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John Wiley & Sons, Inc. (JW.A)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Wiley's Fourth Quarter and Full-Year 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to your speaker today, Mr. Brian Campbell, Vice President, Investor Relations. Please go ahead.

Brian Campbell

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

Thank you, Jerome. Hello, everyone, and thank you for joining us. With me are Brian Napack, President and Chief Executive Officer; and John Kritzmacher, Chief Financial Officer.

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 reviewed 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 this presentation and playback of the webcast will be available on our new Investor Relations webpage.

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

Brian A. Napack

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

Well, good morning, everyone, and thanks for joining us. I want to start by acknowledging our colleagues, customers, and partners in India, Sri Lanka, and Brazil and elsewhere around the world where they're still struggling mightily with COVID-19. We all look forward to a day when this terrible crisis is behind us. This past year's profound health, economic, and social challenges continue to remind us, at Wiley, of the importance of what we do. We enable scientific and medical discovery, we power education, and we shape the workforce of tomorrow. So, our work at Wiley, as a business, is committed to unlocking human potential which we need now more than ever.

Fiscal 2021 was a good year for Wiley. Our consistent strategic focus on open research and career-connected education paid off, and we saw strong financial performance and increasing momentum. Our markets began to emerge from the long periods of transition and they demonstrated strong demand for fully differentiated digital products and services and from business models that worked for both Wiley and for our customers. Long-term trends, which is open access and online education, were pulled forward by the crisis, clarifying what the future of research and education will look like and strengthening our growth outlook.

Wiley's execution in this most challenging year was exceptional. Our team around the world adapted well to a fully virtual work environment and very fast changing market conditions. They took good care of our customers during a time of great need while continuing to drive our strategy forward and improve our operations. Notably, our colleague engagement worldwide has risen significantly during this period. One of the reason for the high engagement is our people's deep belief in the unique impact that they have on society year in and year out. The more researchers and learners we help to succeed, the greater the impact; and there was a lot of opportunity for impact this year.

Overall, fiscal 2021 was a year in which we continued to execute on our strategy and in which the market told us that we were on the right track. Long-term opportunities are expanding in open research and career-connected educations, and we're going after them.

During the year, we saw the acceleration of three long-standing trends that define our markets. The shift toward open research, the migration toward online and hybrid education in both university and corporate settings, and the increased adoption of digital tools and courseware for learners.

As you know, Wiley strategies are tightly aligned with these trends. We're capitalizing strongly on the growth of open research where revenue is a direct function of the quantity of articles published in the price we charge. We realized significant volume gains in fiscal 2021 based on the quality and breadth of our journals and on the excellent performance of our strategic read-and-publish agreements.

These volume gains are driving double-digit OA revenue growth. The demand for online degrees and credentials accelerated significantly through the year, hastened by the pandemic as it did while these network of leading universities and corporate partners enabled learners to improve their career prospects through education. Consequently, enrollment was up significantly.

Wiley has long been a strategic partner for both universities and corporations and our services were in high demand as institutions planned for their hybrid future. This move to digital education also drove an accelerated

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shift toward digital curriculum. Our volumes are up significantly as digital courseware products such as the highly effective zyBooks line emerged as the preferred learning toolset in today's world of anytime anywhere education.

Wiley is a leader in digital courseware and we continue to realize significant growth in adoptions and usage. As the market goes increasingly nontraditional, new opportunities are opening up for companies like Wiley that can deliver a learner wherever and whenever they choose to learn. At Wiley, we are highly motivated by our environmental and social responsibilities both in our core lines of business and as a global corporate citizen.

In February, we signed the UN Global Compact, a pledge to drive business acting in support of achieving specific sustainable development goals by 2030. As a company committed to research and education, Wiley's growth strategy has been felt to have impact and our success leads to ever greater societal benefit. For example, the rapid growth of open research output means that more cutting-edge knowledge is being delivered to the world faster and more openly, so it can have more impact.

The same can be said for our work in education where the growing reach of our career connected offerings leads directly to unlocking career potential for millions of learners, many of whom would not have otherwise had access to the opportunity. Across Wiley, we're always looking for ways to increase access and lower costs for those most in need. One example is our longtime partnership with Research4Life. Through it, we provide free or low-cost access to our content in developing countries.

