

**S&P Global**  
Market Intelligence

# **John Wiley & Sons, Inc.**

NYSE:WLY

## *Earnings Call*

*Thursday, September 5, 2024 3:00 PM GMT*

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	10

# Call Participants

---

## EXECUTIVES

**Brian Campbell**

*Vice President, Investor Relations*

**Christina M. Van Tassell**

*Executive VP & CFO*

**James Flynn**

*Executive VP and GM of Research & Learning*

**Matthew S. Kissner**

*President, CEO & Employee Director*

## ANALYSTS

**Daniel Joseph Moore**

*CJS Securities, Inc.*

# Presentation

---

## Operator

Good morning, and welcome to Wiley's Q1 Fiscal 2025 Earnings Call. As a reminder, this conference is being recorded. At this time, I'd like to introduce Wiley's Vice President of Investor Relations, Brian Campbell. Please go ahead.

## Brian Campbell

*Vice President, Investor Relations*

Thank you, and hello, everyone. I'm with Matt Kissner, Wiley's President and CEO; Christina Van Tassell, Executive Vice President and CFO; James Flynn, Executive Vice President and General Manager of Research and Learning.

Note that our comments and responses reflect management's views as of today, and will include forward-looking statements. Actual results may differ materially from those statements. The company does not undertake any obligation to update them, 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 U.S. GAAP and, therefore, may not be comparable to similar measures used by other companies, nor should they be viewed as alternative 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 include held-for-sale assets and the impact of currency.

Additional information is included in our filings with the SEC. A copy of this presentation and the transcript will be available on our Investor Relations web page at [investors.wiley.com](https://investors.wiley.com).

I'll now turn the call over to Matt Kissner.

## Matthew S. Kissner

*President, CEO & Employee Director*

Thank you, Brian, and thank you, everyone, for joining us today. At the end of the last fiscal year, I said that we were seeing strong momentum in our businesses and value creation activities and that our culture had been reinvigorated by a much simpler and more efficient Wiley. I said then that we look forward with renewed confidence and optimism.

I'm pleased to report that all of this is playing out in our solid performance indicators, colleague engagement scores and in our financial results. As I said in June, we have more work to do to realize our full potential, and that work will continue. But the leadership team and I are pleased with our momentum and progress as we enter the new fiscal year.

Our Wiley colleagues around the world have done a terrific job getting our businesses on a successful track. I can't thank them enough for their hard work and dedication and their unwavering commitment to serving our customers with excellence.

In July, I was privileged to be named Wiley's CEO after serving in an interim capacity since October. I see no change in my approach. We will continue to be relentless in our execution as we publish more high-value content to meet global demand, move decisively on AI growth opportunities and drive operational improvements and rigor across the organization. I am grateful to our colleagues and stakeholders for their positive reception and support. And I want to thank the Wiley Board of Directors for their confidence and continued partnership.

I'll start today with a quick reminder about our two businesses, review how we did against our objectives and discuss our Q1 performance, notably the strong recovery in growth we're seeing in Research. I'll also say a few words about how we're thinking about the IP licensing opportunity for GenAI training

and development. Christina will walk through our segment performance, value-creation activities and reinvestments, outlook and financial position. Jay will then join us for questions.

As a reminder, Wiley is enabling the creation of new knowledge and its application in critical areas of the global knowledge economy in science, medicine, technology and engineering, in business, economics and finance. Our high-quality knowledge content and solutions remain as relevant as ever.

Now that fiscal '24 is behind us, I just want to briefly level set and remind everyone what we're focused on. Excluding our held-for-sale or sold segment, we're now organized into two operating segments: Research, and Learning. The businesses complement one another with high-value publishing and solutions in related markets and verticals. Our competitive advantage in both include our content libraries, brands, author relationships, category leadership and reputation.

In Research, Wiley has one of the world's leading journal portfolios and the industry's most widely used content platform. Research Publishing models include both read-only subscriptions, read and publish hybrid licenses for institutions and corporations and author funded Open Access, where a peer-reviewed article is made freely available for a publishing fee. Research Solutions includes publishing and audience solutions for societies and corporations. The Research segment has a large recurring revenue base that's 96% digital.

Learning is academic publishing and courseware for higher ed students and professional publishing and assessments for professionals. Learning, which is particularly strong across STEM and business categories is seeing an accelerating shift to digital and institutional formats. As noted, Learning content is increasingly valued for GenAI training models.

