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# John Wiley & Sons, Inc. (WLY)

Q4 2022 Earnings Call

## CORPORATE PARTICIPANTS

### Brian Campbell

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### Christina M. van Tassell

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### Brian A. Napack

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to Wiley's Fourth Quarter and Fiscal 2022 Earnings Call. As a reminder, this conference is being recorded. At this time, I'd like to introduce Wiley's Vice President, Investor Relations, Brian Campbell. Please go ahead.

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### Brian Campbell

*Vice President-Investor Relations, John Wiley & Sons, Inc.*

Hello, everyone. Just a few reminders to start. The call is being recorded and may include forward-looking statements. You shouldn't rely on these statements as actual results may differ materially and are subject to factors discussed in our SEC filings. The company does not undertake any obligations to update or revise forward-looking statements to reflect subsequent events or circumstances. Also, Wiley provides non-GAAP measures as a supplement to evaluate underlying operating profitability and performance trends. These measures do not have standardized meanings prescribed by US GAAP and, therefore, may not be comparable to similar measures used by other companies, nor should they be viewed as alternatives to measures under GAAP. Unless otherwise noted, we will refer to non-GAAP metrics on the call, and variances are on a year-over-year basis and will exclude the impact of currency. After the call, a copy of the presentation and a playback of the webcast will be available on our investor relations webpage at [investors.wiley.com](https://investors.wiley.com).

I'll now turn the call over to Wiley's President and CEO, Brian Napack.

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### Brian A. Napack

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

Good morning and thanks for joining us. I'm pleased to report that in fiscal year 2022, the Wiley team delivered another year of revenue and earnings growth with continuing strong free cash flow. As a reminder, this year marks Wiley's 215th anniversary; and to mark the occasion, we surpassed \$2 billion in annual revenue for the first time. What began in 1807 as a print shop in Lower Manhattan is now one of America's oldest public companies, standing out as a global leader in scientific research and career-connected education. Our legacy is more than

just a narrative. The Wiley brand is respected worldwide and our reputation is a unique advantage that helps us to win and retain customers, partners, authors, and great talent across all of our lines of business.

Wiley has been has been unlocking human potential by advancing knowledge for over two centuries, and it has done so through many economic cycles and periods of disruption. In good times and bad, Wiley delivers consistent financial performance by serving the world's researchers and learners. Today, we are growing well based upon our strong competitive position, must-have products, a strong balance sheet, and consistent cash flow. Wiley's revenue is now 83% digital and tech-enabled, and 58% of our revenue is recurring. We have delivered 28 consecutive years of dividend increases, and we've recently been named The Most Trusted Company in Media according to a survey by Newsweek. All this underscores the fact that Wiley is a strong and special company, and I'm proud to be part of it especially now.

As you know, Wiley is a critical player in the global knowledge ecosystem, performing essential roles in scientific Research and Education. Our strategy remains to lead the market by addressing two very strong trends. The first is the rapid growth of open scientific research which is creating significant demand for our branded research content and our cutting-edge research platforms and services. The second trend is the global drive to make education more career-connected and vastly more accessible. This economic imperative is increasing demand for our learning programs and our Talent Development services that directly connect education with employment and that helps to fill the global talent gap.

In research, Wiley is both a leading publisher with 1,900 valuable, respected journal brands and a leading provider of essential platforms and services that help societies, publishers, and corporations to thrive in the complex open knowledge ecosystem. In education, Wiley delivers both powerful learning products in the form of digital content and courseware and tech-enabled services in the form of degree programs, certifications and on-the-job training. These products and services help universities to deliver career-connected degrees and drive enrollment, help corporations to build the workforces they need to win, and ultimately helps learners and professionals to build the skills they need to achieve long-term career success.

In fiscal 2022, the complex global environment delivered us some unusual challenges. Most significantly, we saw post-lockdown enrollment softness in universities affect demand for our education programs. We also saw an unusually tight labor market and rising inflation put some pressure on compensation levels, and we saw some geopolitical issues introduce instability into global markets. But despite all of this, the Wiley team was able to deliver on our outlook for both revenue and earnings and exceed our outlook for cash flow. We saw an acceleration of organic revenue growth in fiscal 2022 into the mid-single digits. All three Wiley segments were up over prior-year. As noted, we did run into some challenges stemming from some unusual lower university enrollment patterns. But while our University Services and education publishing lines were slowed by this, we still delivered on our financial targets thanks to strong organic growth across Research and in Corporate Talent Development and Professional Learning.

