John Wiley & Sons (JW.A)



*Updated June 26th, 2018 by Jonathan Weber*

# Key Metrics

**Current Price:** $63  **5 Year CAGR Estimate:** 6.9% **Volatility Percentile:** 50.7% **Fair Value Price:** $58  **5 Year Growth Estimate:** 6.5% **Momentum Percentile:** 72.9% **% Fair Value:** 108%  **5 Year Valuation Multiple Estimate:** -1.6% **Total Return Percentile:** 39.3% **Dividend Yield:** 2.0% **5 Year Price Target** $80  **Valuation Percentile:** 44.0%

# Overview & Current Events

John Wiley & Sons is a publishing and research company whose operations are split into three segments: Research, Publishing, and Solutions. The company offers scientific, technical, medical and scholarly research journals, reference books, databases, clinical decision support tools, laboratory manuals, scientific and education books, test preparation services, etc. Its services also include learning, development and assessment services for businesses and professionals and online program management services for higher education institutions. John Wiley & Sons was founded in 1807, is headquartered in Hoboken, NJ, and is currently valued at $3.7 billion.

The company’s most recent results (Q4 2018) were announced on June 12, John Wiley & Sons grossed revenues of $480 million (up 6% year over year) and earned $0.94 per share (an increase of 16% year over year) during the quarter. Fiscal year 2018 has already ended, the company earned $3.43 during those last twelve months.

# Growth on a Per-Share Basis

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2023** |
| **EPS** | $2.16 | $2.58 | $2.80 | $3.21 | $2.92 | $3.05 | $3.26 | $2.70 | $3.00 | $3.05 | ***$3.43*** | ***$4.70*** |
| **DPS** | $0.52 | $0.56 | $0.64 | $0.80 | $0.96 | $1.00 | $1.16 | $1.20 | $1.24 | $1.28 | ***$1.30*** | ***$1.66*** |

John Wiley & Sons has a solid earnings per share growth track record: Its profits increased during the last financial crisis, and over the last three years the company was able to grow its earnings per share by 8.3% annually.

John Wiley & Sons’ focus on publishing research journals, scientific books, etc. has made the company less vulnerable to other forms of entertainment. Since 2012 total unit sales of books have been declining in the US, but as John Wiley & Sons’ books and journals are not read for entertainment, but rather due to being required reading for students, professionals, scientists, etc. John Wiley & Sons has been relatively immune to this trend. The company has also successfully transformer itself into a digital company; 73% of all revenues were generated from digital products during the last year.

John Wiley & Sons’ most profitable business segment is its Research division, which produces slightly more than 50% of all revenues. The segment has performed well in recent quarters, thanks to high-single digits growth from journal subscriptions and a low-double digits growth rate from licensing & reprints. The subscription model results in recurring, non-cyclical revenues, which is why John Wiley & Sons’ results are less seasonal than those of many of its peers. Publishing and Solutions revenues are growing at a slower pace, which is why total company-wide sales should grow at a mid-single digits pace going forward. John Wiley & Sons has been trying to grow its margins, and with investments into digitalization likely slowing down in the future that should be possible, which is why net profits should grow at a slightly higher pace than revenues going forward. John Wiley & Sons’ dividend was grown by 10.5% over the last decade, the most recent dividend increase (in June 2018) was smaller, though, at only 3.1%.

# Valuation Analysis

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **Now** | **2023** |
| **Avg. P/E** | 17.7 | 14.4 | 15.5 | 14.8 | 14.7 | 16.1 | 18.1 | 18.5 | 17.9 | 19.1 | ***18.4*** | ***17.0*** |
| **Avg. Yld.** | 1.4% | 1.5% | 1.5% | 1.7% | 2.2% | 2.0% | 2.0% | 2.4% | 2.3% | 2.2% | ***2.0%*** | ***2.2%*** |

John Wiley & Sons trades at an earnings multiple of 18.4, a small premium over the historic median valuation. This results in a small headwind to total returns going forward, as the valuation will most likely come down slightly going forward.

# Safety, Quality, Competitive Advantage, & Recession Resiliency

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2023** |
| **GP/A** | 44.3% | 49.2% | 50.5% | 49.5% | 48.9% | 43.8% | 41.2% | 44.0% | 43.2% | 48.3% | ***49.0%*** | ***50.0%*** |
| **Debt/A** | 73.3% | 76.9% | 68.7% | 69.8% | 59.8% | 64.8% | 61.6% | 64.9% | 64.5% | 61.5% | ***61.0%*** | ***58.0%*** |
| **Int. Cov.** | 3.8 | 5.0 | 7.4 | 16.7 | 46.4 | 19.1 | 18.8 | 17.3 | 13.9 | 13.5 | ***13.5*** | ***14.0*** |
| **Payout** | 24.1% | 21.7% | 22.9% | 24.9% | 32.9% | 32.8% | 35.6% | 44.4% | 41.3% | 42.0% | ***37.9%*** | ***35.3%*** |
| **Std. Dev.** | 37.2% | 29.7% | 20.4% | 20.3% | 17.6% | 16.2% | 17.6% | 18.2% | 24.9% | 17.0% | ***18.0%*** | ***19.0%*** |

John Wiley & Sons has been able to grow its gross profits to assets ratio slightly over the last decade, which shows that the company is well positioned for changes in its industry – peers such as Scholastic had to suffer declines in the gross profits to assets ratio as they are more vulnerable to changes in the publishing industry.

John Wiley & Sons has also lowered its liabilities relative to its assets over the last years, which has resulted in a growing interest coverage ratio. The company’s balance sheet looks healthy, and rising interest rates will not be a major headwind for John Wiley & Sons. The company’s 2.0% dividend yield is not overly high, but the dividend looks very safe, as the payout ratio in 2018 is less than 40%.

With its transformation towards digital products being mostly completed, and due to John Wiley & Sons’ strong position in the scientific and professional markets there is little risk to John Wiley & Sons’ business model. Since a substantial portion of its revenues are generated via journal subscriptions (recurring revenues) and since demand from the scientific community is not cyclical John Wiley & Sons did not get hurt during the last financial crisis; the company managed to grow its profits from 2008-2010.

# Final Thoughts & Recommendation

John Wiley & Sons has a strong business model and has made a lot of progress in transforming into a publisher of digital products. Going forward shares of the company should generate solid total returns of ~7% annually. The company is a hold at current prices, since it is trading a bit above fair value.

# Total Return Breakdown by Year