More broadly, Wiley's work to ensure a vibrant research ecosystem directly advances the UN's sustainable development goals in areas such as good health and well-being and climate actions. Wiley is also finding ways to improve access to high impact education from lowering the cost of courseware, which we've been doing to delivering faster and more targeted career credentials to extending our footprint in underserved markets.

Our mthree technology career program in India, for example, targets at risk populations such as candidates who were the first in their families to access higher education. And it targets those from households earning less than $500 a month. Notably, over half of our candidates for credentials in India are women. By actively targeting impact in this way, Wiley is helping to fulfill UN's sustainable development goals for quality education and reduce inequalities.

We're pleased to report that Wiley achieved carbon-neutral certification for fiscal 2020 and our fiscal 2021 measurements are now getting underway. As a predominantly digital company, we will continue to drive reductions in our carbon emissions by reducing the company's production of printed products such as books and journals and by pursuing a broad green plan.

During the year, I signed the CEO Action for Diversity and Inclusion. The CEO Action is a significant commitment to sustain concrete action that advances thinking, behavior, and business practices in the workplace. Wiley also proudly received an A grade in the MSCI ESG ratings report and a perfect score from the Human Rights Foundation for LGBTQ Workplace Equality.

At an industry level, as the Chairman of the Association of American Publishers, I am personally advancing two ambitious initiatives industry wide, one on sustainability and the other on DE&I. Wiley will continue to drive impacts both as an enabler of discovery and learnings and through corporate responsibility across our global footprint.

Now, I'll review our results for the quarter and then for the year. The team delivered another quarter of strong execution and performance. Revenue rose by 10%, adjusted EBITDA by 21%, and EPS – adjusted EPS by 41%.

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Research revenue for the quarter was up 9%, 4% organically, driven by continued momentum in open access, corporate solutions, and research platforms. APL grew 12% largely by strong demand for content and courseware across both Education Publishing and Professional Learning. This growth was helped by an accelerating recovery in corporate training. Education Services rose 7%, driven by growth in degree program enrollment and mthree job placements.

Earnings growth was largely fueled by strong profit performance in APL and Ed Services, driven by both revenue growth and significant cost structure improvements. This offset a decline in Research due to investments in editorial capacity to fuel our further growth, and higher annual incentive compensation related to fiscal 2021 performance.

For the year, Wiley reported strong growth across all financial metrics. Revenue was up 4%, adjusted EBITDA up 16%, and adjusted EPS up 27%. Free cash flow for the year was up 48% to a historical high of $257 million. As you can see, it was a good year, especially in light of the considerable COVID-related disruption. John will walk you through the cash flow and capital allocation later in the presentation.

I'll now turn to our segment performance. Wiley Research delivered another strong year with revenue up 5% and 3% organically. This was fueled by consistent execution of our strategy to take advantage of the increasing global demand to publish and to access research. Adjusted EBITDA rose 6% for a full-year EBITDA margin of 35%.

Research article output continues to grow nicely. This volume growth supported by strong open access pricing power resulted in double-digit growth in our OA revenue. This OA growth more than offset modest pricing pressure that we saw in our subscription business due to COVID impact on library budgets.

Our strategic read and published agreements, what we sometimes refer to as transitional agreements, continue to contribute to robust growth in publishing volume.

During fiscal 2021, we signed multi-year agreements with consortia in Italy, Ireland, Spain, and Switzerland. Hindawi, the innovative OA publisher we acquired in December is already adding significant value as we integrate its fast-growing collection of 200 journals. As noted, we anticipate significant revenue synergies from the expansion of our general portfolio and by offering a broader range of platforms and services to our existing society and publishing partners. We are well along in the integration of Hindawi and it is going very well.

Wiley Research is also seeing continued strong momentum from our platform, corporate solutions, and society publishing lines. Of note is the success we're seeing in the career centers that we manage for corporate and society partners. We recently signed up GlaxoSmithKline and Pfizer among others. We're also seeing continued success in the addition of new society publishing business with net wins for calendar year 2021 worth over $10 million annually.

