Conduct
		Healthcare
		Diversity & Inclusion

Source: Company, Radnor

In their presentation outlining this new strategic focus, Wilmington outlined a number of structural growth drivers underpinning these themes. Key drivers include:

- **Volume of regulation**
- **Increased risk environment for corporates (fraud and cyber)**
- **Regulatory enforcement**
- **Growing ESG focus by a broad range of stakeholders**

The point here is that across a range of touchpoints, Wilmington's current and future customers are coming under increasing pressure to ensure that their business practices are not only compliant within an increasingly pervasive regulatory environment but are also adequately protected against a growing range of external risks. Critically, these actions also need to be externally verifiable.

To achieve this end goal of optimal business practice and risk management, corporates will need access to:

1. relevant insight and information around regulation and evolving best practice

2. training and education to ensure that employees know how to put this into action

This is the “Silver Thread” that Wilmington sees connecting its portfolio businesses to end market growth drivers and which underpins the organisational change within Wilmington that has also been announced.

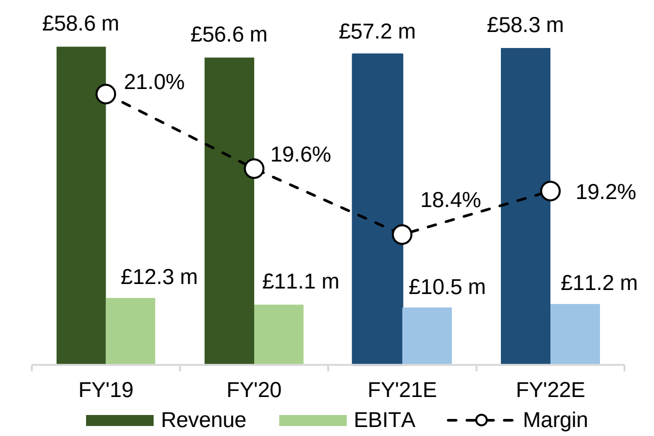
New Group Operating Model

The most visible manifestation of the new operating model is a new financial reporting structure which is wholly aligned to customers’ **Governance, Risk** and **Compliance** needs. This involves the simplification of the group into two new divisions; **Information & Data** and **Education & Training**, reflecting the two primary business types that dominate the group portfolio.

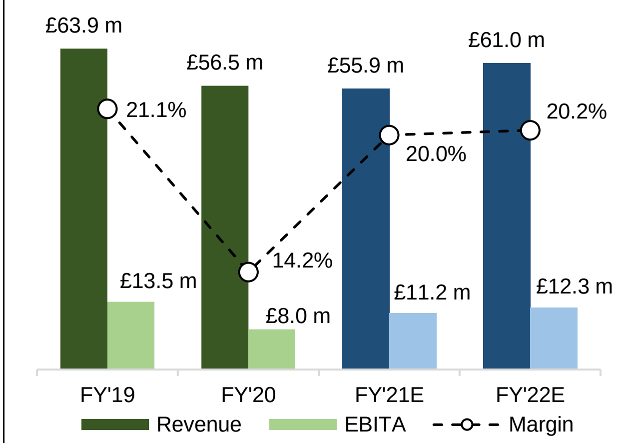
However, this change in reporting structure is not just a superficial exercise but reflects a new, and much simplified, internal management structure, which will be put in place over the summer months.

Figure 4: New Wilmington Divisional Breakdown

Information & Data		
Health	Financial Services	Charities
UK Healthcare	Axco	Millenium
APM	Pendragon	
	Compliance Week	
	Inese	



Education & Training		
Global	UK & Ireland	North America
ICA	Mercia	FRA
CLTI	Bond Solon	
AMT	La Touche	



Source: Company, Radnor

The historic reporting structure for Wilmington was both vertical (by end market) and also horizontal (by business type) and reflected an internal management structure that was very much led by the individual business units.

Over the last two years, the group has made significant progress in creating more unified structures; especially around IT systems, sales and marketing and new product development and innovation.

The new group operating structure formalises a simpler and clearer management layer that will make it easier to tie the individual business units into the group, as opposed to individual business unit, strategy.

What are the key benefits?

1. **Discipline around capital allocation.** Wilmington have been very explicit about the commercial and business model characteristics they seek. This is now coupled with a clear commitment to the Governance, Risk and Compliance markets through businesses that focused on delivering informational or training outcomes to clients.