Let's talk about the quarter. As expected, we're seeing a strong recovery in growth in Research, driven by favorable demand trends and execution. I can't emphasize enough the great work our Research team has done to get us back on track and delivering very solid results.

Learning benefited from a second GenAI content rights project and delivered courseware growth in a seasonally light quarter. At the same time, the Learning team continues to drive margin expansion reflected in strong adjusted EBITDA growth this quarter.

We've essentially executed our full value creation plan ahead of schedule. Just last week, we closed our third and final divestiture and during the quarter, actioned the remaining \$40 million of the \$130 million cost savings program. In June, we raised our dividend for the 31st consecutive year. Not many companies of any size can say something like that. We also increased share repurchases again this quarter.

Finally, Wiley recently saw a marked elevation in our colleague engagement and satisfaction scores, which are critical to our ongoing success. I just got back from a trip to Asia, where I visited our offices in China and Japan. As with my earlier trip to India and Sri Lanka, I found our teams in Asia reenergized and highly motivated by the many improvements we've made. Our colleagues across the globe are all aligned and rowing in the same direction.

Let's talk about how we delivered on our key objectives this quarter. First is to drive recovery and growth in Research. We experienced an unprecedented year in fiscal '24. I remain fully confident in a recovery given the essential nature of what we do, the enduring draw of our general brands and the momentum we saw exiting the year. I'm happy to say that our recovery is playing out as expected, if not better, both in our financial performance and leading indicators.

Our second objective is to move decisively on near-term AI opportunities. We executed a second content rights project with a large tech company this quarter with \$17 million of the \$21 million total value recognized in the quarter. Nearly all of it is in Learning. We are seeing interest from other large tech companies and R&D-centric corporates.

Our third objective is to continue to drive performance and profit improvement through our value creation plan. As noted, we've closed all of our divestitures and actioned the \$130 million cost savings program.

Let me turn to our first quarter performance. Note, I'll be excluding our held-for-sale or sold assets in my commentary, unless otherwise noted. As discussed, we're off to a good start with adjusted revenue up 6% to \$390 million. Performance was driven by 3% growth in Research and 14% growth in Learning, notably the \$17 million contribution from the content rights project. Excluding the large AI contribution, revenue rose 2%.

Adjusted EBITDA rose 22% to \$73 million, driven by revenue performance and run rate cost savings. These savings were partially offset by investments in marketing and technology. Our adjusted EBITDA margin for the quarter was 18.6%, up from 16.3%. Adjusted EPS was up 74% due to higher adjusted operating income and accrued interest income from our divestitures.

A few words about our GAAP performance. The GAAP revenue decline was largely impacted by foregone revenue from sold businesses, while the GAAP EPS loss was primarily due to a GAAP income tax adjustment related to our university services divestiture. Our adjusted effective tax rate is not impacted.

Now on to our strong recovery in Research. As a reminder, we saw our leading indicators rise significantly in the back half of fiscal '24, giving us confidence heading into the first quarter. That's because the attributes that make this business great haven't changed. Research is timely correlated with global R&D spend, which is ever increasing. Getting published is essential to a researcher's career so demand is resilient. Wiley is one of the world's leading research publishers with a very large catalog of high-impact journals, which form our competitive moat. And finally, the evolving Open Access publishing model allows more researchers around the world to publish and therefore, expands our total addressable market.

Our Research team is making it happen. They're delivering better-than-expected numbers in submissions, output and Open Access growth. We've increased the top of the funnel by significantly enhancing our marketing capabilities, streamlining our sales efforts and increasing our editorial capacity. They've increased publishing output by investing in peer review and refer and transfer. They're focused on the right markets and investing in the right journal brands while continuing to optimize our journal portfolio.

And we're just getting started. Here are some metrics to pay attention to. Global R&D spend is up around 8% since 2022 to an estimated \$2.53 trillion. This number is expected to continue to grow at 4% to 6% annually over the long term. Growth in R&D drives research submissions. Wiley is capitalizing on this trend in Q1. Submissions grew by 18%. We continue to operate more effectively and take advantage of favorable demand dynamics. Q1 output growth, which is a lagging indicator flowing from submissions was up a very solid 6%. As noted, we've seen normal healthy growth patterns return to the U.S., EMEA and Japan and strong demand continue in high-growth markets like China and India.