Other noteworthy developments in Research from the past year include the following. In just 12 months, Literatum usage grew by 31% to 4.6 billion user sessions, while the platform maintained a 98% client retention rate. We're increasingly leveraging our broad product offering in Publishing & Platforms to build expansive new partnerships with major societies such as the Chinese Medical Association Publishing House, and the American Association for the Advancement of Science or the AAAS.

During the year, we continued to build our proprietary journal portfolio including launching a major new flagship journal called Natural Sciences which we created in partnership with the influential project deal consortium out of Germany. We're very excited about the potential of this journal.

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Internally, it's critical that we don't take our eye off the optimization ball. Through fiscal 2021, we continue to make significant gains in the efficiency of our publishing operations while supporting our unprecedented volume growth. Over the past few years, Wiley took a strong position to stand as a strong ally to the evolving research sector. We chose to be bold and to move deliberately toward new publishing models and platforms, actively pursuing strategies that align us with the market and that put the researcher first.

The result has been a steady upward revenue trajectory from 2% organic in fiscal 2020 to a mid-single growth outlook for fiscal 2022. From where we sit, market trends remain favorable. Scientific research investment and output continue to grow nicely, and Research is increasingly integrated into both corporate strategy and government policy around the world.

One important macro indicator of global R&D spending is forecast to rise by 5% in calendar 2021. Demand to publish peer reviewed research will continue to be very strong and access to that research is essential. Looking forward, Wiley is in a great position to meet the growing needs of the global research ecosystem.

Now, on to academic and professional learning. I'm pleased to report that our education publishing business returned to modest growth this year. It did so during the – due to the combination of a winning publishing platform, favorable market dynamics and consistent customer-centric strategies, which include the multi-year build-out of our courseware portfolio and a tight focus on high demand disciplines and careers such as tech education.

In Professional Learning, we continue to see steady recovery from the impact of COVID, driven by strong momentum in our professional publishing program and by the continuing recovery of corporate training. That said, COVID was highly disruptive to in-person corporate training and test prep and we had to navigate through that. For the year, APL revenue was down 2% although the fourth quarter saw a growth in 12% compared to the COVID-impacted fourth quarter of last year.

Adjusted EBITDA accelerated in to the second half of the year driven by revenue performance and gains from optimization. We finished up 4% at a full-year EBITDA margin of 25%. Other APL highlights from the year include the following. Our WileyPLUS platform recorded 1 million activations for the first time, and revenue from our zyBooks program increased by over 50% now with over 400,000 subscribers.

We launched a partnership with Southern New Hampshire University, the largest non-profit provider of higher education in the United States with 175,000 students. Together, we're redesigning their MBA program to allow learners to complete their degree in one year at a materially lower cost. This is a good example of Wiley's broad ability to help universities succeed by supporting their evolution with great content, great services and leading-edge innovation.

Finally, I'm happy to say that our well-known Dummies franchise grew 9%, confirming the longstanding appeal of this customer – of this consumer-focused brand for many millions of learners. We've been quite deliberate in our strategies to grow and optimize academic and professional learning, and I'm pleased to say that we expect to return to growth in fiscal 2022.

It's too early to comment on slow enrollment except to say, we don't anticipate the same undergraduate enrolment headwind that we saw last year despite some COVID-induced uncertainty that remains in the system. We expect to have a better view of enrollment as we get closer to the start of the full year in the fall. While it's hard to predict the post-COVID future, it is clear that the transition to online learning will continue to drive the increasing adoption of digital content and courseware in both academic and corporate settings.

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Professors and students alike are now beyond the tipping point and are readily adopting and implementing fairly priced digital programs to support their learning journeys. And corporate leaders are increasingly focused on real-time development of their teams to fulfill gap which is similarly driving demand for digital content and platforms. All of these bodes well for our APL offerings as the labor market drives an increasing need for Wiley's career-connected content and services.

Fiscal 2021 was also a good year for Ed Services segment with COVID as a contributor to online enrolment. For the year, revenue rose 21%, 7% organically, powered by 14% growth in student enrolment and 20% growth in new student starts. Adjusted EBITDA more than doubled this year as our focus on optimizing the student journey from lead to graduation began to pay off. We finished with a full-year EBITDA margin of 18%, up from 9% last year.