2. **Portfolio management.** Wilmington has already been active in reshaping their portfolio and it is clear that the tighter discipline suggested by this strategic focus and organisational change will keep the qualitative and quantitative thresholds high. This is one of the key differentiators between the "old" and "new" Wilmington.

3. **Deeper integration.** Beneath the surface changes to financial reporting, we believe the internal re-organisation will be more significant. In effect the barriers between individual business units will be lowered even further to ensure that similar businesses are more closely aligned with each other in more synergistic clusters. Beyond the immediate cross and up selling opportunities this will offer, we also see a better return on investment profile for new product development and IT systems investment.

4. **Better platform for M&A integration.** Historically, M&A for Wilmington had been relatively opportunistic with a low emphasis on post acquisition integration into the broader group. Against the backdrop of a highly fragmented GRC marketplace, there will be a range of interesting opportunities for Wilmington and the intent is clearly to build a platform that will be far better placed to integrate and extract maximum value from any potential acquisitions.

Comparative Valuation

We believe the simplification of the group reporting structure will make comparative valuation analyses clearer and more relevant.

Historically, Wilmington has been benchmarked against a strict B2B media and information peer group. Whilst still relevant, Wilmington's business mix has moved away from event heavy peers such as Hyve and Ascential and closer to purer information, data and platform solution players such as GlobalData and Learning Technologies. We expand our comparative peer group to include Learning Technologies.

In Figure 5 & 6 below we show the current valuation landscape for the comparative peer group in the UK.

Figure 5: 2 year forward PE vs EPS growth

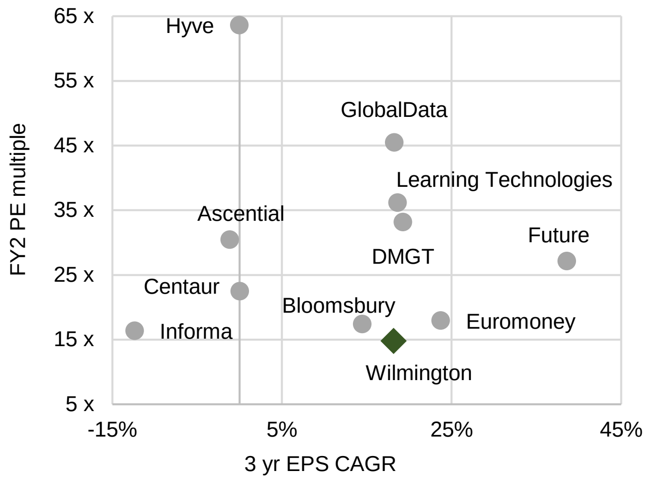
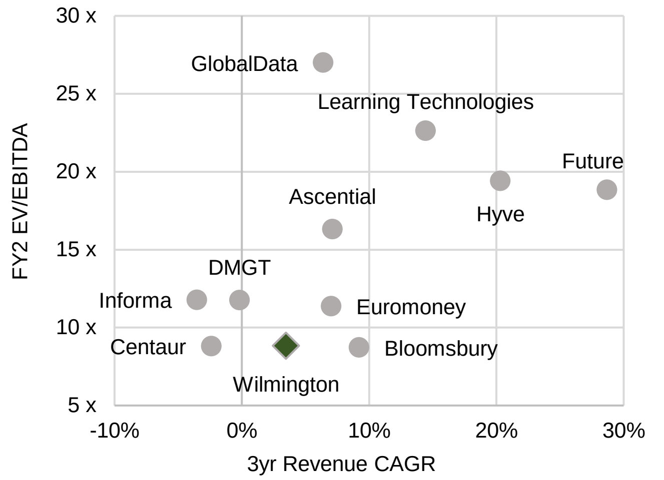


Figure 6: 2 year forward EV/EBITDA vs revenue growth



Source: FactSet, Radnor

Despite a good run in the Wilmington share price (+81% since the FY20 final results in September 2020), Wilmington remains the lowest rated within the peer group in absolute terms (FY2 PE of 14.8x vs a peer group average of 31.0x). Yet, Wilmington offers +18% compound annual EPS growth profile over the next three years, compared to a peer group average of only 14%. On a PEG basis, Wilmington currently trades on a PEG of 0.8x, with only two other companies in the peer group (Euromoney and Future) currently trading on a prospective PE lower than their expected three year compound earnings growth rate.

