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

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Brian Campbell

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

Hello, everyone, and thanks for joining us. With me are Brian Napack, President and Chief Executive Officer; and John Kritzmacher, Executive Vice President and 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 viewed as alternatives to measures under GAAP. Unless otherwise noted, we will refer to non-GAAP metrics on the call and variances are on a year-over-year basis and will exclude the impact of currency.

After the call, a copy of this presentation and playback of the webcast will be available on our new Investor Relations webpage.

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.

Good morning, everyone, and welcome to our Q1 earnings call today. Today, Wiley is reporting another quarter of solid revenue growth across all segments. We continue to take advantage of strong demand for scientific research and career-connected education throughout the global economy. Our performance underscores the tight alignment of our strategy to prevailing trends in the market, and now more than ever the critical importance of the work we do in powering discovery and learning worldwide.

Simply stated, the more researchers and learners that Wiley can help to succeed, the greater the positive societal impact. One pointed example of this is in our Talent Development business where today we are filling the critical technology skill gap while also actively targeting the acute lack of diversity in the technology space overall. In partnership with our clients we target underrepresented populations and train them so that they can get great jobs and succeed in those high demand, high paying jobs with leading corporations.

As a result of this specific focus on diversity and equity the representation of people of color in our tech career placement programs is far above the national average. From ensuring equity in hiring to making education more accessible to facilitating breakthrough climate research, Wiley continues to have an outsized impact on society.

Across Wiley, we're making substantial progress on ESG and sustainability. Wiley's diversity disclosure in our annual report was cited as a top example by a leading corporate governance authorities. We recently earned a silver rating from EcoVadis, a leading sustainability ratings firm. This placed Wiley in the top 25% of all companies assessed. After achieving carbon neutrality in fiscal 2020, we've kicked off our fiscal 2021 Carbon Measurement Initiative and have engaged a third-party to guide us through the process of committing to and achieving science-based targets. Despite lots of progress, we've got a long way to go in this journey, and we look forward to updating you regularly.

Now on to our Q1 results. The team continues to execute well and our performance reflects that, with revenue up 9% overall and 7% organically. This revenue growth drove a 12% increase in adjusted EBITDA and a 17% increase in adjusted EPS. Revenue growth was strong across all segments, with Research up 10%, Academic & Professional up 7%, and Ed Services up 13%. As a reminder, all variances exclude currency impact.

Simply stated, our strategy is on the mark for where the market is headed, and this was reflected in our Q1 performance. The long-term trends that we're pursuing continue to advance. Here, of course, I'm talking about the shift toward open research, hybrid and online education and digital learning tools and courseware. Further, the drive of corporations to fill the talent gap continues to create a significant demand for Wiley's career-connected learning products and programs.

In fact, we're seeing great momentum in our corporate offerings across research and education. Corporations have long showed strong demand for our Research products to fuel innovation, and they rely on our learning products and platforms to upscale their teams.

Increasingly, corporate leaders are coming to Wiley for their talent development needs and, in fact, for job-ready talent to fill their critical skill gaps. Looking ahead, the corporate customer is a clear and compelling opportunity.

Earnings growth this quarter was largely fueled by strong profit performance in Research and APL, mainly driven by revenue growth. This performance offset a profit decline in Ed Services due to higher marketing costs in University Services and investment to expand client relationships in Talent Development.

Overall, we're pleased with how we started the year. However, COVID-related uncertainty remains a reality for now, particularly as it relates to university enrollment and related customer buying behavior as students and schools adapt to changing market conditions. That said, we're confident in the ongoing strength and expansion of our core markets.

At its core, Wiley does three things: we enable discovery; we power life-changing education; and we shape workforces. These three important areas of impact are central to human advancement, and we're deriving strong growth from each.

We're enabling discovery through our leadership in open research, where we're making record volumes of new research freely available to the public. The rise of open research publishing has accelerated Research revenue growth overall. Our strong growth this year is based on both the enduring draw of our journal brands and the execution of our open research strategy, including our multi-year read-and-publish agreements.

