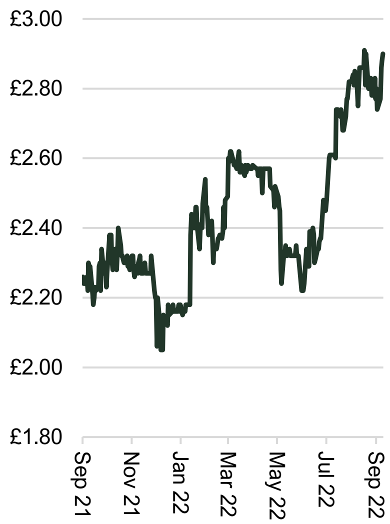
Wilmington PLC

WIL | Small Cap | Media | 298p | £261m

Final results – In-line with upgraded expectations

1 Year Chart



The July full year trading update showed that FY22 has been a good year for Wilmington with a full year outcome ahead of expectations. The final results did not disappoint with the added benefit of a final dividend well ahead of expectations (+37% YoY) as a clear signal of Board confidence in the outlook.

Wilmington offers solid organic revenue growth; margin progression, significant balance sheet strength and clear intent to deploy that balance sheet to accelerate growth. The focus on the Governance, Risk and Compliance information market (where there are clear structural demand drivers) is coupled with a well-progressed digitisation strategy. Management are clearly unwilling to overpay for M&A, which is good news from a shareholder value perspective, so the easing of the valuation environment raises the probability that accretive deals can be done.

With the exception of Euromoney (subject to a 20.1x PE takeout itself), Wilmington has been the stand out year to date share price performer amongst the Information peer group. Yet, despite this, Wilmington's FY24 PE of 13.9x still represents good value against a peer group average of 15.6x. M&A optionality is most certainly not captured by the current valuation.

Wilmington PLC is a research client of Radnor Capital Partners Ltd.

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

- **Final results in-line with upgraded expectations:** 13% organic revenue growth (+5% excluding events) shows that momentum has been maintained throughout the year in the information and data core. The margin increase was impressive (+320 bps) and the path is clear towards further progression. The biggest positive surprise was the dividend (+37%) which rose in line with EPS growth and is a clear signal of Board and management confidence in the short and medium term outlook.

- **Solid organic growth with inorganic ambitions:** The AMT disposal has transformed the group balance sheet without diluting PBT / EPS growth. The group now has significant balance sheet flexibility with which to pursue its highly targeted acquisition ambitions. The tight GRC focus and financial and operational criteria should protect shareholder value while softening multiples increase the probability of successful execution

- **Estimate upgrades:** As indicated in our last research note, we saw the balance to risks for estimates to lie on the upside and we are upgrading our FY23 and FY24 PBT / EPS estimates by +5% respectively. We are relatively cautious on revenue (estimates unchanged) but we do expect to see further margin gains. We note the better than expected dividend outcome in FY22 (in line with EPS growth) and we upgrade FY23 / FY24 dividend by +17% in line with 2.3x cover.

26th September 2022

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June, £m	Sales	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2021A	113.0	15.0	13.6	6.0	(17.2)	22.0	2.0
FY 2022A	121.0	20.7	18.4	8.2	20.5	16.2	2.8
FY 2023E	*125.7*	*22.5*	*20.1*	*8.8*	*28.6*	*14.8*	*3.0*
FY 2024E	*132.0*	*24.0*	*21.5*	*9.4*	*36.7*	*13.9*	*3.2*
FY 2025E	*138.6*	*25.7*	*23.0*	*10.0*	*45.0*	*13.0*	*3.4*

Source: Radnor Capital Partners

Final Results – In-line with upgraded expectations, positive dividend surprise

Following the 27th July full year trading update (following which we upgraded our FY22 estimates, please see our note here), there were no material surprises in the final results other than the higher than expected dividend outcome, reflecting Board confidence in the outlook and the strength of the balance sheet.

The key headlines revolve around good organic revenue growth, margin progression, cash generation and overall balance sheet strength.