On the profit side, adjusted EBITDA and adjusted EPS rose 3% and 4%, with revenue performance partially offset by investments in growth and optimization initiatives. Notably, since fiscal 2020, Wiley has executed its strategic plans very effectively, allowing us to succeed through the COVID lockdown period. The net result is two-year CAGRs for revenue, EPS and free cash flow of 7%, 12%, and 14%. That said, as we know, the macroeconomic environment is presenting uncertainty. Wiley and its markets tend to hold up well in economic downturns thanks to the essential nature of research and our role in it and thanks to the countercyclical nature of higher education enrollment. Nonetheless, we're watching conditions very closely, carefully managing risk, and keeping our powder dry to ensure that we can adapt to events as they unfold.

Let's take a look at how we executed on our stated plans this past year. At this time last year, we laid out four commitments for research. We said we would publish more; a simple statement, but that's what the world wants and that's what drives our success. We said we would integrate and drive synergies from Hindawi, the leading OA publisher we acquired in fiscal 2021. We said we would scale the platform and service offerings for our partners in the research ecosystem. And finally, we said we would increase the productivity and efficiency of our publishing operations.

I'm pleased to report that we executed each of these four imperatives well, and the results speak for themselves. We published more, growing article output by 7%. While organic output was down from last year's 15% COVID-induced surge, the two-year trend line was positive, compounding at 6%. We expect year-over-year organic output growth to resume in fiscal 2023. Hindawi performed at a very high level this year, delivering strong double-digit organic revenue growth and 36% article output growth on a pro forma basis, and has achieved this with exceptional margins. We have now completed the integration and we are benefiting significantly from Hindawi's industry leading open publishing practices and its highly efficient systems.

As planned, we scaled our Research Solutions business. We signed up 36 new partners, bringing us to over 450 society and corporate customers, taking advantage of our broad range of essential research platforms and services. We see lots of opportunity for upselling and cross-selling to increase lifetime customer value. Critically, 16% of our solutions customers now subscribe to more than one of our services; and 4% have subscribed to more than two. We are now seeing increasing LTV as we continue to expand our long-standing client relationships.

Finally, we entered fiscal 2022 with the intention of driving automation, intelligence and efficiency across the research publishing process. And we're making good progress across our most critical productivity metrics such as the referral rate of rejected articles from one Wiley journal to another and the reduction of the article cycle time from acceptance to publication, both of which benefit our researchers while delivering more revenue and profit to Wiley.

Notably, over 50% of our rejected authors are now offered another Wiley option to publish. This is up from 33% in fiscal 2021. This is facilitated by a highly automated intelligent process. As you know, Wiley does not publish 70% of the articles we receive, much of it due to improper fit with the journal to which it is first submitted. Capitalizing on this opportunity across our full 1,900 journal portfolio will take time, but we're making very good progress.

So we are executing our plans in research and performing very well. Despite the world's uncertainties, Wiley Research remains a very strong business with a good growth trajectory, strategic momentum, and a recession-tolerant profile. Scientific and technical research is driven by an ever-increasing global R&D spend. Since 2000, through multiple recessions, global R&D has more than tripled to \$2.4 trillion.

Now, to the achievement of our fiscal 2022 commitments in education. As a reminder, demand for online education and digital courseware was significantly amplified in fiscal 2021, as COVID drove record numbers of students into digital settings. In fiscal 2022, there was a natural reversion in online enrollment. This snap-back was accompanied by an unusually strong labor market that enticed many students to forego school for opportunities in the workforce. The net result was a challenging enrollment cycle across higher education. A recent report showed that total university enrollment was down over 4% this spring after declining 3% in the fall. This variability weighed on our University Services and education publishing lines, which saw declines this year of 1% and 4%.

Despite the challenge of this moment, our mid to long-term outlook for higher education and digital education in particular remains very positive. We study this market very closely and we see long-term underlying growth in demand for online higher education, digital curriculum and, importantly, Corporate Talent Development, where we are expanding and where enduring skill and talent gaps will continue to drive growth.

Wiley is well-prepared to capitalize on these significant opportunities due to the consistent execution of our strategic plans. To that end, we made a set of commitments a year ago in education. These were: to expand online programs and drive online enrollment; to expand student acquisition capabilities; to scale digital content and courseware; and to expand our Corporate Talent Development relationships.

In University Services, we signed up five full-service partners in fiscal 2022, offsetting three non-renewing partners, for a total partner count of 68. We also added 81 new degree and certification programs in high-demand fields such as business, healthcare, computer science, and engineering. This is far ahead of the 40-plus programs we signed up in fiscal 2021 and is well aligned with our disciplined approach to focusing on high-demand careers and disciplines.

And while enrollment slowed across the market, Wiley improved our ability to compete in the market for students by significantly expanding our proprietary student acquisition capabilities. In short, the ability to efficiently attract and enroll students is the defining capability that drives university success, and this is their single biggest challenge.

The acquisition of XYZ Media, a clear leader in student marketing, made Wiley a leader in what matters most, driving enrollment. And this proprietary capability is now allowing us to do so at a lower cost per student, thus driving both growth and profitability.