A year ago, we said that output would lag submissions by 6 to 9 months, and it's playing out as expected. Our multiyear institutional models, combining subscriptions and institutional Open Access, grew nicely in the quarter, and gold open access continues to grow at double digit rates.

We continue to build on our position as a top ranked journal publisher with 22% of our listed journals receiving an increased impact factor in the annual general citation reports. The reports are one of the most widely used sources of citation metrics to analyze the performance of peer-reviewed journals. Wiley journals make up nearly 11% of all citations in the GCR Index.

Finally, our Research end-to-end platform development is proceeding on plan, and we expect to fully launch it by the beginning of fiscal year '26. We're very excited about what this platform will enable to stand up new content offerings and improve article referring transfer, reduce article turnaround times and cost per article and detect research fraud through the use of AI. As always, there's more to be done, but a good start to the year for Research and a confident outlook.

I'd like to spend a few minutes discussing AI. As a reminder, our high-quality content in science, learning and innovation is foundational for training large language models and building applications. AI developers and R&D-intensive corporates can use it to improve accuracy, safety and impact. Demand, therefore, remains robust. This quarter, as previously discussed, we executed a \$21 million licensing project with a large tech company for previously published content, our second such deal in consecutive quarters. \$17

million of the \$21 million was recorded in Q1, the remainder to be realized during the year. Nearly all of it is in Learning as LLM training demand is currently higher for book content than Research general content.

The emerging demand for Research content is more for LLM application development in specific disciplines and verticals. It's important to note that both of these projects involve backlist content in most cases, 3 years or older. The contracts are of limited duration with limited rights and use notably model training purposes. They are nonexclusive, subject to extension and do not constrain us from pursuing further opportunities. These projects are incremental. They do not cannibalize our core.

We see the content licensing opportunity in two stages. The first as discussed is participating in the near-term development of foundational models. The second is in recurring licensing arrangements over the medium to long term, as these models and applications come online and as information-centric corporates bring our content into their AI environments.

Let me say a few words about how we're approaching AI from a licensing perspective. First, content licensing is not a new or AI-specific activity for us. It's really core to our mission and part of our day-to-day work to maximize the reach, readership and revenue of our books and journals.

We believe we have a responsibility to engage with AI developers. Our content is critical to ensuring scientific accuracy and impact and delivering optimal learning outcomes. Therefore, AI models should be trained on high-quality authoritative content like Wiley's. At the same time, we're being very selective about choosing when and how to partner with AI companies. We are careful to pick the right partners and to adhere to a strict set of principles around AI.

The rights of authors and other copyright holders must be protected. Our job as a knowledge company is to ensure it. Copyright holders should receive fair compensation for their intellectual property, consistent with contractual arrangements. All in, we aim to be the most trusted partner to authors, societies and associations. They will continue to be our north star as we assess and execute on opportunities in this ever-changing digital landscape. All to say, Wiley remains highly valued and well positioned in the evolution of AI.

I'll pass the call over to Christina.

**Christina M. Van Tassel**

*Executive VP & CFO*

Thank you, Matt. I'm pleased to start by saying that we've largely executed on our multiyear value creation plan ahead of schedule. At this point, we closed all divestitures and actioned \$130 million run rate savings program enabling us to reinvest while driving continued margin improvement.

Just last week, we closed on our final divestiture CrossKnowledge. As we discussed previously, this is an immaterial transaction that frees up capital and with our previous divestitures, allows us to focus on our core.

This quarter, we actioned the remaining \$40 million of the \$130 million savings plan. The executed savings were largely in our corporate functions. Stepping back, we finished fiscal '24 with \$90 million actioned and \$60 million realized in year. We've now actioned the full \$130 million and anticipate realizing \$120 million of that by the end of fiscal '25 for an incremental in-year savings benefit of \$60 million. As noted, around half of that total run rate savings is being reinvested.

Let's talk about where we're investing. We're focused on driving incremental growth in Research where we have clear competitive advantage and demand. This includes scaling our general portfolio and article transfer capabilities, optimizing go-to-market to attract and retain authors and extending our flagship journal brands into additional verticals.

Second, we're investing in AI growth and productivity initiatives, including optimizing our content for large language model deployment, incorporating AI into our publishing platforms and workflows and investing in productivity tools for our colleagues.