- Headline reported revenue growth **+7%** YoY to £121.0m
  - Organic revenue growth (excluding FX and M&A) was **+13%**
  - Organic revenue growth **excluding** face to face events was **+5%**
  - Both Information & Data and Education & Training divisions delivered 10% plus organic revenue growth and improved margins
  - Subscriptions grew +5% and now represents 37% of group revenue
  - Overall, returning customers (including subscriptions) represented 69% of group revenue (FY21: 69%)
- Post central costs and share based payments, group EBITA came in at **£21.6m**, +30% YoY (FY21: £16.6m) at a margin of 17.9% (FY21: 14.7%).
- Adjusted PBT came in at **£20.7m**, +38% YoY (FY21: £15.0m)
- Statutory PBT (including net exceptional gains of £18.4m, primarily relating to the AMT disposal) came in at £36.1m (FY21: loss of £2.0m).
- Adjusted EPS (fully diluted) came in at **18.4p**, +36% YoY (FY21: 13.6p)
- Full year divided set at **8.2p**, +37% YoY (FY21: 6.0p) and materially higher than our 7.0p estimate
- Year-end net cash position of **£20.5m** (H1 22: net cash £11m)
- Operating cash conversion of **114%** (FY21: 104%) and free cash-flow (pre-dividends) of **£18.7m** (FY21: £8.0m)

Even though the broad headlines of the full year outcome had been announced by the company at the end July full year trading update; the +37% increase in the full year dividend came as a positive surprise. The company has been clear in positioning this as being driven by the combination of strong earnings growth, the strength of the balance sheet and Board confidence in the group's positioning and outlook.

Although group M&A ambitions have been re-iterated, the fact remains that FY22 was a year dominated by the disposal of AMT, which has resulted in the group delivering a material net cash position with no real growth dilution. In the absence of inbound acquisitions, growing the dividend in line with earnings growth is a sensible allocation of capital when free cash-flow stands well in excess of maintenance and expansionary expenditure.

Intelligence

Wilmington has re-designated the Information & Data division as Wilmington Intelligence but there are no changes to the composition of the division.

- Intelligence revenue of **£59.6m** (FY21: £56.8m), +5% on a headline basis but **+10%** on a purely organic basis.
- Excluding face to face revenues, organic revenue growth was +3%
- Divisional EBITA was **£11.4m**, (FY21: £9.3m), +22% YoY.
- EBITA margins increased by +270 bps to **19.1%** (FY21: 16.4%)
- Critically, all of the individual business units that make up this division delivered organic growth throughout FY22.
- Intelligence benefited from both underlying subscription revenue growth (+4%) and the full return of face to face events, which benefited the Healthcare businesses in particular.
- Healthcare (the largest segment within Intelligence) delivered organic growth of +11% (subscription revenue growth +7%).

At the results analyst presentation, management gave a more detailed run through the positioning of the Intelligence division and the areas where future growth opportunities will be targeted.

At the broadest level, Intelligence is focused on the global GRC information markets (which the group estimates at £1.7bn). Within the specific vertical niches where Intelligence is currently active (ie, Healthcare, Insurance, Pensions, Mortality, Charities and US Compliance), Intelligence is already focused on delivering subscription information solutions.

However, beyond this core positioning Wilmington has a range of other product / service exposures and the group is clearly focused on filling in more of the gaps as a way of driving organic growth across existing niches.

The example provided was the creation of a group Events Centre of Excellence where existing events experience and skills can be centralised and then utilised by those areas where events have potential but where internal events resource had not previously existed.

Outside of events, the key opportunity sits within data driven product and service innovation. Critical to this has been the development of the Data Connect platform, which is now approaching full data population (calendar Q4 completion) which will allow Wilmington's full data resources to be properly unified and accessible. This will create a data environment that can be fully responsive to client needs (ie API deployment and client dashboards).