Beyond our strong financial performance, we saw a number of other notable achievements during the year. The team signed eight full service institutional partnerships including the University of Montana, LaTrobe University in Australia, Tel Aviv University in Israel and this quarter, Norwich University in Vermont. We also added important partnerships for unbundled services with New York University and the University of Wyoming.

Building the online catalogs of our existing partners is always a top priority. And we added over 40 new degree programs at existing partner schools in areas ranging from business and healthcare to computer science and public administration.

Despite COVID headwinds in the early stages of the pandemic, we gained momentum with mthree through the year as corporate demand for tech talent accelerated. In the fourth quarter, we signed four major global corporations following three that we signed in the third quarter. We also delivered record placements with existing Fortune 100 customers. We head into fiscal 2022 with great momentum. Pipeline is strong and we're expanding in new markets as a global player.

Around the world, demand continues to grow for high-quality [indiscernible] (20:28) online degrees and job-ready talent. Over the past few years, we've been focused on meeting these needs by building a solid foundation for durable profitable growth in Ed Services. This begins with delivering an exceptional value proposition to our university and corporate partners.

It also means serving them efficiently and profitably [indiscernible] (20:49). We've raised our EBITDA margin from 3% in fiscal 2019 to 18% in fiscal 2021, while also achieving significant revenue growth. With this foundation in place, we can set our sights on meeting demand with low-teens organic revenue growth expected in fiscal 2022, up from 7% this year.

Looking ahead, we expect universities to continue to actively transition to hybrid online degree delivery and we will continue to enable their success by delivering high impact learning experiences. We expect demand to remain strong for academic credentials as students and professionals look to differentiate themselves in a competitive labor market. This will include increasing demand for new forms of targeted credentials that are quicker to get, more affordable, and that gives workers the precise skills they need to succeed.

The pandemic has only accelerated the need to close the talent gap, whether by helping our university partners deliver graduates that can hit the ground running or by helping corporations to identify, train, and place great talent while they will play a major role in creating the labor force for the post-pandemic economy. I'll now pass the call over to John for more detail on our financial results.

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John A. Kritzmacher

Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

Thank you, Brian, and good morning, everyone. As Brian noted, the Wiley team has made significant progress in refining and executing our growth strategies while also driving important gains in operational efficiency and effectiveness. Our improved revenue and profitability in fiscal year 2021 is clear evidence of our strong momentum. Following an extended period of limited revenue growth, we now anticipate organic revenue growth of 5% or more in the coming year.

We will continue to invest in the expanding opportunities in our market. In research, we will publish more to meet global demand, leveraging Hindawi to drive open access revenue synergies. And we will go broader with publishing and platform offerings for societies and corporations. In career-connected education, we will continue to expand our online degree programs and drive online enrollment, scale our digital courseware portfolio and expand the IT talent development pipeline along with our base of corporate clients.

Finally, in our relentless pursuit of operational excellence, we will continue to expand publishing capacity and workflow automation, drive student acquisition improvements, and enhance our direct-to-consumer capabilities including our e-commerce experience.

Looking ahead now to fiscal 2022, total Wiley revenue is expected to exceed $2 billion for the first time in our history, growing by mid to high-single digits to a range of $2.07 billion to $2.1 billion. For the year, we anticipate revenue growth in all three segments including mid to high single-digit growth for Research, low single-digit growth for Academic and Professional Learning, and low-teens growth for Education Services.

Adjusted EBITDA is expected to range between $415 million and $435 million with profit gains on higher revenue tempered by investments to accelerate growth in Research and Education Services accompanied by higher T&E expenses due to the resumption of in-person business activities. Adjusted EPS is anticipated to range between $2.80 and $3.05 reflecting higher depreciation and amortization expense related to investments and acquisitions along with a higher effective tax rate.

Capital expenditures including technology, property, and equipment, and product development spending are expected to range between $120 million and $130 million, compared to $103 million in fiscal 2021 as we invest in the previously noted growth initiatives. Wiley's free cash flow generation will remain strong although we will continue to see some variances from year to year. Wiley generated $173 million of free cash flow in fiscal 2020 and $257 million in fiscal 2021. Fiscal 2021 performance was driven by strong cash earnings, lower CapEx, and a $21 million CARES Act related tax refund reported in Q2 and received in Q3.

