John Wiley & Sons (JW.A)

Updated December 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	8.4%	**Volatility Percentile:**	42.7%
Fair Value Price:	$56	**5 Year Growth Estimate:**	5.3%	**Momentum Percentile:**	22.3%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.7%	**Growth Percentile:**	44.7%
Dividend Yield:	2.4%	**5 Year Price Target**	$72	**Valuation Percentile:**	61.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	48.9%

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, and test preparation services. 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 $3.1 billion.

John Wiley & Sons reported its second quarter (fiscal 2019) on December 5. The company was able to generate revenues of $449 million during the quarter, which represents a small decline of 0.7% compared to the company's revenues during Q2 of 2018. The company was able to generate earnings-per-share of $0.89 during the quarter, in line with analyst estimates, but down 9% from the prior year's quarter. John Wiley & Sons states that the strong dollar had a negative impact on its sales performance, and that revenues would have increased by 1% at constant currencies. The market did not react positively to these results, and shares of John Wiley & Sons trade close to a 52-week low as a result. During October John Wiley & Sons agreed to acquire Learning House, which is a diversified education service provider, for $200 million. Learning House will generate about $70 million in sales this year, and is growing at a 17% pace.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.58	$2.80	$3.21	$2.92	$3.05	$3.26	$2.70	$3.00	$3.05	$3.43	***$3.29***	***$4.26***
DPS	$0.56	$0.64	$0.80	$0.96	$1.00	$1.16	$1.20	$1.24	$1.28	$1.30	***$1.32***	***$1.66***
Shares	60	61	60	59	59	59	58	57	57	57	***56***	***54***

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. 2019 will be a down year for the company, though, although this is primarily due to higher investment spending & restructuring.

John Wiley & Sons' focus on publishing research journals, scientific books, and other technical publications 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, and scientists, the company has been relatively immune to this trend. The company has also successfully transformed 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 growth from journal subscriptions as well as due to ongoing expansion in licensing & reprints. The subscription model results in recurring, non-cyclical revenues, which is why John Wiley & Sons' results are less seasonal than those of its peers. Publishing and Solutions revenues are growing relatively slowly. 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 digital investments likely slowing down in the future that should be possible. 2019 will be a year of heavy investment. Because of this, earnings-per-share will not grow this year, but from 2020 onwards John Wiley & Sons should generate sustainable growth.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.4	15.5	14.8	14.7	16.1	18.1	18.5	17.9	19.1	18.4	***16.4***	***17.0***
Avg. Yld.	1.5%	1.5%	1.7%	2.2%	2.0%	2.0%	2.4%	2.3%	2.2%	2.0%	***2.4%***	***2.2%***

John Wiley is trading slightly below the long-term median price to earnings multiple right now, which means that shares are marginally undervalued right here. This will be beneficial for total returns going forward, which is also true for the company's above-average dividend yield of 2.4%. John Wiley & Sons' dividend has grown continually in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	21.7%	22.9%	24.9%	32.9%	32.8%	35.6%	44.4%	41.3%	42.0%	37.9%	***40.1%***	***39.0%***

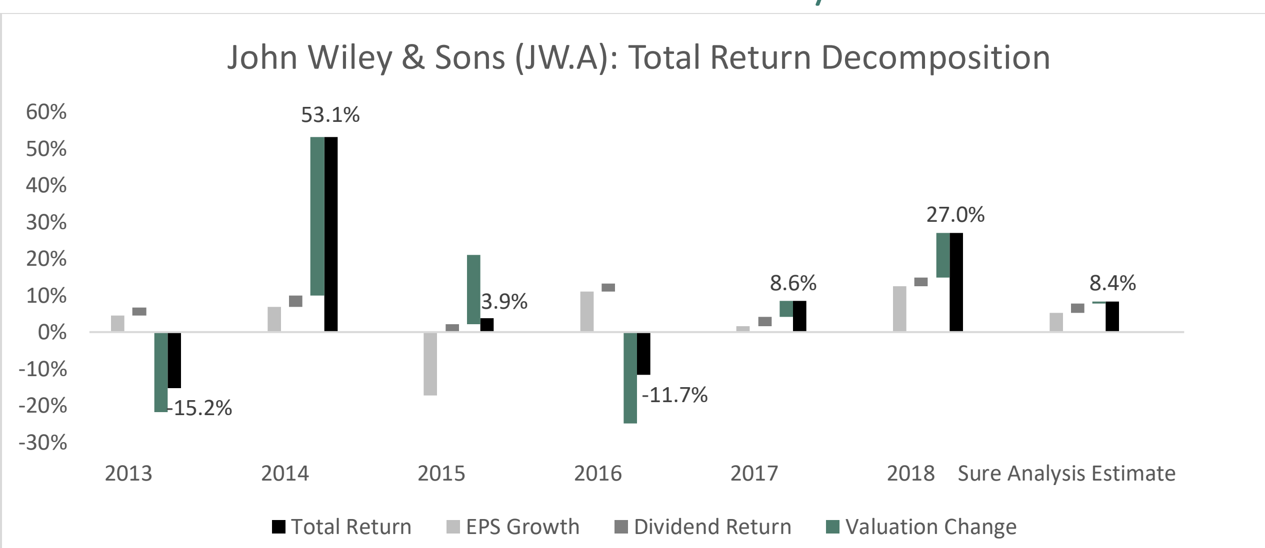
John Wiley & Sons has lowered its liabilities relative to its assets over the last couple of years, which has resulted in a growing interest coverage ratio. The company's balance sheet looks healthy, and rising interest rates will not be a major headwind for John Wiley & Sons. The company pays out ~40% of its profits, which makes its dividend very safe.