It is also clear that management growth ambitions stretch beyond a deeper and broader penetration of existing GRC vertical niches and extend to adjacent verticals. This will almost certainly have to be delivered through M&A.

Training & Education

Although the Intelligence division offers a blended exposure of subscription / face to face revenues; the Training & Education division is more heavily weighted towards face to face (primarily small scale face to face training formats and one larger conference style event in the US).

The steeper revenue recovery delivered by Training & Education in FY22 should be seen against this context. During the pandemic, Wilmington was very successful in transitioning its training and education portfolio rapidly into digital formats. FY22 has seen a more balanced approach to providing both face to face and digital formats according to client need. This has boosted headline face to face revenue whilst still retaining a degree of the cheaper to deliver margin benefits of the digital model.

- Training & Education revenue of **£61.5m** (FY21: £56.2m), +9% on a headline basis but **+18%** on a purely organic basis (excluding AMT's contribution to FY21).

- Excluding pure event revenue, underlying organic revenue growth was +6%, with pure subscription revenue +9% YoY.

- Divisional EBITA was **£16.0m** (FY21: £12.2m), +31% YoY.

- EBITA margins grew sharply to 26.0% (FY21: 21.7%).

Within Training & Education it is worth highlighting a number of specific areas. ICA, the international compliance training business, saw a mixed performance through the year. Singapore, which had been a strong source of growth in FY21, declined c.20% as government funding for compliance training was scaled back. This had already been well flagged so was not new news. However, the temporary weakness in Singapore was more than offset by a good performance from the UK, with overall ICA revenue +3% for the year.

The US healthcare business, FRA, which hosts the largest event in the group portfolio had a very good year as the full return of face to face boosted the core RISE National conference. FRA delivered +122% organic revenue growth from an event that was larger in revenue terms than the pre Covid FY19 equivalent. The margin benefits here were significant as a big driver of this revenue rebound was a higher weighting towards higher margin sponsorship revenue relative to delegate revenue.

Bond Solon (legal training) and Mercia (accountancy training) both had good years with revenues up high single digit percentages.

In a similar fashion to the Intelligence division, management presented a clear outline of where growth opportunities will be targeted. The international regulatory compliance market is a key area of focus where ICA's traditional strengths in money laundering and financial crime prevention training are a good base from which to extend into the related areas of cyber security and data management and privacy.

Management also highlighted their ambition to extend into the connected areas of ESG and HR Compliance. The attraction of these verticals are the adjacency to current areas of expertise and a clear overlap across existing client communities.

Like the Data Connect platform underpinning Intelligence, Wilmington has also been investing in its own digital learning technology platform. ICA was the first Training & Education business to be fully onboarded onto the new platform and the others will follow through FY23.

Radnor estimate revisions: FY23 & FY24 PBT / EPS +5%, Dividend +17%

We had previously upgraded our FY22 estimates post the end July full year trading update. At that time we had left our FY23 and FY24 estimates largely unchanged and we now revisit those and also publish our FY25 estimates for the first time.

At the headline level, we are leaving our FY23 and FY24 revenue estimates broadly unchanged but we are upgrading our margin assumptions in both years. The better than expected revenue / cost mix across the group bodes well for margins here with this effect likely to be most pronounced within Education & Training. Although we are still anticipating a margin decline in FY23 for Education &Training, this is less pronounced than our previous estimate. We see Education & Training delivering a 24.5% margin in FY23, which is 280 basis points ahead of FY21 and 340 basis points ahead of FY19.

Overall, we now look for 18.2% group EBITA margins in FY23, +70 basis points higher than our previous estimate,

We already had been looking for a material decline in net financing costs as the group benefits from scaling back its committed debt facilities.

We have rolled forward FY22 dividend cover of 2.2x and now see dividends growing in-line with EPS. This drives a +17% upgrade in our dividend expectation for FY23. The most likely scenario that could see dividends not continuing to grow in-line with EPS would be in the event of M&A pushing the group back into net debt territory, but if valuation multiples soften sufficiently then the scale of acquired profits may remove the need for dividend caution.