This performance is being augmented by strong growth in our corporate lines of business, which include career centers, science databases and advertising to our very valuable audiences.

We're powering education by delivering high-impact learning experiences and online degree programs that connect education directly to career outcomes. Wiley is helping institutions plan and deliver career-connected education, and this is driving growth in our University Services and digital courseware lines of business.

And Wiley is shaping the workforce by working with leading corporations to find, train and develop the talent they need to overcome the widening skill gap. Demand for our Talent Development services is particularly strong now as corporations remain challenged by the war for talent and the persistent shortage of critical tech skills.

Our Professional Learning line of business that deliver corporate training and professional publishing are seeing a strong recovery as corporations and professionals alike focus on upskilling to differentiate themselves in a highly competitive market.

Let's take a look at our Q1 performance by segment. Wiley Research delivered another good quarter with revenue up 10%, 5% of which was organic. Our performance was driven by open research publishing, research platforms and corporate sales. Adjusted EBITDA rose 12% for a Q1 EBITDA margin of 37%.

Research article output continues to grow nicely, although, as expected, article submissions have slowed a bit from last year's COVID-related spike. Notably, underlying OA revenue growth was over 50%. Including Hindawi, our OA revenue nearly doubled.

Our multi-year read-and-publish agreements, often referred to as transformational agreements, continued to drive incremental volume growth this quarter. The pipeline remains strong for these mixed model deals, which provide full access for a client community to read and publish Wiley's journals.

We continued to expand our major society partnerships, delivering a broad range of products and services that help them succeed, including research publishing, research platforms, author services and career services for the society's constituents.

In August, we announced a landmark agreement with the Society of Hospital Medicine to publish its industry-leading publications and to grow its career center. SHM has more than 15,000 hospitalists as members. We recently launched a knowledge hub for Gilead Sciences that targets HIV specialists.

We also signed new career center partnerships with LexisNexis and with the Institute of Physics, among others. Going forward, there's a significant opportunity to upsell additional products, platforms, and services to our unmatched network of societies and corporations.

In summary, for Research, there continues to be very good momentum and lots of opportunity for growth as we drive the transition to open research and expand our portfolio of partner solutions.

I'm very pleased to report 7% organic growth this quarter for the Academic & Professional Learning segment. This was driven by 13% growth in Professional Learning compared to the COVID-impacted last year. Adjusted EBITDA for the quarter rose 37% for a Q1 EBITDA margin of 19%. This is up from 15% in the prior year period. Education Publishing revenue rose modestly with continued strong growth in digital courseware and modest growth in print and digital content both offsetting ongoing COVID-related challenges in test prep.

As noted, COVID continues to hinder visibility on fall enrollment and student buying behavior. Industry projections for enrollment ranged from flat to modestly down, but data remains limited thus far as we drive through the busy back-to-school season.

Note that in June we sold our World Languages publishing list to Vista Higher Learning, a specialist in language learning. This sale although a small one is a reflection of our important strategy to focus on high demand skills and careers such as STEM in business.

Professional Learning saw a strong growth in both professional publishing and corporate training, benefiting from favorable comparisons to prior year. Corporate training continued to see a very strong recovery through both virtual and in-class delivery with revenue growth of 46% against the lockdown Q1 last year. Finally, our cloud-based CrossKnowledge corporate learning platform also grew this quarter, albeit modestly, while signing 10 new corporate clients.

In summary, we're encouraged by our return to growth in APL as we continue to scale our digital courseware offerings and leverage our strong corporate relationships and Professional Learning brands.

Ed Services reported 13% growth for the quarter with University Services up 8% and Talent Development up 34%. As a reminder, University Services was formerly reported as OPM and Talent Development as mthree.

Adjusted EBITDA for the segment was down 21% due to higher marketing cost in University Services as competition increased for student leads and increased investment in Talent Development to accelerate the expansion of client relationships. In our smallest quarter of the year for University Services, adjusted EBITDA margin was 9%.