Looking ahead to fiscal 2022, we anticipate free cash flow of approximately $200 million to $220 million. While cash earnings are again expected to be strong, we see certain headwinds as compared to fiscal 2021 including $20 million to $30 million higher CapEx in fiscal 2022, higher net cash taxes in fiscal 2022 due to the CARES Act related tax refund received in fiscal 2021, and higher annual incentive compensation payments to be issued in the first quarter of fiscal 2022 for above target performance in fiscal 2021.

Our strong balance sheet and cash flows over time enable us to confidently invest, acquire, and return cash to shareholders. As previously noted, fiscal 2021 free cash flow of $257 million was 48% higher than the prior year. CapEx was $103 million for the year, $12 million lower than the prior year due to delayed investment in the early days of COVID.

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As a reminder, we acquired OA publisher, Hindawi, this year for $298 million. As we noted at the time of acquisition, Hindawi's attractive financial profile includes strong double-digit revenue growth and EBITDA margins in excess of 40%.

Our net debt-to-EBITDA ratio, inclusive of the Hindawi acquisition, was 1.7 at the end of April, compared to 1.6 last year. Our strong cash flow for the year complements a healthy balance sheet with more than $90 million of cash on hand and undrawn revolving credit capacity in excess of $660 million at year-end. Approximately, 30% of our free cash flow was allocated to the dividend this year and the dividend was raised for the 27th consecutive year. Our current dividend yield is a little over 2%.

And finally, share repurchases were lower due to cash conservation in the early months of COVID. Since resuming repurchases in January, we acquired approximately 310,000 shares at an average cost per share of $50.93. Notwithstanding the reduced level of share repurchases this year, Wiley maintained its strong track record of returning cash to shareholders with dividends and share repurchases totaling $93 million.

I'll now turn the call back to Brian.

Brian A. Napack

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

Thanks, John. Let me quickly summarize the key takeaways before I open it up to Q&A. Fiscal 2021 was a good year overall for Wiley as our growth strategies in open research and career-connected education took firm root. These growth strategies continue to benefit from long-term market trends, which have been pulled forward significantly in the past year.

So, despite COVID-related headwinds, these strategies and favorable market dynamics drove strong performance and increasing momentum across the company. We expect long-term opportunities to expand in open research, online education, and digital curriculum. Nonetheless, we must remain focused and vigilant as we step forward into the uncharted post-pandemic world.

That said, we play in fundamentally good markets; and at our core, Wiley remains a very strong company with exceptional brands, a solid financial position, and powerful growth engines. And as an impact company, we're powering discovery and learning worldwide and through this unlocking human potential. All of us at Wiley are very proud of our purpose and we're highly motivated to expand our impacts by doing whatever we can to increase the success of our millions and millions of learners and researchers around the globe.

In closing, I want to thank our wonderful Wiley colleagues for their truly remarkable accomplishments this past year. They demonstrated resilience and a dedication to each other and also to our mission. They delivered results for our customers and our shareholders all in the face of significant disruption. I'm very proud to work with each and every one of them.

I'll now open the floor to any comments and questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Daniel Moore with CJS Securities. Your line is open. You may ask your question.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Brian, John, good morning. Thanks for the color and thanks for taking the questions.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Good morning.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Start with, obviously, the top line outlook is really encouraging generally across the board. Start with research where you raised the outlook to mid to high single-digit growth. First, I guess it looks like any lingering pricing pressure from colleges/universities from COVID seems to be abating, is that correct? And second, are you seeing the increase largely from open access accelerating? And then, I have a quick follow-up on publishing as well.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Yeah. Absolutely. Look, it's a great question because ultimately our future is defined by the health of our publishing programs and the balance between our subscription businesses and our OA. I would not say that the pricing pressure has abated because the university ecosystems worldwide continue to be under significant financial pressure. Having said that, what the last year has demonstrated is that our research, our high-quality essential content are something that librarians in universities are simply not willing to go without. So, we expect to see some continued financial pressure. But again, what we've said many times is that that pressure will be modest and it will continue to be more than offset by the second item that you reference, which is our OA growth, which we continue to see significant growth in, with submissions up in the upwards of 20% and output up in the mid-teens.