In education content and courseware, we saw healthy growth in digital content and zyBooks courseware, although these gains were offset by declines in print course material and courseware on legacy platforms. zyBooks continues to be a very good story for us with adoptions now in over 900 institutions and revenue growth of 15%.

Wiley's Corporate Talent Development line had a huge year in fiscal 2022, with record placements and over 70% revenue growth. We signed 19 new global clients, expanding into new industry verticals such as technology and consumer goods, and launched an upskilling program that will significantly increase the lifetime value of our clients. Corporate Talent Development has become a major growth driver for Wiley.

Note that we recently branded our Talent Development platform from mthree to Wiley Edge. The name not only leverages the strong Wiley brand, it also says what we do for our partners and for emerging talent everywhere: we give them a meaningful edge in a hyper-competitive world.

Wiley continues to drive real-world impact through our core business activities in Research and Education, and we're always focused on increasing this impact. In January 21, we signed the UN Global Compact, a pledge to drive business action in support of achieving 17 UN Sustainable Development Goals.

We continue to pursue these critical goals by simply doing what we do best, enabling discovery, powering education, and shaping workforces. Through our leadership and open research, Wiley is delivering more brand-new knowledge to the world faster, fulfilling many UN Sustainable Development Goals, including good health and wellbeing and climate action.

In career-connected education, we're actively improving access to high-impact learning and good jobs. In fact, over 50% of our IT placement candidates in Canada, US, and UK now come from underrepresented populations. In India, for example, we are delivering impact to at-risk groups such as those from households earning less than \$500 a month. Nearly half of our career credential candidates in India are women. In this way, Wiley is working to fulfill UN Sustainable Development Goals for both quality education and reduced inequalities.

We continue to make material progress in our corporate ESG efforts. We set out to be a carbon-neutral-certified company across our global operations again this year, and we achieved it. More importantly, we are rapidly advancing towards science-based targets which will provide us with a clear route to reduce greenhouse gas emissions and our carbon footprint. All of this is to say that at Wiley, we take our commitment to positive impact very seriously and that we are making very good progress.

With that, I'll pass the call over to Christina to take you through our Q4 results, our segment performance, our financial position, and our outlook for fiscal 2023.

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## Christina M. van Tassell

*Chief Financial Officer, John Wiley & Sons, Inc.*

Thank you, Brian, and good morning, everyone. I want to start by acknowledging the Wiley team for delivering another solid year overall. First, let's talk about Q4. Note that all variances exclude currency impacts. For the quarter, Wiley delivered revenue growth of 4% or 2% organic, with continued momentum in research and Corporate Talent Development. This offset market-driven declines in University Services, education publishing, and professional publishing. Adjusted EBITDA was flat to prior year and adjusted EPS was down 6% mainly due to the revenue decline in Academic & Professional Learning or APL and planned second half investments in key growth areas.

Before I dive into our market performance, I want to comment on our current macroeconomic conditions and geopolitical uncertainties and how they relate to Wiley. As a reminder, both Russia and Ukraine are very small markets for us, so we do not expect any material revenue impact from the crisis. Wiley does have a technology development center in Russia, one of several around the world, and we've exercised contingency plans to ensure business continuity. With regard to inflation, I would expect wage pressure in fiscal year 2023 and some inflationary pressure on print publishing costs, both of which are reflected in our outlook. In terms of other supply chain issues, none have yet to be material and our largely digital nature limits any significant impacts. As a reminder, physical products make up only about 17% of revenue. We are also closely monitoring inflationary impacts on consumer spending which would impact more discretionary parts of our business such as professional books.

As Brian noted, historically speaking, Wiley has held up well through difficult economic periods. This is because we're at the center of the global research ecosystem, delivering must-have content and platforms. And while we're currently working through enrollment challenges, in general, the education sector is countercyclical in times of market contraction. Nonetheless, in this period of economic uncertainty, we will be nimble, prudent, and highly disciplined to maximize our resiliency.

Now, on to our segments. Note that beginning in Q1, we will be changing our Research segment reporting to reflect both Research Publishing which will account for 85% of the segment and Research Solutions which will account for 15%. Research Solutions will include platforms, corporate solutions and services for societies and other publishers; it will replace the current platform's reporting line. For the year, research continued to deliver consistent revenue and profit growth with revenue up 9% or 5% organic and adjusted EBITDA up 10%. Our

EBITDA margin was 35% and is in line with prior year. Performance was driven by solid growth in both publishing and solutions. For the quarter, revenue rose 8% or 6% organic and adjusted EBITDA was up 12%.