University Services growth was driven by eight new partners we added last year along with student enrollment growth. While no new partners were signed this quarter we recently signed important renewals and added 13 new degree programs with existing partners. Online enrollment was up 9% for the quarter, down from 14% we saw for the full fiscal year 2021. We are seeing slower in online enrollment growth compared to last year's COVID-related spike. Over the summer term for example, we saw a lower rate of reenrollment compared to historical patterns and expect some of that to continue into the fall. This variability in enrollment patterns is to be expected as the system adapts with the ongoing impact of COVID.

As expected, we are seeing great momentum in Talent Development where, as you know, Wiley helps corporations identify train place and retain hard to find talent. In the quarter we signed three more of multi-national clients including a leading financial services firm, a leading industrial services – service areas company, and a global retailer. These new clients are on top of the seven we signed in the previous two quarters. We also delivered record talent placements to our existing Fortune 100 customers such as Morgan Stanley, Bank of America and many others.

In a great example of our business model having impact, we recently launched a program with Amazon Canada to reskill warehouse workers and truck drivers with software development skills. The goal of this program is to provide great new career path opportunities for these workers even if this means that they gain skills that allow them to leave Amazon to pursue higher potential careers. Amazon, like many leading companies knows that they need to provide career development opportunities to both attract and retain high quality workers. We truly appreciate this forward-thinking, socially positive partnership, and we're seeing real impact already. This is another clear example of this significant corporate opportunity that Wiley is now tapping into.

The pipeline in Talent Development is strong, and we're expanding our reach into international markets such as India and Australia. We're also making great progress in industries outside of our core financial services vertical. In summary, we're pleased with the growth of Ed Services as we continue to drive online enrollment growth and launch new degree programs in University Services, and as we sign major corporations and deliver record placements in Talent Development. Again, we do anticipate some moderation of online enrollment growth this year as students return to physical campus and focus on their personal career path.

Overall, it was a good quarter in which all three segments of Wiley contributed to our revenue growth and to the achievement of our mission to unlock human potential.

I'll pass the call over to John to take you through our financial position and outlook.

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 continues to make good progress in executing our growth strategies and driving operational gains. Free cash flow for the quarter was 25% better than prior year, driven by higher cash earnings and favorable working capital timing, partly offset by higher annual incentive compensation payments for our fiscal year 2021 performance.

CapEx was $24 million for the quarter, modestly lower than prior year and there were no acquisitions of note this quarter. We continue to be active on the M&A front as we seek out capabilities in key strategic areas of research and career-connected education.

Our improved cash flow for the quarter complements a healthy balance sheet with more than $82 million of cash on hand and undrawn revolving credit capacity of more than $518 million at quarter-end. Our net debt-to-EBITDA ratio was 2.0 at the end of July, consistent with prior year, even after funding the $298 million acquisition of Hindawi last January.

We allocated $27 million to dividends and share repurchases this quarter, up from $19 million in the prior year. In June, we raised our dividend payout for the 28th consecutive year, and our current dividend yield is around 2.4%. After taking a pause on share repurchases in the year-ago quarter, we acquired 130,000 shares this quarter at an average cost per share of $56.88 for a total spend of $7.4 million.

Our fiscal year 2022 business plan provides for important investments in our growth strategies and business optimization initiatives. In Research, we will publish more to meet global demand, taking full advantage of our Hindawi acquisition to advance our leadership position in open research. We'll also broaden our research publishing platform and service offerings for societies and corporations.

In career-connected education, we will continue to expand our online degree programs, drive online enrollment, scale our digital courseware portfolios and expand the reach of our Talent Development services for corporations.

We are also investing to drive operational excellence across the organization. We will continue to streamline, standardize and automate our workflows, particularly for publishing and for our back office operations. On the customer-facing side, we will drive improvements in student acquisition and enhance our direct-to-consumer capabilities, including our e-commerce experience.

As we noted in our earnings release, we are modifying our adjusted EPS metric to exclude the impact of certain non-cash items directly related to acquisitions, particularly the amortization of acquired intangibles. We do not consider these non-cash amortization charges to be indicative of our ongoing operating and underlying performance.