Figure 1: Radnor estimate revisions

		Previous		**New**		***Change, %***	
	FY22A	2023E	2024E	**2023E**	**2024E**	**2023E**	**2024E**
Intelligence	59.6	*62.6*	*64.5*	62.5	65.7	*- 0%*	*+ 2%*
Education & Training	61.5	*63.0*	*66.8*	63.1	66.3	*+ 0%*	*- 1%*
Revenue	**121.0**	***125.6***	***131.3***	**125.7**	**132.0**	***+ 0%***	***+ 1%***
Intelligence	11.4	*12.5*	*13.2*	12.6	13.5	*+ 1%*	*+ 2%*
Education & Training	16.0	*14.9*	*16.0*	15.5	16.4	*+ 4%*	*+ 3%*
Central Overhead	-5.7	*-5.4*	*-5.7*	-5.3	-5.6	*- 3%*	*- 3%*
EBITA	**21.6**	***22.0***	***22.0***	**22.8**	**24.3**	***+ 4%***	***+ 11%***
- margin %	*17.9%*	*17.5%*	*16.7%*	*18.2%*	*18.4%*		
Adj. PBT	**20.7**	***21.5***	***23.0***	**22.5**	**24.0**	***+ 5%***	***+ 5%***
Adj. EPS (p)	**18.4**	***19.2***	***20.5***	**20.1**	**21.5**	***+ 5%***	***+ 5%***
Dividend (p)	8.2	*7.5*	*7.9*	8.8	9.4	*+ 17%*	*+ 19%*
Net Cash (Debt)	**20.5**	***28.1***	***38.0***	**28.6**	**36.7**		

Source: Radnor

Comparative Valuation

The market has slowly begun to appreciate the strength of the Wilmington proposition, the track record of organic growth delivery and the relatively low starting valuation.

In Figures 1 and 2 below, we show Wilmington's share price performance over the last two years (with the Information peer group and the FTSE All Share rebased).

Figure 1: Wilmington 2 year price performance

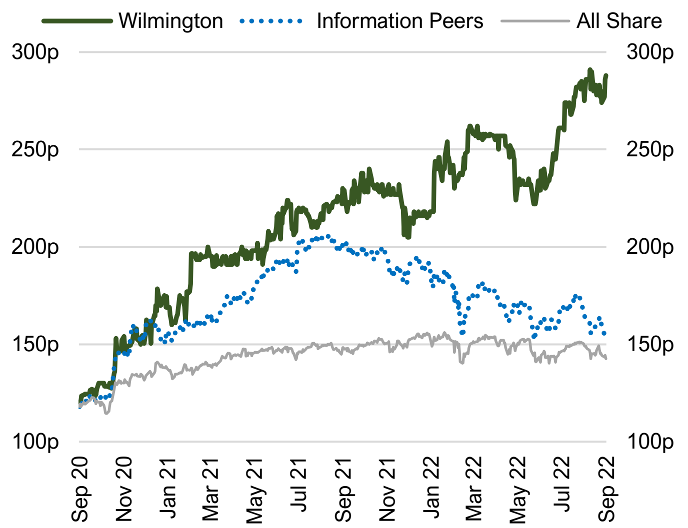
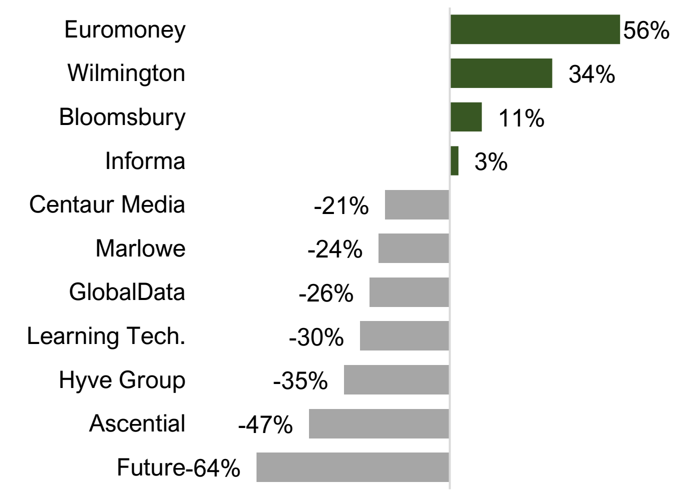


Figure 2: Information peer group year to date



Source: FactSet, Radnor

We can see from the above, the extent to which Wilmington has outperformed both the Information peer group and the broader market over the last two years.