In fiscal 2022, strong momentum continued for our transformational read and publish models with 27 major signings with large university consortia around the world. As a reminder, these multi-year agreements will continue to replace our legacy read-only subscription deals which were limited from a growth perspective. Brian discussed article output so I won't repeat it here except to highlight that we expect to resume our historical trend line of steady overall output growth in fiscal 2023. Finally, Research Solutions continues to see strong demand with platform revenue up 27% for the year or 8% organic and corporate solutions up 17%. On the corporate side, advertising, career centers, and spectral databases were all up 20% for the year. In summary, we continue to see strong momentum across research. This is reflected in our consistent operating performance and in the continued success of our profitable growth strategies.

On to APL. Revenue in the segment was up 1% this year, with growth in Professional Learning offsetting a decline in Education Publishing. Adjusted EBITDA was up 10% due to revenue mix and lower employee costs for full year EBITDA margin of 28% hat's up from 26% in the prior year. For the quarter, revenue and adjusted EBITDA were down 5% and 3% mainly due to difficult market conditions. Within the segment, as discussed, Ed Publishing performance continued to be hindered by lower US enrollment and unfavorable comparison to last year's digital content and courseware surge due to COVID. The end result was a 4% decline in Ed Publishing revenue. Professional Learning revenue was up 6% for the year driven by growth in corporate training and professional publishing.

I'm happy to report that corporate training has now fully recovered to pre-COVID levels and continues to show strong momentum in both virtual and in-person delivery, resulting in double-digit growth for the year and in the quarter. This Q4 growth for corporate training was offset by a professional publishing decline mainly due to an unfavorable comparison to prior year. In summary, APL was up slightly for the year with growth in Professional Learning, particularly corporate training, offsetting market-related challenges in Education Publishing.

In Education Services, we saw revenue growth of 14% for the year driven by 72% growth in Talent Development. This offsets a modest decline for University Services mainly due to the cyclical enrollment downswing. As expected, our investments to win new corporate clients and scale operations in Talent Development resulted in continued strong momentum but also an adjusted EBITDA decline of 26%. For the year, our adjusted EBITDA margin was 12% compared to 18% in the prior period. We've actively managed margins in University Services to be in line with our long-term 15% goal, but continued investment in our fast-growing Talent Development line has lowered segment profit over the near-term. We have a solid plan to materially improve segment margins as we scale beyond fiscal year 2023.

On the corporate side, the 19 multinational clients we signed this year included top financial technology and consumer companies, and I am pleased with the continued strength of our pipeline. We grew tech placements 112% inside a key global client for a tech upskilling program involving hundreds of employees. For the quarter, Talent Development revenue was up 78%; there is a lot of great momentum here. On the University Services side, online enrollment in our program was up 1% for the year but down 5% in Q4. An early read on our partners' summer semester enrollment shows continued softness. While we have confidence in the long-term outlook of our digital higher education, it will take some time for enrollment to return to a more normal growth trajectory. For the quarter, University Services revenue declined 9%.

On a brighter note, we are seeing an improved business development pipeline of late with four new full-service partners added in Q4, including Ohio University, Florida A&M, Butler University in Indiana, and Arcadia University

in Pennsylvania. In the quarter, we also signed University of Virginia as a fee-for-service partner, we renewed American University, and we added 23 online degree programs. In summary, growth continues to accelerate via corporate services as we sign major clients and deliver record placements. In University Services, we have typical enrollment challenges to work through but remain confident in the market and in our long-term ability to deliver career-connected education and credentialing programs that the market is demanding.

Steady cash generation remains a foundational strength for Wiley. For the year, free cash flow of \$223 million exceeded our guidance, although it was down \$34 million from the prior year. This is largely due to one-time items, including a \$21 million tax refund and higher annual compensation payment for fiscal year 2021 outperformance. Also contributing to the unfavorable variance was unusually low CapEx in fiscal year 2021 due to COVID. Cash from operations of \$339 million was down \$21 million from the prior year.

With regard to our balance sheet, our net debt to EBITDA ratio was 1.6 at the end of April, compared to 1.7 at the same time last year. Liquidity continues to be steady, with \$100 million of cash on hand and undrawn credit capacity of more than \$685 million.

With our consistent cash generation, we feel comfortable with these levels. And absent acquisitions, we would expect to apply free cash flow after dividends and share repurchases to debt repayments.

Given the rising interest rate environment, maintaining a modest level of leverage continues to be a focus for us. Note that we manage our exposure to fluctuations in interest rates using swaps, with \$500 million of debt at fixed interest rates as of year-end. The weighted average interest rate on total debt outstanding in fiscal 2022 was a little over 2%, and we expect the weighted average interest rate on total debt to rise to a little over 3% in fiscal year 2023.

Turning to capital allocation. We continue to balance reinvestment in profitable growth drivers with targeted acquisitions in key growth areas and return to shareholders. CapEx for the year was \$13 million higher than in prior year, which saw lower spend due to COVID. In fiscal 2022, we invested in products and platforms in research, Talent Development and digital courseware.

