



# John Wiley & Sons (JW.A)

Updated June 28<sup>th</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$45	<b>5 Year CAGR Estimate:</b>	10.8%	<b>Volatility Percentile:</b>	45.6%
<b>Fair Value Price:</b>	\$43	<b>5 Year Growth Estimate:</b>	9.0%	<b>Momentum Percentile:</b>	9.4%
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Growth Percentile:</b>	86.2%
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$65	<b>Valuation Percentile:</b>	46.8%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	65.3%

## 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 fourth quarter (fiscal 2019) earnings results on June 11. The company announced that its revenues totaled \$492 million during the fourth quarter, which represents an increase of 3% versus the prior year's quarter. Currency rates were not a meaningful headwind, unlike in previous quarters. John Wiley & Sons was able to beat the analyst consensus estimate slightly. John Wiley & Sons' profitability rose versus the prior year, as operating income grew by 10% versus the fourth quarter of fiscal 2018. Earnings-per-share came in above the analyst consensus, at \$1.05, which represents a growth rate of 26% year over year on an adjusted basis. John Wiley & Sons guides for revenues of \$1.84 billion to \$1.87 billion during fiscal 2020, while also stating a goal of reaching revenues of \$2 billion in 2022. John Wiley & Sons expects to earn \$2.45 to \$2.55 per share during fiscal 2020, less than during 2019.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.80	\$3.21	\$2.92	\$3.05	\$3.26	\$2.70	\$3.00	\$3.05	\$3.43	\$2.96	<b>\$2.50</b>	<b>\$3.84</b>
<b>DPS</b>	\$0.64	\$0.80	\$0.96	\$1.00	\$1.16	\$1.20	\$1.24	\$1.28	\$1.30	\$1.32	<b>\$1.32</b>	<b>\$1.66</b>
<b>Shares</b>	61	60	59	59	59	58	57	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 between 2015 and 2018 John Wiley & Sons' earnings-per-share rose substantially. Fiscal 2019 was 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. According to management's guidance, John Wiley & Sons will report lower profits during 2020 once again, but this is blamed on increased investments that will boost future profitability. It is thus not a surprise to see that management expects substantially higher profits beyond 2020, forecasting earnings-per-share of \$3.50 in 2022.

*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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.5	14.8	14.7	16.1	18.1	18.5	17.9	19.1	18.4	15.9	<b>18.0</b>	<b>17.0</b>
Avg. Yld.	1.5%	1.7%	2.2%	2.0%	2.0%	2.4%	2.3%	2.2%	2.0%	2.8%	<b>2.9%</b>	<b>2.5%</b>

John Wiley & Sons' shares are trading above the long term median earnings multiple right now, due to the low forecasted profits for fiscal 2020. The above-average valuation will result in a small drag to total returns going forward, but this is more than offset by John Wiley & Sons' above-average dividend yield of 2.9%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	22.9%	24.9%	32.9%	32.8%	35.6%	44.4%	41.3%	42.0%	37.9%	44.6%	<b>52.8%</b>	<b>43.2%</b>

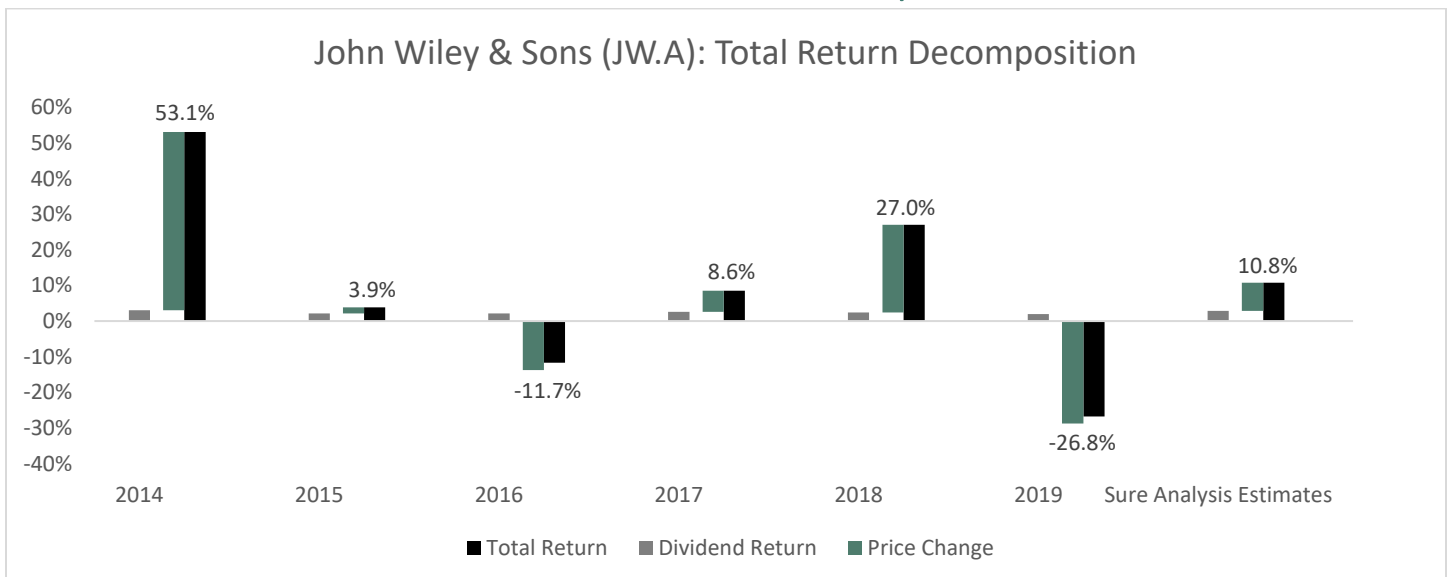
John Wiley & Sons' dividend payout ratio never was especially high, as the payout barely rose above 40%. John Wiley & Sons has raised its dividend continually throughout the last decade. Even though John Wiley & Sons will pay out more than 50% of its net profits during the current fiscal year, we rate John Wiley & Sons' dividend as safe.