This point about resilience and fundamental quality of revenue / margin exposure is also laid bare when we rank the peer group in terms of which companies have lost the least ground through the pandemic. In Figure 7 below, we look at the current 2 year forward consensus PBT expectations across the peer group and measure how far away from the peak estimate the current number stands. In Figure 8, we rebase the aggregate peer group 2 year forward adjusted PBT against Wilmington.

Figure 7: Current FY PBT estimate vs Peak value

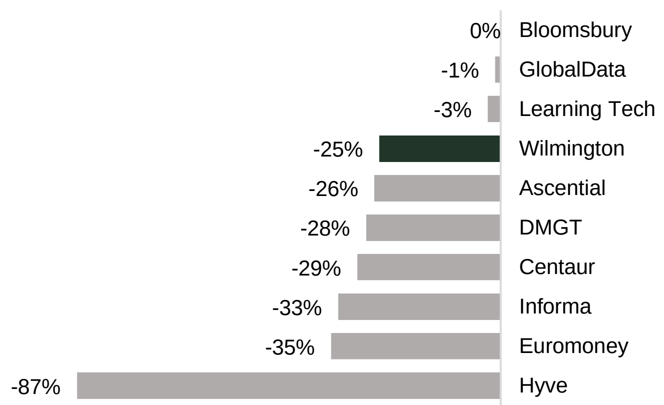
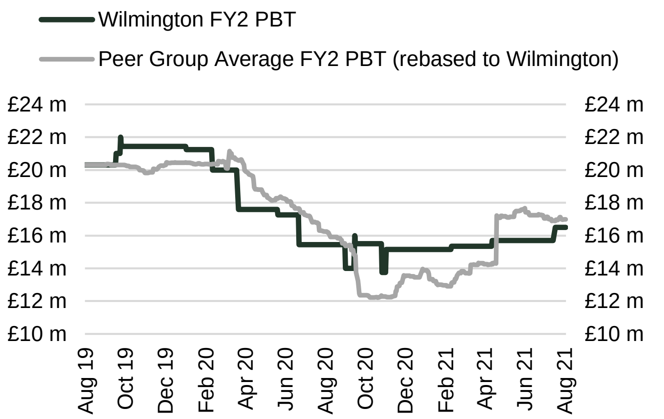