M&A total spend was materially lower this year than in fiscal 2021. That said, we did add critical capabilities in Research Solutions and University Services. Going forward, you can expect us to remain active, but very targeted in our M&A strategy, focusing mainly on expanding our research journal portfolio, Research Solutions offerings, and Corporate Talent Development capabilities.

On average, about half of our free cash flow is returned to shareholders in the form of dividends and repurchases. We are immensely proud of our 28-year record of consecutive dividend increases; and our current yield is approximately 2.6%. Also, in fiscal 2022, we devoted \$30 million to share repurchases, up from \$16 million in the prior year. We will continue to be opportunistic on this front, with nearly \$200 million remaining in current repurchase authorizations.

On to operational excellence. Brian and I, as well as the rest of the leadership team, are relentlessly focused on streamlining and simplifying our operations to improve efficiency and our cost structure. To that end, we've already kicked off a targeted restructuring in fiscal 2023. And that, combined with real estate optimization, will result in a Q1 charge of approximately \$19 million to \$21 million.

Thus far, the program has identified approximately \$30 million to \$35 million of run rate savings, with \$20 million to \$25 million of it to be realized in fiscal 2023. These savings are reflected in our 2023 outlook, and we will continue to identify additional opportunities throughout the year.

Also, as I mentioned, we continue to rationalize our real estate footprint, closing additional offices this quarter as we move to a more permanent hybrid work model. Since spring of 2020, we have reduced our existing office footprint by 18%.

Also, let me say that I believe there's further opportunity to improve our effectiveness through active portfolio management, process re-engineering and workflow automation. It's too early to comment on these initiatives, but nonetheless critical to understand that we're firmly focused on: one, prioritizing investment on our most advantageous growth opportunities; two, driving operational excellence through the organization to remain resilient and nimble in an uncertain economy; and three, driving future margin expansion through simplification and cost reduction.

Turning now to our fiscal 2023 outlook. I want to first comment on foreign exchange given the unusual variance between our average fiscal 2022 rates, which is our base for constant currency and the current spot rates as of June 10.

As you know, about half of Wiley's revenue is generated outside the United States and, therefore, our results are adversely impacted by the strengthening US dollar, particularly in relation to the euro and the British pound. Given the recent surge in the dollar, the exchange rate for the euro, for example, has gone from \$1.15 for a fiscal 2022 average to a current rate of \$1.06. Similarly, the British pound has gone from \$1.36 to \$1.24. This has resulted in a negative FX impact to our fiscal 2022 outlook for revenue, EBIDTA, EPS and free cash flow of \$75 million, \$25 million, \$0.30 and \$25 million, respectively.

In the table, we highlight this impact and provide both our outlook at constant currency and our outlook at the current spot rates to improve transparency. Here, I'll be speaking more to constant currency.

For revenue, Wiley anticipates mid-single digit growth at constant currency driven by continued strong performance in Research and Corporate Talent Development, as well as \$19 million of organic revenue from fiscal 2022 acquisitions.

Adjusted EBITDA at constant currency is expected to be in the range of \$425 million to \$450 million, compared to \$433 million in fiscal 2022. Solid organic revenue growth will be partially offset by higher employee costs due to inflation and targeted investments in Research Publishing, Research Solutions, and Corporate Talent Development.

Adjusted EPS at constant currency is expected to be in the range of \$3.70 to \$4.05, down from \$4.16 this year. In addition to wage inflation and targeted investments, we are seeing higher interest expense, higher tax expense, and lower pension income. These three items are expected to account for \$0.35 of additional adverse impact in fiscal 2023. Note that Wiley's adjusted effective tax rate is expected to rise from 20% this year to between 22% and 23% in fiscal 2023. This is primarily due to a less favorable mix of earnings by country and an increase in the UK statutory rate. Also note that fiscal 2022 benefited from certain non-recurring tax benefits. In terms of the lower pension income, it's important to note that our US and UK pensions have been frozen since 2014 and 2015 and we are above 90% funded.

Wiley's cash generation remains strong. Free cash flow at constant currency is expected to be in the range of \$210 million and \$235 million versus \$223 million in fiscal 2022. Positive cash earnings and lower incentive payouts are expected to be offset by higher cash taxes, interest, and CapEx. CapEx of \$115 million to \$125 million compares to \$116 million this year. Capital investment will be focused on platform and product development in Research and Corporate Talent Development, continued buildout of our digital commerce platforms, and additional back office modernization.

Before I hand it back to Brian, I want to remind everyone that we changed our ticker symbol in April to WLY and WLYB which is more closely aligned with our global Wiley brands. Back to you, Brian.

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## Brian A. Napack

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

Thanks, Christina. Let me briefly summarize where we're headed in FY 2023. First, we expect Wiley's solid revenue growth to continue driven mainly by strong market fundamentals and the tight fit of our business with the core demand trends in Research and Education. We have transformed the Research business over the past few years, achieving growth while driving strong margins and cash generation; we expect this to continue. We also expect rapid growth to continue in Corporate Talent Development driven by our ability to solve some of the corporate world's biggest skill and talent gaps. In academic education, we'll navigate the current cyclical enrollment challenges while watching for any slowdown in consumer spending which could impact some of our publishing lines.