Based on its successful ongoing transformation of its business model towards digital products, and due to John Wiley & Sons' strong position in the non-cyclical scientific and professional markets, there is little risk to its business model. Since a substantial portion of its revenues are generated via journal subscriptions, which results in recurring revenues, and because 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. Fiscal 2020 will be another down year for the company, but the long-term outlook looks positive. Shares are trading above fair value right now, but the total return outlook is still favorable, which is why we rate the stock a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	1699	1743	1783	1761	1775	1822	1727	1719	1796	1800
<b>Gross Profit</b>	1165	1204	1239	1229	1268	1323	1261	1218	1265	1245
<b>Gross Margin</b>	68.6%	69.1%	69.5%	69.8%	71.4%	72.6%	73.0%	70.9%	70.4%	69.2%
<b>SG&amp;A Exp.</b>	872	911	922	933	969	1005	994	943	957	964
<b>D&amp;A Exp.</b>	75	81	87	98	103	113	116	116	113	124
<b>Operating Profit</b>	258	248	280	253	254	267	217	225	260	227
<b>Operating Margin</b>	15.2%	14.2%	15.7%	14.4%	14.3%	14.6%	12.5%	13.1%	14.5%	12.6%
<b>Net Profit</b>	144	172	213	144	161	177	146	114	192	168
<b>Net Margin</b>	8.4%	9.9%	11.9%	8.2%	9.0%	9.7%	8.4%	6.6%	10.7%	9.3%
<b>Free Cash Flow</b>	267	321	312	278	291	286	243	181	241	164
<b>Income Tax</b>	57	59	59	43	35	49	29	77	22	45

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	2309	2430	2533	2806	3077	3004	2921	2606	2839	2937
<b>Cash &amp; Equivalents</b>	154	202	260	334	486	457	364	59	170	93
<b>Accounts Receivable</b>	165	168	172	162	150	147	168	189	212	295
<b>Inventories</b>	108	106	101	82	75	64	58	48	39	36
<b>Goodwill &amp; Int. Ass.</b>	1527	1576	1606	1790	1888	1880	1829	1810	1868	1961
<b>Total Liabilities</b>	1586	1452	1515	1818	1895	1949	1884	1603	1649	1756
<b>Accounts Payable</b>	145	155	151	143	143	161	166	76	90	91
<b>Long-Term Debt</b>	649	454	475	673	700	750	605	365	360	479
<b>Shareholder's Equity</b>	722	978	1018	988	1182	1055	1037	1003	1191	1181
<b>D/E Ratio</b>	0.90	0.46	0.47	0.68	0.59	0.71	0.58	0.36	0.30	0.41

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	6.3%	7.3%	8.6%	5.4%	5.5%	5.8%	4.9%	4.1%	7.1%	5.8%
<b>Return on Equity</b>	23.2%	20.2%	21.3%	14.4%	14.8%	15.8%	13.9%	11.1%	17.5%	14.2%
<b>ROIC</b>	10.6%	12.3%	14.5%	9.1%	9.1%	9.6%	8.5%	7.6%	13.2%	10.5%
<b>Shares Out.</b>	59.68	61.36	61.27	60.22	59.51	59.59	58.73	58.20	57.89	57.84
<b>Revenue/Share</b>	28.47	28.40	29.10	29.24	29.83	30.58	29.40	29.53	31.03	31.12
<b>FCF/Share</b>	4.47	5.24	5.10	4.62	4.88	4.80	4.14	3.11	4.17	2.84

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

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