Figure 8: Wilmington FY2 PBT vs peer group

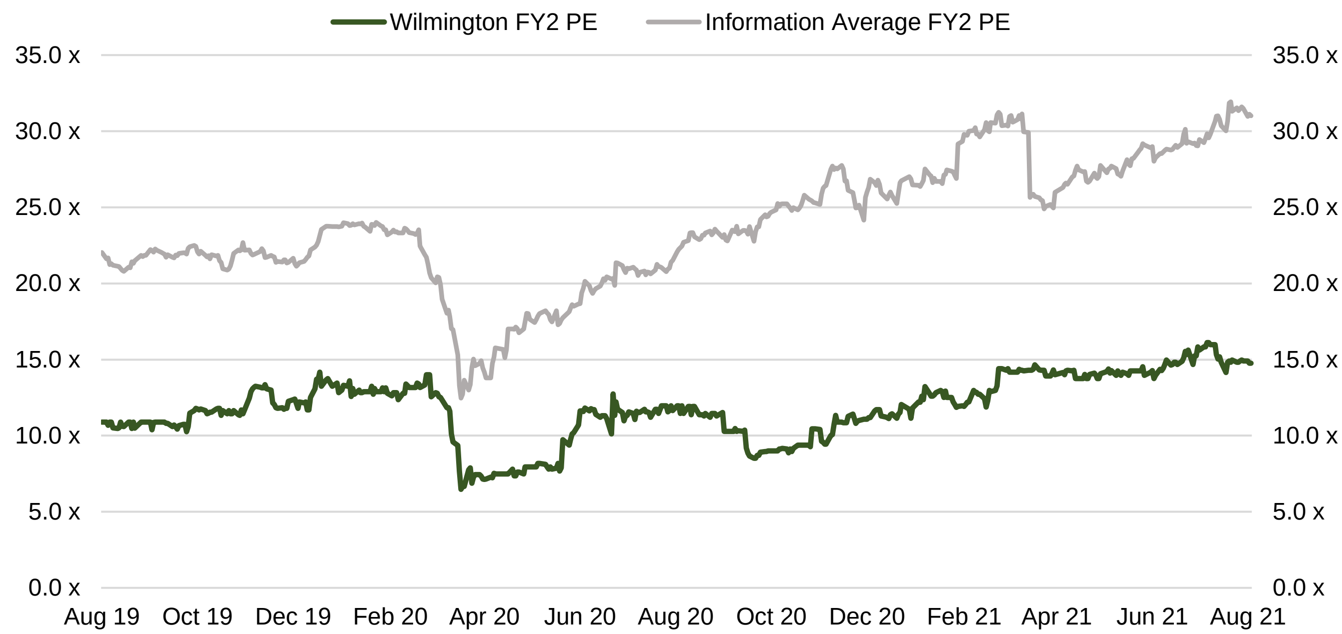


Source: FactSet, Radnor

Figure 7 shows that only three peer group companies (Bloomsbury, GlobalData and Learning Technologies) have exited the pandemic with current FY2 PBT estimates close to previous highs for that estimate over the last two years. We note that none of these three operate face to face business models with GlobalData and Learning Technologies driven primarily by subscription data or SaaS. Of the remaining companies in the peer group; Wilmington has performed the best in terms of losing the least ground through the pandemic. This is a testament to the resilience of the core Information & Data positioning and the speed of response from the Education & Training businesses in transitioning to digital variants.

Against this backdrop of better than average forward growth prospects and outperformance through the pandemic, we find the material valuation discount between Wilmington and the peer group certainly not justifiable on fundamentals. In Figure 9 below, we show the evolution of the Wilmington 2 year forward PE multiple for Wilmington over the last two years and how this compares to the peer group.

Figure 6: Wilmington 2 year forward PE multiple vs Peer group



Source: FactSet, Radnor

Wilmington PLC

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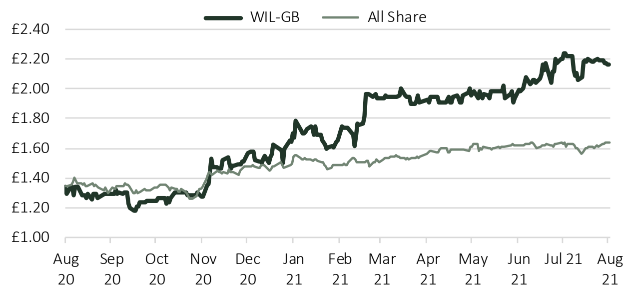
Price (p):	**216 p**
Market Cap:	189 m
EV:	207 m

PROFIT & LOSS

Year to 30 June, £m	2019	2020	2021E	2022E	2023E
Information & Data	*58.6*	*56.6*	*57.2*	*58.3*	*60.1*
Education & Training	*63.9*	*56.5*	*55.9*	*61.0*	*65.2*
Group revenue	**122.5**	**113.1**	**113.1**	**119.3**	**125.3**
- growth %	*58%*	*-8%*	*0%*	*5%*	*5%*
Op. Exp.	(101.0)	(99.1)	(96.7)	(101.2)	(105.7)
Information & Data	*12.3*	*11.1*	*10.5*	*11.2*	*11.8*
Education & Training	*13.5*	*8.0*	*11.2*	*12.3*	*13.4*
Central costs	*(4.4)*	*(5.0)*	*(5.3)*	*(5.4)*	*(5.5)*
EBITA - Adjusted	**21.5**	**14.0**	**16.4**	**18.1**	**19.6**
EBITA margin %	*17.5%*	*12.4%*	*14.5%*	*15.2%*	*15.7%*
Associates & JV's	-	-	-	-	
Net Bank Interest	(2.1)	(2.2)	(1.6)	(1.5)	(1.2)
PBT - Adjusted	**19.3**	**11.9**	**14.8**	**16.6**	**18.4**
Goodwill	(5.0)	(4.8)	(3.7)	(3.7)	(3.7)
Exceptionals	0.4	(0.6)	(0.7)	(0.4)	-
Other Financial Items	-	-	-	-	-
PBT - IFRS	**14.7**	**6.4**	**10.5**	**12.6**	**14.7**
Tax - Adjusted	(4.0)	(2.5)	(3.1)	(3.5)	(3.9)
Tax rate - Adjusted	*20.9%*	*20.9%*	*21.0%*	*20.0%*	*20.0%*
Minority interests	-	-	-	-	-
No. shares m, diluted	88.2	88.8	88.5	88.5	88.5
Adj EPS (p), diluted	**17.2**	**10.6**	**13.2**	**14.8**	**16.4**
- growth %		*-39%*	*25%*	*12%*	*11%*
Total DPS (p)	9.1	-	5.6	6.2	6.5