In fact, only Euromoney has been a stronger price performer year to date (+56%), although this is largely due to the recommended cash offer by Astorg Asset Management for 1461p. This offer represents a 33.5% premium to the undisturbed Euromoney share price as at the middle of June.

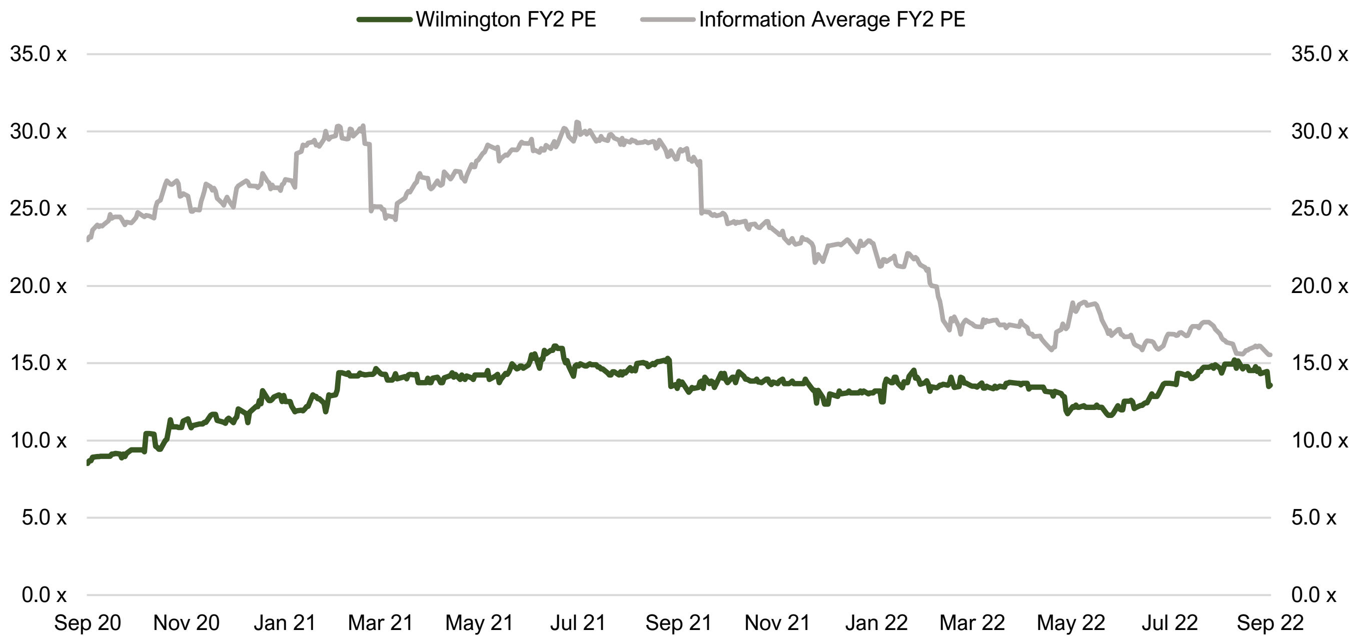
The Euromoney offer is especially relevant for Wilmington (although the scale and spread of end market exposure is very different between the two). Both businesses offer a mix between recurring / data led revenue as well as a degree of face-to-face exposure (although Euromoney's exposure is less training focused).

