



# John Wiley & Sons (JW.A)

Updated March 11<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$45	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Volatility Percentile:</b>	41.6%
<b>Fair Value Price:</b>	\$56	<b>5 Year Growth Estimate:</b>	5.3%	<b>Momentum Percentile:</b>	7.2%
<b>% Fair Value:</b>	81%	<b>5 Year Valuation Multiple Estimate:</b>	4.4%	<b>Growth Percentile:</b>	48.3%
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$72	<b>Valuation Percentile:</b>	84.3%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	74.9%

## 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 \$2.6 billion.

John Wiley & Sons reported its third quarter (fiscal 2019) earnings results on March 5. The company announced that its revenues totaled \$499 million during the third quarter, which represents a decline of 1% versus the prior year's quarter. John Wiley & Sons' top line would have grown by 1% if currency rates would have remained constant throughout the last year. John Wiley & Sons' profitability declined versus the prior year, though, as operating income dropped by 21% versus the third quarter of fiscal 2018, whereas earnings-per-share dropped by an even higher 22% versus the third quarter of 2018. John Wiley & Sons' earnings-per-share totaled \$0.61 during the quarter, widely missing the consensus estimate of the analyst community. John Wiley & Sons maintained its guidance for fiscal 2019, though, as the company still expects flat revenues and a mid-single digit earnings-per-share decline.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.58	\$2.80	\$3.21	\$2.92	\$3.05	\$3.26	\$2.70	\$3.00	\$3.05	\$3.43	<b>\$3.29</b>	<b>\$4.26</b>
<b>DPS</b>	\$0.56	\$0.64	\$0.80	\$0.96	\$1.00	\$1.16	\$1.20	\$1.24	\$1.28	\$1.30	<b>\$1.33</b>	<b>\$1.66</b>
<b>Shares</b>	60	61	60	59	59	59	58	57	57	57	<b>56</b>	<b>54</b>

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. Fiscal 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 the like 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 many of its peers. 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. Fiscal 2019 will be a year of heavy investment, which is why earnings-per-share will not grow this year, but from 2020 onwards John Wiley & Sons should be able to grow its profits again.

*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	13.7	17.0
Avg. Yld.	1.5%	1.5%	1.7%	2.2%	2.0%	2.0%	2.4%	2.3%	2.2%	2.0%	3.0%	2.3%

John Wiley & Sons' shares are trading substantially below the long term median earnings multiple right here, at less than 14 times this year's profits. The low valuation that provides some multiple expansion potential will be beneficial for total returns going forward, which is also true for the company's above-average dividend yield of 3.0%.

## 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%

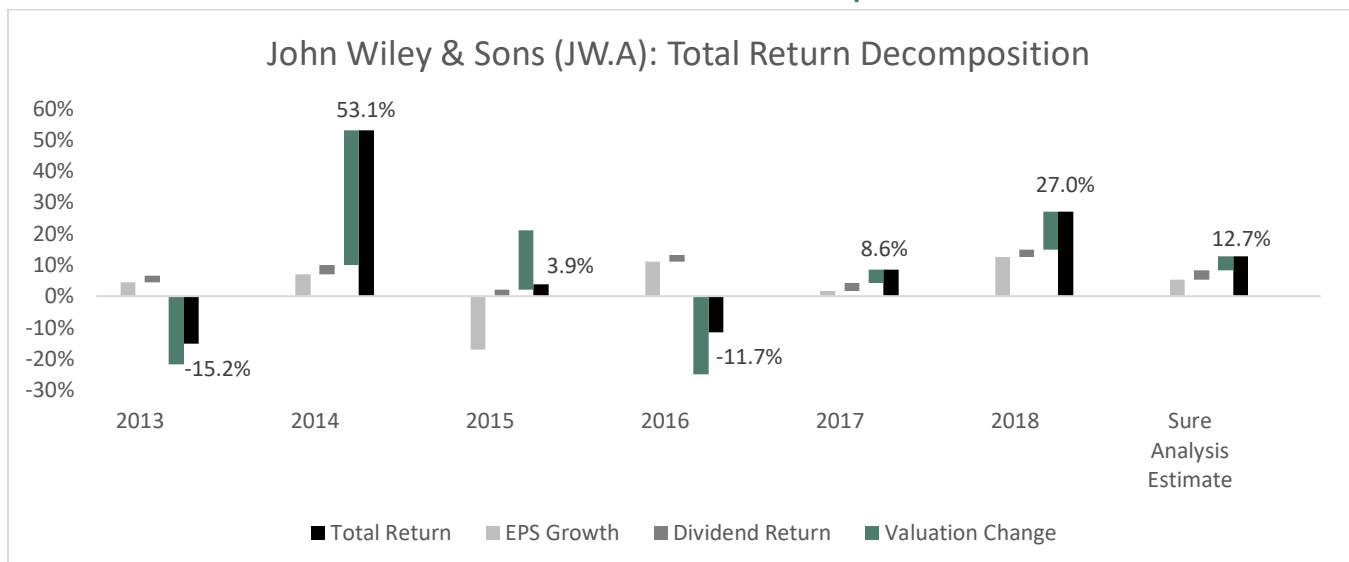
John Wiley & Sons' dividend payout ratio never was especially high, as the payout peaked at 44% in 2015. John Wiley & Sons has raised its dividend continually throughout the last decade. Thanks to a dividend payout ratio that is fairly low and due to a compelling recession performance, we rate John Wiley & Sons' dividend as 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.

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	2224	2309	2430	2533	2806	3077	3004	2921	2606	2839
<b>Cash &amp; Equivalents</b>	103	154	202	260	334	486	457	364	59	170
<b>Accounts Receivable</b>	179	165	168	172	162	150	147	168	189	212
<b>Inventories</b>	111	108	106	101	82	75	64	58	48	39
<b>Goodwill &amp; Int. Ass.</b>	1509	1527	1576	1606	1790	1888	1880	1829	1810	1868
<b>Total Liabilities</b>	1710	1586	1452	1515	1818	1895	1949	1884	1603	1649
<b>Accounts Payable</b>	160	145	155	151	143	143	161	166	76	90
<b>Long-Term Debt</b>	822	649	454	475	673	700	750	605	365	360
<b>Shareholder's Equity</b>	514	722	978	1018	988	1182	1055	1037	1003	1191
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	5.3%	6.3%	7.3%	8.6%	5.4%	5.5%	5.8%	4.9%	4.1%	7.1%
<b>Return on Equity</b>	21.3%	23.2%	20.2%	21.3%	14.4%	14.8%	15.8%	13.9%	11.1%	17.5%
<b>ROIC</b>	8.9%	10.6%	12.3%	14.5%	9.1%	9.1%	9.6%	8.5%	7.6%	13.2%
<b>Shares Out.</b>	60	61	60	59	59	59	58	57	57	57
<b>Revenue/Share</b>	27.03	28.47	28.40	29.10	29.24	29.83	30.58	29.40	29.53	31.03
<b>FCF/Share</b>	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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