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Aberforth Partners	21.9%
Chelverton Asset Mgmt	8.4%
Artemis	8.3%
Gresham House	7.2%
Burgundy Asset Mgmt	5.2%
NFU Mutual	4.6%
Columbia Threadneedle	4.1%
Odyssean Capital	3.6%
Fidelity	3.1%
	66.4%

CASH FLOW

Year to 30 June, £m	2019	2020	2021E	2022E	2023E
EBITDA	24.5	20.0	23.3	24.9	26.1
Working Capital	1.9	6.5	(4.5)	(1.9)	(0.3)
Provisions / Exceptionals	0.0	(0.0)	-	-	-
Gross Op Cashflow	**26.4**	**26.5**	**18.8**	**23.1**	**25.8**
Cash Tax	(3.9)	(4.4)	(3.1)	(3.5)	(3.9)
Cash Intererest	(1.9)	(1.6)	(1.6)	(1.5)	(1.2)
Minority Divs	(0.5)	-	-	-	-
Net Op Cashflow	**20.1**	**20.5**	**14.1**	**18.1**	**20.7**
Capex	(3.7)	(3.9)	(3.2)	(3.2)	(3.3)
Lease Liabilities	-	(2.4)	(2.4)	(2.4)	(2.4)
Free Cashflow	**16.4**	**14.3**	**8.5**	**12.5**	**15.0**
Dividends	(7.8)	(4.3)	(2.0)	(5.1)	(5.5)
M&A + Deferred	(1.6)	(2.0)	4.1	-	-
Other Non Operating	(1.2)	(1.8)	(0.6)	(0.3)	-
Net Cashflow	**5.8**	**6.2**	**9.9**	**7.0**	**9.5**
Net Cash (Debt)	**(33.9)**	**(27.7)**	**(17.7)**	**(10.7)**	**(1.2)**

Announcements

Date	Event
July 2021	Full year trading update
June 2021	New operating model
February 2021	H1 results FY21
November 2020	AGM trading update
September 2020	Final results FY20
March 2020	Covid-19 Update
February 2020	H1 results FY20

RATIOS

	2019	2020	2021E	2022E	2023E
RoE	36%	22%	24%	25%	25%
RoCE	28%	20%	25%	29%	33%
Asset Turnover (x)	0.9x	1.0x	1.0x	0.9x	0.8x
NWC % Revenue	-1%	-32%	-17%	-19%	-25%
Op Cash % EBITA	93%	146%	86%	100%	106%
Net Debt / EBITDA	1.4x	1.4x	0.8x	0.4x	0.0x

BALANCE SHEET

Year to 30 June, £m	2019	2020	2021E	2022E	2023E
Intangibles	100.7	97.6	93.5	89.4	85.7
P,P+E	6.0	16.9	16.8	16.7	16.8
Tax Asset & Other	2.8	3.4	3.4	3.4	3.4
Total Fixed Assets	**109.5**	**117.8**	**113.6**	**109.5**	**105.8**
Net Working Capital	(32.8)	(47.7)	(34.5)	(32.6)	(32.3)
ST assets / liabilities	(2.0)	(16.2)	(3.0)	(1.1)	(0.8)
Net Current Assets	**(34.8)**	**(64.0)**	**(37.4)**	**(33.7)**	**(33.1)**
LT assets / liabilities	(2.0)	(17.2)	9.7	12.4	13.5
Net Cash (Debt)	(33.9)	(27.7)	(17.7)	(10.7)	(1.2)
Net Assets	**42.9**	**43.4**	**48.8**	**52.7**	**58.1**

VALUATION

Fiscal	2019	2020	2021E	2022E	2023E
P/E	12.5x	20.5x	16.3x	14.6x	13.1x
EV/EBITDA	8.4x	10.3x	8.9x	8.3x	7.9x
Div Yield	4.2%	0.0%	2.6%	2.9%	3.0%
FCF Yield	7.9%	6.9%	4.1%	6.0%	7.3%
Revenue growth		-8%	0%	5%	5%
PBT growth		-39%	25%	12%	11%
EPS growth		-39%	25%	12%	11%
DPS growth		-100%	-	10%	5%

REGULATORY DISCLOSURES

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