And as that happens, we move as you know to a P times Q environment that continues to drive revenue growth in a very direct way especially considering, as I've noted a number of times, the very solid pricing power that we have due to the high quality of our general portfolio. So, I wouldn't say that the tough times are over for universities and I think we're going to have to continue to work with them affirmatively like we did last year when we went out with a zero percent price increase. That's going through our P&L this year, zero percent price increase.

And certainly, certain institutions where research is somehow less essential, there might have been a little bit of more pressure. But overall, our customer base and the renewal rates are extremely high both on a gross and a net basis. So, we're very pleased with where we're coming out of this. And of course, as we move forward, it's all about the quality and the volume of our publishing program which both undergirds our traditional subscription business and fuels the growth engine that OA has become for us.

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Daniel Moore
Analyst, CJS Securities, Inc.

Q

That's great color. Switching gears to academic and professional learning. What kind of assumption or projection are we making for – if you just sort of isolate textbook portion of the business in terms of the guidance, how much of rebound or recovery are you experiencing in corporate and professional learning? You touched on it, but any more color there would be great.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Sure. Sure. So, we have had – the academic content business, which is sort of rightly referred to as a textbook business, has been in a period of transition for a long time. But it really is no longer the textbook business. It really is the digital content and courseware business now where we're well over 50% of our revenue comes from digital units. That's important to note. We are seeing significant growth in our digital units. We're seeing growth in our digital revenues and we'll continue to see some pressure in the print parts of the business which we never expect, or at least not for the next few years, to go away completely. But the uptake that we've seen in the digital content courseware which is becoming the norm, it's becoming the standard and just last year, just proved that.

Because it not only forced people to go digital, it actually proved to them the value of these powerful digital interactive, personalized product where you can measure impact and you can learn wherever you want. I guess, it's a longwinded way of things. We like the future of that business and we like because the high-quality content that we produce is absolutely essential to what they do and it has been proven over and over again. So now that we're through the transition, we expect the business to behave like a modest – low to modest growth business and to be nice and profitable along the way.

Does that address your question, Dan on that part of it, I'll move to corporate part next?

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Yes, absolutely. And maybe corporate reopening as COVID abates.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Yeah. So, corporate is an interesting – there's an interesting set of dynamics going on in corporate and it's really driven more by the skill gap and by the need to get teams to be highly functioning and to get individuals to be highly performing. And what we saw in the last year was super interesting. So, we had a business – we have a business that supports in-person training very directly as you know. And needless to say without any in-person, there was no in-person training.

But what happened during the pandemic was quite fascinating, in that there was a dramatic shift toward the virtualization of those in-person trainings. And at this point, well over 80% of our trainings remain virtual even as we're going back because, again, people have realized this is what we mean by when we say the trends are pulled forward. They were trends. They were pulled forward. And now people are realizing wow, I can touch more people, have a more regular interaction, more regular trainings, upskilling as part of my day-to-day job.

So, that has come back quite nicely even as the in-person part of it has continued to be – it's growing quite well. But it's growing well compared to COVID lows. But we're seeing this virtual aspect to it and the digital aspect to it

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adding significant more time, if you will, because now I can make learning part of more people's lives in their jobs and do that throughout the year as opposed to just on single days where I have in-person training.

So, it's starting to come back but not yet back at 100% that part of the business. But overall, this segment is an essential part of the economy that we're positioned very well to participate in.

Operator: Your next question comes from the line of Greg Pendy with Sidoti. Your line is open.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Hey, guys, thanks for taking my questions. I just – I wanted to make sure I understood that correctly when you said the trend is pulled forward, but for the education and publishing and professional learning segment, is it fair to say that the low-single digit guidance, the cadence throughout the year will probably be front and weighted just because of the test prep trends during COVID? Is that correct?

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Not 100% I understood the question. What we're seeing in the test...

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Is it...

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Go ahead, if you want to clarify.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Yeah. Low-single-digit guidance for that division, I'm assuming it's going to be front and weighted. The revenues will be higher in the first half. Just given the trends during COVID kind of pushed a lot of test prep out, is that fair?