Third, we're modernizing our systems to improve speed and productivity. We've talked about two specific areas: Our Research Publishing platform and back-office modernization.

Let's turn to our Research performance. Q1 revenue was up 3% due to strong demand in execution and Research Publishing. Research Publishing delivered 4% top line growth driven by exceptional demand in gold open access and steady growth in our combined institutional multiyear models. As a reminder, our institutional models include both subscriptions for research libraries and institutional open access agreements with our library consortia. We expect to remain in this mixed model environment for a long time to come.

We also continue to make good progress on our end-to-end Research Publishing platform, reducing our publishing turnaround time this quarter and enabling the submission growth we've been seeing.

Research Solutions was down modestly due to continued soft market conditions for recruiting, offsetting moderate growth in our Publishing Solutions business for societies. We're doing some very interesting things on the solutions side, but they'll take a little time to materialize. For example, we're expanding the reach of our medical education programs by nearly 3 million health care providers, thanks to a new partnership. Wiley's medical education program allows health care professionals do their jobs better, giving them access to information on the latest scientific outcomes, diseases and treatments. The end goal is to improve patient outcomes.

Another important opportunity for us is in spectral data. As a leading chemistry publisher, Wiley has one of the most comprehensive spectral database collections in the world. In lay person's terms, Wiley's spectral database libraries allow end users to identify molecules and molecular compounds based on a unique chemical signature. Wiley has just released two new database collections using advanced AI techniques to significantly expand the number of compounds available for analysis from food-related compounds to industrial compounds. The end goal here to help scientists reach better conclusions faster.

In Q1, adjusted EBITDA for Research rose 1%, driven by revenue performance offset by reinvestment in the growth and optimization initiatives I touched on earlier. Our Q1 margin was 29.3% compared to 29.8% in the prior year period.

In summary, we're confident in our continued growth and recovery and in the investments we're making to ensure our long-term success.

Let's talk about Learning. Revenue rose 14% in the quarter, driven by the GenAI project and continued growth in academic, namely digital courseware. Excluding the GenAI project, revenue declined 1% in a seasonally small quarter, mainly due to softness in professional publishing and assessment.

As Matt noted, our backlist content learning is in demand for training GenAI models, and we'll continue to take advantage of this opportunity. We have two projects under our belt and continue to evaluate AI licensing opportunities that complement our business strategies.

In the business itself, academic saw underlying growth again, although Q1 is our smallest quarter for this business. Q2 is our largest, and has only increased over time due to changing fall ordering patterns and shifting business models.

Our STEM Digital Courseware product remains a consistent success story with top line growth above 30% again this quarter. We continue to see strong trends there in terms of winning new institutional agreements and expanding outward into new subject areas like data science.

Institutions continue to gravitate towards inclusive access models where the cost of digital course content is added to a student tuition and fees. This remains a nice tailwind for us. All to say, academic continues to benefit from favorable trends and sharp focus.

Professional revenue rose 5% in the quarter, but was down excluding the GenAI project. The new authors and titles we signed up in the second half of last year will begin to benefit us later in this year, but then mostly in fiscal '26.



Finally, assessments was down modestly this quarter due to moderately reduced corporate spending on training and development.

In Q1, adjusted EBITDA for Learning was up 60%, driven mainly by revenue performance. Our Q1 margin was 27.2% compared to 19.4% in the prior year period. In summary, learning remains on track with expectations.

Let me turn from our segments to our corporate expenses. For the quarter, we saw a modest year-over-year increase, driven mainly by higher tech expenses related to our enterprise modernization investment and expense growth driven by inflation, moderately offsetting VCP savings. Important to note that corporate expenses here pertain to our unallocated expenses only. Enterprise costs are not specifically assigned to a business unit.

Moving on to our full year outlook. We are reaffirming our guidance. We will have more visibility in Q2 as we make our way through the all-important fall semester in Learning and the early part of the calendar '25 library budget season in Research. To refresh, we're projecting full year revenue of \$1.65 billion to \$1.69 billion for a top line growth rate of 2% to 4%. This is driven by expectation of low to mid-single-digit growth in Research and low single-digit growth in Learning. The two AI projects already executed, one in Q4 and one in the first half of this year, largely offset each other in year-on-year comparisons.