We will continue to invest in both organic growth and seek strategic acquisitions, but will narrowly direct capital allocation toward our proven opportunities in areas such as our Research Publishing, Research Solutions, and Corporate Talent Development lines. As Christina mentioned, we are significantly emphasizing operational excellence throughout Wiley in FY 2023. The clear goal is to increase profitability and expand margins while powering our growth strategy. While always a focus, the current economic environment dictates that we elevate our productivity and efficiency. To repeat, our go-forward objective is to invest in our proven strategies while simplifying and streamlining Wiley. By doing so, we expect to continue our growth trajectory while growing profitability beyond fiscal 2023.

Building on this, let me walk through our most critical priorities for fiscal 2023. In research, we will continue to drive publishing output growth to meet growing global demand; we will transition more customers to our transformational read and publishing agreements; we will continue to expand Research Solutions, actively signing new society and corporate partnerships and cross-selling our full offering to the growing Wiley network; and we will further optimize our Research Publishing operations, lowering cost per article while increasing article conversion rates.

In education, we will continue to add to our corporate client base in Talent Development while expanding into new verticals and regions; we will continue to drive new partnerships and degree program growth; we will continue to scale our differentiated digital courseware offerings such as zyBooks; and we will continue to drive efficiency in areas such as student acquisition and content development. Across Wiley, as discussed, we will be working hard to simplify and streamline our operations to continue to enhance both focus and profitability. On the ESG and impact front, we have committed to setting and achieving near and long-term company-wide emissions targets in line with science-based net zero targets.

So in sum, the key takeaways for today are that our fourth quarter results were mixed. Strong performance in research and corporate education were offset by cyclical challenges in education. We delivered on our fiscal 2022 outlook for revenue and earnings and exceeded it for free cash flow. In fiscal 2022, we managed well through

challenging geopolitical, economic, and labor market dynamics. We do expect to see pressure in fiscal 2023, and this is reflected in our budget. We expect Wiley's solid revenue growth to continue in FY 2023 driven by strong market fundamentals and the execution of our market-aligned strategies. We are making moves to simplify Wiley and improve our operational effectiveness which will expand our margins beyond fiscal 2023. Our balance sheet and cash generation remain fundamental Wiley strengths, enabling us to re-invest, strategically acquire, and reward long-term shareholders.

I want to let you know that we plan to host an Investor Day later in the fiscal year, with the date to be determined. At that meeting, we will be providing long-range targets. As always, I want to thank our wonderful colleagues around the world for their commitment to our mission, their continuous innovation, and their tireless work in these challenging times. Wiley's enduring success is the direct result of the outstanding work of this great team. Before I open it up to questions, I do want to say that our thoughts continue to be with those affected by the terrible situation in Ukraine. Wiley continues to support humanitarian efforts in that region as we hope and pray for a path to peace.

I want to thank all of you for joining us. I will now open the floor to any comments and any questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line of Daniel Moore with CJS Securities. Your line is open.

**Daniel Moore**

*Analyst, CJS Securities, Inc.*

Q

Thank you. Good morning, Brian. Good morning, Christina.

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

A

Good morning.

**Daniel Moore**

*Analyst, CJS Securities, Inc.*

Q

I apologize in advance as I've got – I'm going to ask a few different – go in a few different routes here, but appreciate the patience and the color. First, on a constant currency basis, what are the implied EBITDA margins for fiscal 2023 across segments? If not, exact terms? Then, at least directionally, what do we expect for Research, APL, Ed Services before currency?

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

A

I appreciate the question, Dan, and I always appreciate your smart, incisive approach. I will say that at this point in time, we're not providing particular segment information. You can see that currency has had a significant impact on our projections due to the large swings. We're feeling that because over 50% of our business is outside the US. But for now, we're going to hold tight on the specific margin projections for the individual segments.

**Daniel Moore**

*Analyst, CJS Securities, Inc.*



Okay. The – in terms of spending, you obviously have been spending aggressively for some time on growth initiatives; and certainly in research, you've seen a really significant benefit, higher organic growth. What are some of the specific investments that you're making or areas of spend that are increasing as it relates to Research and Talent Development as we look to fiscal 2023?

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*



Yeah. Well, as you know, the approach that we've taken over time is to identify where we think the growth and profit opportunities are across our business and to focus our time and our investment in those areas, and I think you've seen over the past few years that this is bearing fruit. We are – we've narrowed our focus significantly to areas that are clearly both strength and big market opportunities. Those areas are Research Publishing; the overall partner solutions in research; and then on the education side, the areas that focus on career-connected education, specifically with respect to the fast-growing opportunities in the market, and here of course I'm talking about our growing Talent Development initiatives across the company.