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Right. The – I think I understand. The future of the businesses that were most affected by COVID, test prep is one of them and our in-person training – corporate training businesses was the other. We will see – our recovery will be a direct function of the recovery of those sectors. I've just touched on the in-person corporate training piece to say that it's growing nicely back from prior year's levels both within the traditional piece where we're getting back to our pre-pandemic levels and also in the more new digital opportunities that are created by it. And those will develop over time.

So, yeah, as we recover there, you'll see a direct function of that recovery showed through in our growth rates compared to the year-on-year, that periods. In test prep, the same dynamic folds. But it's a little less clear. It's a little less clear how that's – how and when that's coming back because we still don't have full scale resumption of testing and the delivery of test in test prep centers. As that comes back, we will track with it and we're not going to predict that on an individual product line basis here. We obviously believe it's going to come back and it is coming

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back at some level. But we will track that and we don't have pure visibility into when that's going to happen because it's a function of health conditions and things outside of our control.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Understood. That's very helpful. And then, I just wanted to dig into just the – what was it? The education – editor capacity that kind of ramped up in the research division, can you just give us a little bit of color on that? Because it seems like you have some positive moving parts with the 40% EBITDA of the Hindawi acquisition coming in. So, can you maybe give us a little bit of color on how to think about that and is it going to continue throughout 2022?

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Yeah, absolutely. So, I can give you a color on that, and John can add to the answer that I will give you with some color if he feels like there is more to add. So, yeah, we saw unprecedented surge in demand from the very beginning of the pandemic from what were already pretty high levels of demand. The demand in the research business presents itself in the form of increased submissions and the requirements to evaluate those submissions and process them through the pipeline. And a significant portion of our – of the investment was keeping up with that demand. Naturally, what you want to see is what we're doing which is we're investing heavily in the automation and to streamlining those processes. So, while now we brought on significant capacity in order to meet that demand, in the long run, you should see and expect to see increased productivity as we process that pipeline in a more streamlined and automated fashion. We saw a growth opportunity. We did what we needed to do to capitalize on it. And that's what it comes down to.

Now in the longer run, we are investing in people now. But in the long run, we're investing in automation and streamlining the processes in order to make sure that the profitability translates straight through or directly through – excuse me, the revenue translates more directly through to profitability. And the Hindawi acquisition you rightly note is a net contributor to our profitability because they have pioneered some very efficient streamlined processes through and great systems for processing increased volume of open access articles.

John, is there anything you would add to that?

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Yeah. I just would add, Greg, when you're looking at the fourth quarter results, which I'm sure you are, you see the dip in the EBITDA margin. That is significantly driven by the item I mentioned with respect to annual incentive compensation and it being above target in the fourth quarter. That's significantly weighing on research results in the quarter. So, we expect to head back in the direction of our trend line around EBITDA margin in that business. The fourth quarter was again significantly impacted by incentive compensation.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Got it. Got it. And then just one final one. The real estate, the $8 million in I think run rate savings, has that started in this quarter or is that going to take a little bit of time till it starts to work its way in?

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

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No. Greg, we're under way there. We've been running in the last couple of quarters about call it around $2 million a quarter in savings.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. Perfect. All right. Well, thanks a lot. That's all I got.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Great. Thank you.

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Thank you.

Operator: And we have a follow-up question from Daniel Moore with CJS Securities. Your line is open.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Thank you again. I just wanted to get to the profitability portion of the guide. So, on a go-forward basis, EBITDA and EPS guidance implies fairly modest incremental margins you laid out in detail. Obviously, incremental investments in Research as well as T&E. Is there any way to quantify each of those to get a little bit better sense for the magnitude of each? And then secondly, Hindawi, I believe we expect it to be accretive by fiscal 2023 on a GAAP basis. What kind of dilution are we looking at for fiscal 2022 from Hindawi for EPS?

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Sure. So, thanks, Dan. Sure. So, let me first respond to your comments overall about flow-through on profitability. So, we are investing substantially both in Research and in Education Services, right? So, it's not just Research but we see important opportunities for strategic revenue growth across the business. But most significantly, we are investing in Research and in Education Services.

And then along with that, we do see some pressure on T&E, call it, single digit millions of dollars because we're going to ease our way back into this, but we are going to get back into a more in-person business activity environment and that will drive some spending not only around travel but also around hosting some events that add value to the business. So, we'll see a combination of factors there.