Amortization of acquired intangibles amounted to $22 million in the first quarter or $17 million on a tax-adjusted basis, resulting in the newly defined adjusted EPS of $0.85 per share compared to $0.54, as it was formally defined.

For fiscal 2021 and fiscal 2020, Wiley's adjusted EPS, as it is newly defined, was $4 and $3.30, respectively. Going forward, we will only report on and guide to this newly defined adjusted EPS metric.

And finally now onto our outlook. Given the first quarter performance and leading indicators, we are reaffirming our fiscal 2022 guidance. Total Wiley revenue is expected to be up by mid to high-single digits to a range of $2.07 billion to $2.1 billion. Adjusted EBITDA is expected to range between $415 million and $435 million, with profit gains on higher revenue tempered by investments to accelerate growth initiatives.

Adjusted EPS, as it is newly defined, is anticipated to range between $4 and $4.25, reflecting investments and the higher effective tax rate. Again, this is a reaffirmation of our EPS guidance, but now excludes the non-cash amortization of acquired intangibles totaling $1.20 per share.

Free cash flow is expected to range between $200 million and $220 million. While cash earnings are expected to be strong, we see certain headwinds compared to fiscal 2021, including higher CapEx, higher net cash taxes and higher annual incentive compensation payments for fiscal 2021. And one final note, current FX rates are relatively unchanged from the prevailing rates when we issued our guidance in June.

And now, I'll pass the call back to Brian.

Brian A. Napack

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

Thanks, John. Let me quickly summarize key takeaways, and then we'll open it up to Q&A. Q1 was a good quarter for Wiley with strong revenue and earnings growth driven by good performance across all segments. The long-term favorable trends that have defined our markets continue to march forward including a shift to open research and migration to hybrid and online education in both university and corporate settings, and the increased adoption of digital tools and courseware for learners, also the ever growing need of corporations to fill critical skill and talent gaps. Wiley's growth strategies are tightly aligned with these trends and this is reflected in our current performance in full-year outlook.

Some variability remains from the pandemic as our global markets adapt to the new realities. Nonetheless we remain confident in our expanding markets and in Wiley's outlook as we continue to meet the growing global need for research and education. As always we remain close to our customers so we can rapidly adapt to market developments and new opportunities.

We continue to make significant progress in ESG and sustainability. As an impact company, Wiley is working to unlock human potential by enabling discovery, powering education, and shaping workforces. The engagement of our Wiley team is very high and we're all energized by our mission as we work to increase the success of millions of learners and researchers worldwide. I want to thank our colleagues everywhere for their continued accomplishments, their dedication to each other and to our mission. I remain grateful to work with each and every one of them.

One final note, we had targeted Investor Day for late October but we've now decided to push it back by six to nine months. We want our Investor Day to be substantive and in-person and to provide additional long-term clarity. The current COVID affected environment is not conducive to a productive long-term discussion but we do expect better visibility as we make our way through the fiscal year.

In the meantime, we'll continue to be active in our investor outreach and provide regular updates on our continued progress in executing our growth strategies and driving improvements in sustainability.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Brian. [Operator Instructions] And our first question coming from Mr. Daniel Moore of CJS Securities. Please go ahead, sir.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Thank you, Brian. Thank you, John. Good morning. Thanks for taking questions.

Want to start with Research as we look to calendar 2022 and I realize it gets blurred as you sort of expand read-and-publish and OA, but maybe update us on renewal rates and pricing trends related to the core journal subscription business. Any sense for what percentage of business is booked today and how we're looking for 2022?

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

A

Sure. Absolutely. Always a good question, Dan. Thanks a lot. So basically, as we look out through the year, our proportion of business in each of our segments has continued the pathway that they've been on. So OA is now in Q1 up to 21% of our revenue in Research. It was 13% last year. And I think that's a significant shift and shift in the right direction.

Our subs revenue has moderated from 62% last year down to 55% this year. And so, you're seeing a continued shift. Renewal rates remain strong. It is early in the year. So we haven't really gotten into the renewal season yet. We'll get into that next quarter. But we continue – we expect to continue to see a continued significant growth in OA and a slow moderation in the subscriptions business. I will note that our subscription business continues to be very strong and any moderation is – has been minor.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Understood. Very helpful. And certainly...