The take out PE multiple for Euromoney (1461p) is **26.8x** on FY22E basis (September year end) or **21.8x** on a FY23E basis. By way of illustration, if we apply the FY23E Euromoney take out multiple to Wilmington's FY23E EPS, we would arrive at **438p**, or **+47%** upside from current levels.

On an EV/EBITDA basis, the difference is even starker. Euromoney is being acquired for an EV of £1.661bn, a multiple of **14.9x**. Applied to Wilmington's FY23E forecast EBITDA of £29.1m, this implies an EV of **£433m**, or an equity market cap of **£453m** once we adjust for net cash of £20.5m. Based on the current, fully diluted Wilmington share count this suggests a value of **512p** per share, **+72%** upside from current levels.

We are cautious about reading too much into comparative acquisition multiples (after all if is Euromoney being bid for and not Wilmington) however, it does serve to illustrate the latent value that still sits within the Wilmington business and a “live” reference point for where private equity pricing appetite exists.

Figure 3: Evolution of FY2 PE multiple – Wilmington vs Information peer group



Source: FactSet, Radnor

Wilmington PLC

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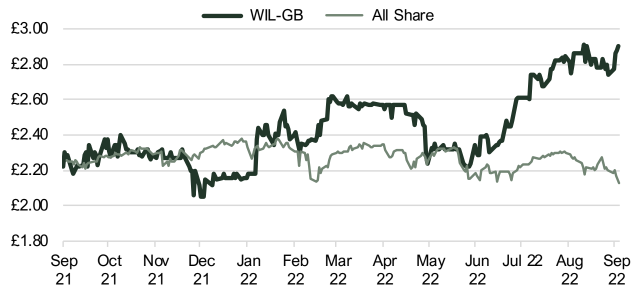
Price (p): **298 p**
Market Cap: 261 m
EV: 240 m

PROFIT & LOSS

Year to 30 June, £m	2021	2022	2023E	2024E	2025E
Intelligence	*56.8*	*59.6*	*62.5*	*65.7*	*69.0*
Education & Training	*56.2*	*61.5*	*63.1*	*66.3*	*69.6*
Group revenue	**113.0**	**121.0**	**125.7**	**132.0**	**138.6**
- growth %	*0%*	*7%*	*4%*	*5%*	*5%*
Op. Exp.	(96.4)	(99.4)	(102.9)	(107.6)	(112.6)
Intelligence	*9.3*	*11.4*	*12.6*	*13.5*	*14.5*
Education & Training	*12.2*	*16.0*	*15.5*	*16.4*	*17.4*
Central costs	*(4.9)*	*(5.7)*	*(5.3)*	*(5.6)*	*(5.9)*
EBITA - Adjusted	**16.6**	**21.6**	**22.8**	**24.3**	**26.0**
EBITA margin %	*14.7%*	*17.9%*	*18.2%*	*18.4%*	*18.8%*
Associates & JV's	-	-	-	-	-
Net Bank Interest	(1.6)	(0.9)	(0.3)	(0.3)	(0.3)
PBT - Adjusted	**15.0**	**20.7**	**22.5**	**24.0**	**25.7**
Goodwill	(18.2)	(3.0)	(4.0)	(4.0)	(4.0)
Exceptionals	1.2	18.4	-	-	-
Other Financial Items	-	-	-	-	-
PBT - IFRS	**(2.0)**	**36.1**	**18.5**	**20.0**	**21.7**
Tax - Adjusted	(3.1)	(4.3)	(4.7)	(5.0)	(5.4)
Tax rate - Adjusted	*20.5%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
Minority interests	-	-	-	-	-
No. shares m, diluted	88.0	88.8	88.5	88.5	88.5
Adj EPS (p), diluted	**13.6**	**18.4**	**20.1**	**21.5**	**23.0**
- growth %	*28%*	*36%*	*9%*	*7%*	*7%*
Total DPS (p)	6.0	8.2	8.8	9.4	10.0