I do also want to call out significantly impacting our growth in EPS because that we do have higher depreciation and amortization associated with investments and acquisitions, and we are anticipating an increase in our effective tax rate from what was roughly 20.5% in fiscal year 2021 to something that will be in the 22% to 23% sort of range. So, somewhere in that direction.

With regard to Hindawi, we had said that Hindawi would be about $0.15 dilutive to EPS in our fiscal year 2021 and that's about where we ended up. We expect that level of dilution will decline significantly in fiscal 2022 and then be accretive to our earnings in fiscal 2023 as we said before. From an EBITDA and cash flow perspective

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though, Hindawi will be significantly accretive to Wiley in fiscal year 2022. So, we're on the track we had expected.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Very helpful. And I think I'm going to take a quick stab, probably not but fascinated by the automation and the investments that you are making longer term, any kind of margin benefit that you might be willing to discuss or is it a little early – premature for that?

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Well, it's a little early...

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Yeah, Dan...

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Go ahead, Brian.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

No. You could take it. Go ahead, John.

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Yeah. And I was just going to say we're making these investments now with the expectation that they will both improve our top line growth. Again, we see some really strong opportunities and they're reflected already in our top line growth projections for fiscal 2022. But we certainly also expect to drive efficiency gains. I would say, most notably as Brian commented on the Research side where we're going to drive process efficiency and automation in Research that will help us grow rapidly in open access while managing the associated costs with that and improving our margin over time. So, there's some work to be done but, yes, we do expect that these investments are going to improve our margins along with revenue.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Yeah, Dan. So, what I wanted to add to that is we are on a long-term path to two things. One is to take advantage of the opportunities that exist in the marketplace today, and this gets to your earlier question as well. And these opportunities exist in Research. They exist across all of our segments. As you know, we feel very good about where our markets are going. But we're also investing in making these better businesses and the good thing is the two things go together. In almost every case, the two things go together and I won't do a litany of how. I'll just give you one or two examples.

We continue our investment, apart from the short-term investment that I talked about earlier in terms of capitalizing on short-term opportunities, demand opportunities, as we invest in the automation of our research

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publishing processes, a number of really good things happen. The first thing that happens is obvious, right? We sort of moved from manual processes to digital and automated and AI-driven processes, and that's good. But there's a lot of stuff that goes along with that. The investment in that automation also makes the process by definition faster which is what the market wants and also what we want because we get to put more through the system.

It also allows us to move. We've talked about this issue of the cascade and the importance of being able to find a publishing home in our 1,900 journals for all high-quality research that deserves to be published. And automation allowed us, Dan, to take a number of that published – sort of call it a quarter of our articles that we published today and move that up incrementally while maintaining quality, because now we have the ability to not just sort them efficiently and process them efficiently and edit them efficiently and produce them efficiently, but also to – in automated, also in manual ways, but in automated ways to get them as quickly as we can to a home inside the portfolio, which sounds like an easy thing to do, but it's actually quite hard.

My point is that, we are investing significantly in the processes and in the infrastructure in order to make sure that the business gets better and more profitable at the same time, meaning better for the customers, better for us, and also generate profitability. This is why we're confident in not just the top line outlook as we pivot towards growth, but by pivoting toward growth, we're also improving the bottom line outlook. I hope that's clear, Dan.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Yes. No, that's very helpful. And as I said at the outset, the trajectory of the business is really encouraging. So, I appreciate the color and I look forward to hearing more.

John A. Kritzmacher
Chief Financial Officer & Executive Vice President, Operations, John Wiley & Sons, Inc.

A

Great. Thank you.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

A

Thanks, Dan.

Operator: As there are no further question at this time, I'll now hand the call back to the company.

Brian A. Napack
President, Chief Executive Officer & Director, John Wiley & Sons, Inc.

Great. I want to thank you, all, for joining the call today and we will look forward to sharing our first quarter results in September. I want you all to note that our Investor Day is now scheduled for Friday, October 29. It will be a virtual Investor Day. Please reach out to Brian Campbell for more details and we'll look forward to seeing you then. Thanks, everybody.

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

Thanks, everyone.

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Operator: Thank you. And that conclude today's conference. Thank you, all, for joining. You may now disconnect.

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