Adjusted EBITDA is expected to be in the range of \$385 million to \$410 million for a growth of 4% to 11%. This reflects a margin target of 23% to 24%. Performance is expected to be driven by a combination of revenue growth and continued cost savings, partially offset by investments in Research, GenAI and enterprise modernization as well as impact of inflation on our expenses.

Adjusted EPS is expected to be in the range of \$3.25 to \$3.60 for a growth of 17% to 29%. The primary drivers are higher expected adjusted operating income and accrued interest income from the divestitures offsetting higher interest and tax expense.

Free cash flow is anticipated to be approximately \$125 million up from \$114 million. This is due to improved working capital and lower restructuring payments, offsetting higher CapEx and higher incentive compensation payments compared to the prior year period. Note that annual cash incentive payouts are made in Q1 for the prior year's performance. Over 90% of our colleagues are in the annual incentive plan.

As noted, although CapEx in the first quarter is tracking behind prior year, we anticipate it to ramp up in the remaining 3 quarters of the year. As a reminder, our full year CapEx projection is \$130 million.

Let's turn to our financial position. Free cash flow for the quarter was a use of \$107 million, in line with the prior year period. As a reminder, free cash flow is historically a use of cash in Q1 and Q2 due to the timing of annual journal subscription receipts which were concentrated in Q3 and Q4. Lower CapEx due to timing was offset by higher incentive compensation payments related to fiscal '24 performance. We pay out our annual incentive compensation in Q1 of the following year.

For the quarter, we allocated \$32 million towards dividends and share repurchases, up from \$29 million in the prior year. Over \$12 million of that was used to acquire 295,000 shares at an average cost per share of \$42.34. Our dividend payout is approximately 3%. Finally, net debt-to-EBITDA ratio was 2.0 at the end of July compared to 1.9 in the prior year period.

And with that, I'll pass it back to Matt.

**Matthew S. Kissner**

*President, CEO & Employee Director*

Thank you, Christina. Let me summarize the key takeaways. We're off to a good start, but we're not declaring victory. We have a lot more work to do to achieve our full potential. Still, I'm encouraged by demand trends and other performance indicators, our alignment and execution as an organization and the material increase in colleague engagement.

We've turned the corner on Research, a business that has grown consistently over a very long period and remains an ever-expanding opportunity. Our accelerating performance is not only market driven, but



a collective outcome of many months of hard work and transformation by the team. We are publishing better, we're marketing better, we're investing in the right areas and it's paying off.

Separately, we're moving decisively, but judiciously in responding to AI opportunities. We're reinvesting where we have a unique right to win, which will benefit us in the years ahead. We are off and running.

We've largely executed our value creation plan ahead of schedule. Importantly, our culture today is far more energized, motivated and engaged. We can see that in our recent survey results. We're making decisions faster and moving with purpose. We're focused on less but doing more. We're empowering colleagues to make decisions and unlock pockets of growth.

We continue to focus on rewarding you, our shareholders. I hope you can see our steadfast commitment to value creation in where we're focused, how we're executing and how we're allocating capital.

And finally, we're confident in our fiscal '25 outlook for revenue growth and margin expansion and remain well on track to meet our fiscal '26 targets.

Again, what a difference a year makes? I'll finish by thanking our Wiley colleagues for putting us in the position we're in. As I said before, nothing unites us more than being on a winning team.

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

## Question and Answer

---

### Operator

[Operator Instructions] We'll take our first question from Daniel Moore at CJS Securities.

### Daniel Joseph Moore

*CJS Securities, Inc.*

To start with, obviously, the momentum you were experiencing in terms of article submission, maybe talk about that throughout the quarter in terms of cadence and so far into fiscal Q2 and how we should think about the potential organic growth in Research revenue that may translate to over the next several quarters?

### Matthew S. Kissner

*President, CEO & Employee Director*

Let me begin, and then I'll ask Jay to comment more specifically. But this is a business with long lead times, as we've talked about in the past, there's a publication cycle that it can take 6 to 9 months for an article to actually be published. And depending upon the type of article revenue recognized. So what's really encouraging is the -- were the signals we started to see in the fourth quarter and have continued into the first quarter of a very healthy pipeline.

I'll let Jay comment a little more specifically on what it looks like for the rest of the year.