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 performed quite well during the last financial crisis. John Wiley & Sons will likely remain relatively insulated versus changes in the publishing industry. Peers that are more focused on entertainment books, such as Scholastic, are impacted to a much more significant degree by changes in consumption behavior (less reading, more screen time).

Final Thoughts & Recommendation

John Wiley & Sons is active in an attractive niche of the publishing industry. Its outlook is solid, and shares promise compelling total returns going forward. We believe that shares are trading below fair value and that John Wiley is a buy for those investors that seek exposure to the publishing industry, where John Wiley & Sons is a lower-risk pick.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1611	1699	1743	1783	1761	1775	1822	1727	1719	1796
Gross Profit	1095	1165	1204	1239	1229	1268	1323	1261	1258	1311
Gross Margin	68.0%	68.6%	69.1%	69.5%	69.8%	71.4%	72.6%	73.0%	73.2%	73.0%
SG&A Exp.	840	872	911	922	933	969	1005	994	989	995
D&A Exp.	72	75	81	87	98	103	113	116	116	113
Operating Profit	218	258	248	280	253	254	267	217	220	268
Operating Margin	13.6%	15.2%	14.2%	15.7%	14.4%	14.3%	14.6%	12.5%	12.8%	14.9%
Net Profit	128	144	172	213	144	161	177	146	114	192
Net Margin	8.0%	8.4%	9.9%	11.9%	8.2%	9.0%	9.7%	8.4%	6.6%	10.7%
Free Cash Flow	295	267	321	312	278	291	286	243	181	241
Income Tax	36	57	59	59	43	35	49	29	77	22

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2224	2309	2430	2533	2806	3077	3004	2921	2606	2839
Cash & Equivalents	103	154	202	260	334	486	457	364	59	170
Accounts Receivable	179	165	168	172	162	150	147	168	189	212
Inventories	111	108	106	101	82	75	64	58	48	39
Goodwill & Int. Ass.	1509	1527	1576	1606	1790	1888	1880	1829	1810	1868
Total Liabilities	1710	1586	1452	1515	1818	1895	1949	1884	1603	1649
Accounts Payable	160	145	155	151	143	143	161	166	76	90
Long-Term Debt	822	649	454	475	673	700	750	605	365	360
Shareholder's Equity	514	722	978	1018	988	1182	1055	1037	1003	1191
D/E Ratio	1.60	0.90	0.46	0.47	0.68	0.59	0.71	0.58	0.36	0.30

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.3%	6.3%	7.3%	8.6%	5.4%	5.5%	5.8%	4.9%	4.1%	7.1%
Return on Equity	21.3%	23.2%	20.2%	21.3%	14.4%	14.8%	15.8%	13.9%	11.1%	17.5%
ROIC	8.9%	10.6%	12.3%	14.5%	9.1%	9.1%	9.6%	8.5%	7.6%	13.2%
Shares Out.	60	61	60	59	59	59	58	57	57	57
Revenue/Share	27.03	28.47	28.40	29.10	29.24	29.83	30.58	29.40	29.53	31.03
FCF/Share	4.95	4.47	5.24	5.10	4.62	4.88	4.80	4.14	3.11	4.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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