And we're seeing those bear fruit. Specifically, in the area of publishing, we continue to invest at a steady rate in this proven, profitable and now, after the repositioning, growing business. In Research Solutions, we are continuing to invest in the areas that are demanded by our corporate clients, our partners and our associations and our society partners and as well as our publishing partners, whereas we're powering the ecosystem. So, that's where we're investing from a market-facing perspective. Internally, we're continuing to work on the simplification, automation, streamlining of all our processes and systems so that we can continue to maintain the great margins that we have in publishing and also the great margins we have in partner solutions as this business becomes more of a significant resource to clients.

In Talent Development, it's very clear where we need to focus. We need to focus on expanding the incredibly successful offerings we have for the marketplace and getting it to more segments of the marketplace, more geographies, and ultimately to broaden it to even more of the key areas where the corporate world is demanding talent. You'll even see this of course in our businesses where we're not expanding investment but we're continuing investment in areas like Ed Services where we are focused on standing up and delivering the degree programs, the certifications that people need to succeed in this economy. I use that as an example because even in the businesses that we're not identifying as significant growth investment, any capital that we do allocate is focused on the same areas of concrete opportunity and proven strength.

And I will say across the business, we continue to modernize and optimize, Dan, our systems and to make sure that we are less labor-intensive, more automated, quicker in our cycle times; ultimately delivering better product faster, more repeatable, more reusable content. And, of course, all of that would be more profitable at the end of the day.

**Daniel Moore**

*Analyst, CJS Securities, Inc.*



Very helpful. And recognizing we're not giving specific segment or sub-segment guide, but in Talent Development, just remind me or remind us, as you accelerate, you mentioned multiple new partnerships and client signings. Does that typically come with an upfront spend for quarter two or three in addition to the increased just general investment for growth? Just the cadence of if – as we kind of run faster, is that a little bit dilutive initially, just kind of thinking about the cadence over multiple quarters?

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

A

Absolutely. Good question. Not absolutely; actually, no, Dan. These businesses are – these opportunities that we're pursuing, the addition of new clients, the expanding to new geographies, there may be a little bit of go-to-market because we are, of course, pursuing those clients aggressively in the places in the world where they exist. But unlike certain other businesses, there is no significant upfront development investment. We have the product. We can develop what we don't have quickly. And based upon the cash dynamics of that business, when we get paid, how we get paid, there isn't a big upfront investment. A little bit, but not a lot. We basically see these as very nicely cash-generative businesses, very close to the point of [ph] transaction (00:44:29).

**Daniel Moore**

*Analyst, CJS Securities, Inc.*

Q

Got it. And probably a question for your upcoming Analyst Day, but you, obviously – in your prepared remarks, you're still very committed to the old OPM PE server or the Ed Services – piece of Ed Services. Mid-teens margins still achievable in your mind? And given the kind of near-term macro challenges, is there a timeframe that we have in mind?

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

A

Yeah. Well, the answer is they are at mid-teens now. We – well – and Christina mentioned this in her remarks, while the overall segment revenue – margin, EBITDA margin I think was 12%, we're actually still operating at 15% or above in the services or OPM part of that business. What happened, of course, is we have invested in the growth of Talent Development, and that has weighed down a little bit the overall profitability of that group in the short-term as we race to capitalize on that opportunity.

But, yes, of course, when we see cyclical enrollment challenges like the challenges we faced, it most certainly has an effect on both revenue and profit. But we are committed and have proven that we can operate our Education Services business, particularly our University Services business, at a healthy profit. We don't see a need to refocus because we've always focused on that and we believe it's a good, consistent business from that perspective.

**Daniel Moore**

*Analyst, CJS Securities, Inc.*

Q

Great. Last for me is, I think you gave great color on capital allocation. Leverage ticking lower, down to 1.6 times. Is that still a focus, continuing to drive that down lower or likely to be more aggressive in terms of returning capital to shareholders, absent larger M&A, especially kind of where the – the stock being around current levels? Thanks for all the color.

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

A

Yeah. Thanks, Dan, and thanks always for the great questions. I'll just make a comment or two and then pass it to Christina on this important topic. So we've taken the perspective of a consistent approach to capital allocation for a long time that balances internal investment and return of capital to our shareholders, and we continue to do so.

Our debt levels are an important part of that equation, and we are comfortable where we are. We're not looking to increase or decrease it. This is really an important point from the perspective of our investors. We view that we've been on a journey for a long time. That journey was a journey that required us or that asked us to find the

opportunities of growth and the massive opportunities in the marketplace of Research and Education. We've now identified those areas of opportunity. Those areas of opportunity, we've outlined specifically in our script, and I won't repeat them now, but they're paying off.