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

A

Hey, Dan...

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Yeah. Go ahead, John.

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

A

Dan, I just wanted to add since you asked about pricing as well. I just wanted that as you know, traditionally, we've had relatively moderate price increases from year to year, and we took a pause on that in the last year given the impacts of COVID and some of the budget challenges that our university customers were facing.

So we took that pause, but as we now make our way into the next season, we're expecting to resume the nominal increases that we've seen historically for those customers who are traditional subscription customers.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Got it. And certainly it sounds like it, but how was Hindawi performing relative to your expectations, and any concrete examples of that, how that's opening up growth opportunities faster for you?

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

A

Absolutely. So look, Hindawi is doing very, very well, growing strong double-digits. We expect that continue through the year. We just had our largest month of submissions and publishing ever at Hindawi. And I think in what is – can only be described as a validation of our strategy, and the reason for buying it, a material portion of Hindawi's growth – not most of it, still just a small part of it, but a material part of it – is driven by the cascade of articles that we've been talking about for so long, by that cascade of articles from the total Wiley submission pool throughout the Wiley empire, but also materially into Hindawi.

So all systems go, the integration has gone well, minimal disruption of any kind. And we're really honestly very pleased with how things are going. And Hindawi is really leading the way in terms of growth.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Very helpful. Maybe one more and I'll jump back in queue. But thanks for the increased transparency into your cash flow with the new adjusted EPS calculation. You started to buy back a few shares this quarter once again, the stock kind of 13 times that – this year's adjusted EPS guidance and leverage at 2 times. Are you considering being more aggressive on that part of your capital allocation budget going forward? Thanks for the color.

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

A

Dan, I would say we'll be up in terms of our share repurchases over prior years. You'll recall for the first half of last year we stayed out of the market, just conserving cash and observing that uncertain times that we're in on Hindawi, and we resumed purchases in the second half of the year. We're on a pace that we're comfortable with now and we'll continue to buy throughout the year. We'll be opportunistic when the chances arise. But we're – I would say we're at about the pace that we expect to be over the course of the year.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Got it. All right. I'll jump back with any follow-ups. Thank you.

Operator: And our next question is coming from Greg Pendy of Sidoti. Please go ahead.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Hey guys, thanks for taking my questions. Just two. One, can you just help us out, you maintain the free cash flow guidance. It looks like it was pretty good in this quarter. Some of that was probably CapEx-related that has to catch up throughout the year. But are there any other puts and takes that kind of after a good quarter of free cash flow that kind of as you're maintaining it that we should be aware of?

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

A

Greg, I would say it's early on in the year. The quarter was favorable, partly driven by strong cash earnings, which we anticipated, and significantly driven by working capital timing. So some of that may unwind later in the year. So we're comfortable, for sure, with the guidance level that we're at. And to the extent that we need to adapt as we make our way through the year, we will. But I would say there's not a lot of evidence in the first quarter that we should change the position we've taken on the year.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

Okay, very helpful. And then just moving on, just Education Services, seems like it might be getting a little bit more competitive there. Can you kind of elaborate? Maybe are you seeing possibly – I know you sell services, maybe single services as well. Is that becoming more favorable? Can you just give us a little bit of color on what's going on as maybe enrollments start to normalize?

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

A

Absolutely. Well, I think the important thing is that the long-term trend that we've been talking about is continuing. The performance in the current period is more a reflection of what happened in last year than what's happening going forward. We do believe that – and we're seeing tremendous interest from our clients, both for traditional rev share models and for fee-for-service models. In fact, as the financial environment has gotten challenged, the rev share model continues to have a lot of legs because essentially we're using our financial strength to help these schools achieve the goals that they want to achieve.

So again, in the longer term, we believe that the enrollment trends toward online and hybrid education will continue. We think there's enormous and global opportunity that is very, very – there's a lot of green space. It's not particularly highly penetrated right now.