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Aberforth Partners	23.8%
Artemis	8.7%
Chelverton Asset Mgmt	8.6%
Gresham House	7.6%
Fidelity	7.4%
NFU Mutual	4.3%
Odyssean Capital	4.0%
Premier Miton	3.3%
Columbia Threadneedle	3.0%
	70.7%

CASH FLOW

Year to 30 June, £m	2021	2022	2023E	2024E	2025E
EBITDA	23.0	29.0	29.1	30.4	32.1
Working Capital	(5.7)	(4.3)	(3.0)	(3.5)	(4.0)
Provisions / Exceptionals	0.0	-	-	-	-
Gross Op Cashflow	**17.3**	**24.6**	**26.1**	**26.9**	**28.1**
Cash Tax	(2.7)	(3.4)	(4.7)	(5.0)	(5.4)
Cash Intererest	(1.2)	(0.5)	(0.3)	(0.3)	(0.3)
Minority Divs	-	-	-	-	-
Net Op Cashflow	**13.4**	**20.7**	**21.1**	**21.6**	**22.4**
Capex	(3.1)	(1.7)	(3.3)	(3.3)	(3.3)
Lease Liabilities	(2.5)	(3.8)	(2.4)	(2.4)	(2.4)
Free Cashflow	**7.8**	**15.2**	**15.4**	**15.9**	**16.7**
Dividends	(1.8)	(5.5)	(7.3)	(7.9)	(8.4)
M&A + Deferred	4.1	22.8	-	-	-
Other Non Operating	3.4	5.3	-	-	-
Net Cashflow	**13.5**	**37.8**	**8.1**	**8.0**	**8.4**
Net Cash (Debt)	**(17.2)**	**20.5**	**28.6**	**36.7**	**45.0**

Announcements

Date	Event
September 2022	Final results FY22
July 2022	Full year trading update
February 2022	H1 results FY22
December 2021	Disposal of AMT for £23.4m
September 2021	Final results FY21
July 2021	Full year trading update
June 2021	New operating model

RATIOS

	2021	2022	2023E	2024E	2025E
RoE	32%	25%	25%	24%	24%
RoCE	31%	49%	54%	59%	64%
Asset Turnover (x)	0.8x	0.7x	0.7x	0.6x	0.6x
NWC % Revenue	-27%	-46%	-45%	-49%	-52%
Op Cash % EBITA	80%	96%	92%	89%	86%
Net Debt / EBITDA	0.7x	-0.7x	-1.0x	-1.2x	-1.4x

BALANCE SHEET

Year to 30 June, £m	2021	2022	2023E	2024E	2025E
Intangibles	79.8	70.6	76.8	72.8	68.8
P,P+E	9.3	6.9	6.6	6.6	6.6
Tax Asset & Other	3.0	2.5	2.5	2.5	2.5
Total Fixed Assets	**92.1**	**79.9**	**85.8**	**81.8**	**77.8**
Net Working Capital	(38.7)	(33.4)	(29.7)	(29.6)	(29.4)
ST assets / liabilities	(8.6)	(2.0)	1.7	1.8	2.0
Net Current Assets	**(47.3)**	**(35.3)**	**(28.1)**	**(27.7)**	**(27.3)**
LT assets / liabilities	(9.4)	0.8	15.5	12.7	9.5
Net Cash (Debt)	(17.2)	20.5	28.6	36.7	45.0
Net Assets	**37.0**	**64.4**	**70.9**	**78.0**	**86.0**

VALUATION

Fiscal	2021	2022	2023E	2024E	2025E
P/E	22.0x	16.2x	14.8x	13.9x	13.0x
EV/EBITDA	10.4x	8.3x	8.3x	7.9x	7.5x
Div Yield	2.0%	2.8%	3.0%	3.2%	3.4%
FCF Yield	3.2%	6.3%	6.4%	6.6%	7.0%
Revenue growth	0%	7%	4%	5%	5%
PBT growth	27%	38%	9%	7%	7%
EPS growth	28%	36%	9%	7%	7%
DPS growth	-	37%	8%	6%	6%

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