And so, Wiley, over the last four, five years, has transformed itself from a company where we didn't know where the growth was going to come from to a company that has clear and identified opportunities for growth. And we have invested in those opportunities. Those opportunities are paying off. You've seen our growth tick up. And over the last couple of years, as per the metrics that Christina had outlined, we've been growing our top line and our bottom line.

Now, we are at the point in this journey when we need to start to return margin to our investors. We have to start to convert that growth into free cash flow, and that is – in increasing volumes and in increasing percentages, and we are definitively committed to that.

Now, why am I going on about this in response to your question? Well, the answer is that – my answer is a foundation for everything we're doing right now. We have a debt level that is completely acceptable right now to us. We exist in recession-tolerant businesses. Research is a must-have product, and the players that are in that segment that we service through our partner solutions business also are part of that recession-tolerant ecosystem.

On the education side, we tend to benefit from recessions, albeit at somewhat of a lag. But these are good businesses for us to be in. There are growth opportunities we have identified, and we intend to continue to invest in those growth opportunities. We did not allocate a lot of capital for acquisitions last year. We continue to be strategic in our focus about acquisitions – on acquisitions to fund those strategies, should we find those. And we will continue to do so at levels like the levels you've seen over the last few years.

Should we need to, of course, we can use the headroom we have in order to pursue those really good growth strategies. But for now, we're pretty comfortable with where we stand and we like the idea that in these uncertain times, in these uncertain times we have dry powder to invest; we have the ability to pay it down. I'll let Christina talk about her perspectives on this topic because it's important for you to hear from her, but on all of these issues we are staying the course. We've identified our opportunities; we have dry powder to attack those opportunities. We are committed to returning capital and increase our operating leverage on behalf of our investors, and we like where we sit, Dan. So, it's a long-winded question, but a couple things I wanted to lay down as foundation for this important question about debt.

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**Christina M. van Tassell**

*Chief Financial Officer, John Wiley & Sons, Inc.*

A

Thanks, Brian. I think very well said. Just to reiterate, we are comfortable with where we are at 1.6, down from 1.7 last year. We've got room to go higher over 2, but there's no plan to do that. It's really going to be – we're going to be very mindful of interest expense, our macro environment and really the opportunities in front of us. So, we feel very good. We have a good buyback program and we continue to stay the course there as well. And we will adjust as necessary, but very good shape.

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**Daniel Moore**

*Analyst, CJS Securities, Inc.*

Q

All right. Appreciate the color.

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A

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

Thank you, Dan.

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**Operator:** [Operator Instructions] There are no further questions at this time. I will turn the call back over to Mr. Napack for closing remarks.

**Brian A. Napack**

*President, Chief Executive Officer & Director, John Wiley & Sons, Inc.*

Yeah. So, I'll make a few closing remarks before I move on to looking toward the future. So, while we haven't provided any long-term guidance, we do expect to provide long-term guidance at our Investor Day that is coming up, which I hope you will all attend. We're very excited about the future of this company and we look forward to talking to you. At that time, we're going to be talking about this trajectory we're on to turn our growth, which we're confident in, into increasing operating leverage. And as you look across our segments, what you will see is that we have increasing – we have consistent confidence in our ability to maintain our margins, our EBITDA margins and our operating income margins. In the Research Publishing business, we've proven that we can do that as we move through the transformation. We found growth; we found it at consistent margins. We like the look of the partner solutions business and where that's going. These are businesses that are software and tech-enabled services where we expect to generate very good operating return, and at our Investor Day we'll talk more about that.

As we look across our other segments, on our – on the APL side, we have businesses that tend to return, over time, very good, consistent earnings back to the company. They dipped a little as we have gone through some of these cyclical trends with regard to enrollment, and even longer as we've gone through transformations of those businesses. And while we're not providing outlook on the future of, say, our Ed Pub business, what I am saying is we like the way that business fits into our portfolio and we like the fact, we are confident in the fact that we can continue to generate very solid earnings off of the revenue there. So, while not a growth engine for us, it's an important component of our actively managed portfolio which are the words Christina used in her remarks earlier. So, we're very confident in the future of that business, and that business is doing its pivot as well. And as it pivots toward these career-connected opportunities – again, you look at zyBooks; very career-connected, very good margins – we will be increasingly in businesses that we can not only generate a little bit of growth out of but also generate good margins.

And I've already made comments on the margins with respect to our Education Services business, and so I won't underline those. But all that does, all of that should give confidence that now we are at a stage where Wiley, with its intense focus that Christina mentioned earlier on operational excellence, can start to generate the operating leverage that our investors seek and that they deserve. So with that, I will thank you for attending. I'll look forward to talking to you at our next conference call, and then look forward to hoping to see you all at Investor Day as we get that set up. Thanks very much.

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**Operator:** This concludes today's conference call. You may now disconnect.

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