### James Flynn

*Executive VP and GM of Research & Learning*

Sure, of course. Dan, thanks for your question. So a couple of things to just reiterate as we like to do when we talk about article submissions. The first is remembering that not all article submissions convert into published articles. There's a lot of variability in the mix, right? We have higher acceptance rates from certain institutions, from certain authors, from certain geographies. So the mix of submissions determines long-term article output.

But as we've seen in our reported metrics this quarter and last quarter as well we're seeing continued improvement, both top of the funnel and in terms of that translating into article volume output. We expect that to continue. We're pleased with the development of our submissions pipeline as usual. But not all that volume will turn into published articles. And as we talked about both in our Investor Day and in our last call, not all those articles convert one-to-one into incremental revenue growth. A lot of that volume supports our underlying subscription business. A lot of that volume supports our transitional agreement.

So we're not going to say anything more about that, except to say that we're feeling good about the quarter and feeling good about the long-term trajectory of both submissions and published articles. That's reflected in our guidance. And that it's nice to see the Research Publishing business returning to 4% growth year-over-year.

### Matthew S. Kissner

*President, CEO & Employee Director*

Yes. Let me add. It's -- we're cautiously optimistic, let me say that about that because it's such an important leading indicator. And I was in China, as I commented earlier, last month, I wanted to see what was going on, on the ground. And just there's some real strength there to see our people working aggressively on the ground to build this business. So we are -- as I said, we have a cautious optimism about this.

### Daniel Joseph Moore

*CJS Securities, Inc.*

Very helpful. And then shifting gears to AI. Are you in discussions currently regarding any further similar licensing agreements to the first 2? And can you just update us a little bit more secondarily on your progress in potentially monetizing AI tools to drive more recurring revenue, the second change that you described?

**Matthew S. Kissner**

*President, CEO & Employee Director*

Yes, sure. And again, I'll begin and then ask Jay to get more specific. But we are seeing a lot of interest, as you might expect, in a market that's also rapidly changing. When we did our first AI deal late in fiscal year '24, it was -- the market was even a little different then than it is now. But we are seeing a lot of interest because of the quality of our content. It's accurate. It's curated. It's indexed. It's perfect for training these models.

At the same time, we're being very selective about the partnerships we want to pursue because we want to only pursue partnerships that meet our standards and are compatible with our strategic objectives. And Jay now has a team dedicated to this. And the benefit is one, we're learning a lot. And there will be future opportunities here as we work with these developing AI model builders.

Jay, do you want to get a little more specific for Dan?

**James Flynn**

*Executive VP and GM of Research & Learning*

Happy to. I think first thing to say about this is our -- the quality of our content and the quality of our output is very attractive to AI model builders, as Matt said. It's also attractive to research-intensive corporations and application development companies that are looking to supply tools to end markets. And so we're in discussions with a variety of potential partners.

We're very selective about who we work with, and we want to make sure that we adhere to our licensing principles as we discussed in the presentation in our prepared remarks. It's really important that Wiley continues to advocate for the rights of its authors and with our society partners and our other stakeholders.

The thing that I'm personally focused on in that, the team that we've stood up over the last year has been focused on is really thinking about ways that Wiley can add recurring value and ongoing value to the Research process, in particular in areas like drug discovery, life science, health care, chemistry, material science. Those areas where Wiley is very strong, and where there is a need for the latest information to be amplified by the power of these tools. And those opportunities present themselves to us, and we're evaluating them. So we'll have more to say as they develop. When we have additional news to report, of course, we will do that.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

Helpful, Jay, sorry, I was just jumping off mute there. Switching gears, the disconnect, at least versus our estimates for this quarter and in terms of maybe the share price this morning was on the expense side. I guess, first, how was the quarter relative to your internal expectations from a profitability and expense perspective?

And then second, you've got, obviously, \$60 million of incremental savings earmarked for fiscal '25, half of that reinvested and yet overall OpEx, not really seeing the benefit, at least in this quarter. So were there any unusual incentive comp or investment spend in fiscal Q1? And if not, maybe why aren't we seeing more of the benefit of that, those reduction initiatives -- cost reduction initiatives on a net basis?

**Christina M. Van Tassel**

*Executive VP & CFO*

Sure, I'll take that one, Dan. So from a revenue perspective, that wasn't -- our revenue was in line with our expectations. On the expense side, and what you're calling out, is just a little bit of timing that we're seeing on a couple of things.

One is, we do have some onetime items that manifest in Q1 that will normalize throughout the rest of the year and that's costing us a couple hundred basis points. Obviously, if you take GenAI out of that plus that and then we've got the investments that we're adding back that offset our VCP savings, if you pull it all together and normalize, you're up a couple of hundred basis points on the quarter. And for the rest of the year, we're seeing that normalize further. So we are seeing -- we are, as I said earlier, we are reaffirming our guidance that we are seeing a normalized rest of the year. It's just a little -- it's a little bumpy in Q1 in terms of the puts and takes.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

And anything specific in terms of where those areas would be, be it corporate, be it incentives, investments for GenAI, et cetera? Any specificity you can give us there?

**Christina M. Van Tassell**

*Executive VP & CFO*

Yes. So a couple of things. We don't give direct specificity on line items for competitive reasons, obviously, on our investments. But we've talked to you about the characteristics of our investments. We've got growth investments within Research. We also have, obviously, inflationary. I mentioned this in the prepared remarks. Our inflationary cost increases that manifest in merit and other things, in volume, in production.

And then the other investments, obviously, this shows up in our corporate expenses. We've got the investments we're making in our enterprise modernization programs that will continue on for the next couple of years.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

Got it. And just to confirm, if I have the numbers right, if there are \$60 million cost savings benefit in the year, that leave about \$25-ish million for fiscal '26 and beyond just core -- just total savings and...

**Christina M. Van Tassell**

*Executive VP & CFO*

No, it's 10 for next year. Yes. Yes.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

Beyond fiscal '25?

**Christina M. Van Tassell**

*Executive VP & CFO*

Beyond fiscal '25. Well, we will continue to -- I mean -- we haven't called '27 yet in terms of what we're looking at, but we're continuing to look at the VCP, not just run rate, but what else we can start getting benefit from as things come online from our investments. So it's a little too early to talk about that, but it will be certainly above that.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

So what's announced, is it's \$10 million incremental. Okay, go ahead, please.

**Christina M. Van Tassell**

*Executive VP & CFO*

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

What's announced is \$10 million. So it's \$120 million this year, \$130 million next year, run rate.

**Matthew S. Kissner**

*President, CEO & Employee Director*

Yes, Dan, it's important to note that we don't think we're done here. Yes, we're done with this program, but particularly with the investment we're making in modernizing our technology infrastructure, we see continued margin improvement. We haven't yet zeroed in on the numbers, but we're eager to continue to drive the kind of margin involvement trend that you're seeing in our current guidance.

**Christina M. Van Tassell**

*Executive VP & CFO*

Yes. And we -- as we said, we just announced our final divestiture. We're in -- we're just finalizing some of our transition services agreements. Those will be done by -- most of them done by the end of the calendar. Certainly all of them done by the end of the fiscal, and that gives us opportunity as well to continuously improve our cost structure. So we're looking at that iteratively.

**Daniel Joseph Moore**

*CJS Securities, Inc.*

Got it. And then I guess, lastly, I've asked it before, but just leverage, around 2x, but obviously, cash flow is back-end loaded, so it should start to fall again as we look to the back half of the year. Just talk about your priorities for investing excess cash flow at this stage.

**Christina M. Van Tassell**

*Executive VP & CFO*

Yes. Sure. So we're always looking at -- obviously, we have our -- we're very proud of our dividend program. That's not going to change. We're always looking at our share repurchase program. And as I mentioned earlier, we're 25% up versus Q1, but we're looking -- we're constantly looking at that for the year. And last year, as a reminder, was up versus the year before. So we're looking at those opportunities as they come down.

And we're also -- obviously, some other -- we've got our CapEx that we're constantly looking at. That's the spend, is the \$30 million increase over prior year. And we're always looking at opportunities in the marketplace. So that's where our capital allocation looks right now in terms of cash flow. And we -- as I've talked about before, we are long term looking to get back to our steady state of at least \$200 million longer term and beyond.

**Operator**

And that concludes our Q&A session. I will now turn the conference back over to Mr. Kissner for closing remarks.

**Matthew S. Kissner**

*President, CEO & Employee Director*

Thank you all for participating. We look forward to another update in December and look forward to continuing to share our progress with all of you. Thanks very much.

**Operator**

And this concludes today's conference call. Thank you for your participation. You may now disconnect.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

© 2024 S&P Global Market Intelligence.