You'll see evidence in this in our significant growth now in Ed Services coming out of Australia, where we've opened up partnership with a major university called La Trobe, 36,000 students, in order to deliver their programs online and to new audiences.

What we are seeing overall is a continued evolution of the space as the needs of education market change. What we see is that demand for our traditional programs remains and there is increasing demand for non-traditional offerings that's we're providing throughout our offering as well.

So I would say what's happening now is simply a natural result of a very high demand last year as everyone had to go online. And what we're seeing now is students are – some of them are migrating to on-ground a little bit, some of them are returning to their career, and some of them are just taking a pause. But nonetheless demand remains very strong.

Gregory Pendy
Analyst, Sidoti & Co. LLC

Q

That's very helpful. I'll jump back in. Thanks.

Operator: [Operator Instructions] And to continue now, our next question is back from Mr. Daniel Moore of CJS Securities. Go ahead, sir.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Yes. Thanks, again. You gave great detail around professional corporate learning and great to see the rebound, still not quite back to pre-COVID levels. Let's talk about the momentum you're seeing there and what type of growth is reasonable to expect from this, if this is a new base or run rate, or if we're still sort of in recovery mode right now?

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

A

Great question. Well, we're – it's a very interesting time because what we saw last year, which we were very pleased with, is as the professional and corporate learning businesses were adapting to COVID, we saw I wouldn't call a COVID-related bounce. We certainly saw COVID-related bounce in our digital offerings. But what we saw is a change in the behavior of our corporate client toward things that are actually incredibly aligned with our strategy.

So one of them, as we talked about last year, is this migration of corporate training to being digital versus in-person. And even at this point with a lot of workplaces back, we're still above 70% proportion of digital trainings, which is pretty incredible and really positive. As we've discussed, that opens up a lot of opportunities for us. And so, we're seeing that.

And we're also seeing corporations – again, as we discussed – as I talked about in my prepared remarks, we're seeing corporations waging war for talent. And when they're waging war for talent, they got to do a bunch of things in order to find that talent. In the case of our offerings, we're actually helping to build that talent.

So we really like what we see there. What we've seen in the results in that segment is basically some hangover with regard to things like test prep which are struggling to get back to normal. But, overall, we think the performance in that segment is on the right track and getting back to, I should say, supportive of our longer term strategies. And we're seeing growth in all of the spaces we expect to see growth, and we need to see growth to empower our strategy or to realize the fruits of our strategy.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

And if we see digital delivery remaining the lion's share, is there a meaningful differential in terms of profitability versus those kind of legacy or historic in-person delivery models?

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

A

Yeah. I'll ask John to comment on that in a second. But as we go forward, what happens is the digital delivery which will – allows us to tap into a significantly greater audiences, because obviously we can get to more places where there may be a training one day or two days if it's in-person, that same training is available to people 365 days a year when it's digital. And similarly, if we can only access – if we're training new talent for companies and we can only access them in-person, there's certain physical limitations. But the digital delivery allows us to access significantly larger audiences. John, do you want to comment on profitability?

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

A

I would just add, Dan, what this is really doing is helping to support the recovery of the revenue base and then grow it for the longer term. The fundamental product line is still at the end day largely digital product. And so it's essentially building more demand for our current product line, which is largely a digital product. I wouldn't expect it to materially change the margin performance of that business, but it certainly will help to improve the volume of that business.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Makes sense. One last string I'd love to pull on if I could, in the Education Services side, I'd love to drill down a little bit more into the profitability of each of the two businesses. In Talent Development, you're seeing really strong growth and obviously reinvesting in that as you described. What's the glide path toward a more normal, whether it's a double-digit, low teens, toward a more normal margin achievement in that business over time?

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

A

So Dan, you know we usually don't get down to far deep into the performance of the individual product lines. But I will – in this case I'll say that the mthree business is definitely in a growth phase, right, and for Talent Development business I should say. And in this early stage, it's essentially a breakeven basis on an EBITDA level and growing. So it's dilutive to the segment overall, relative to the margin rate inside of the OPM business with skills. And so we're in a very deep growth phase. It's an important part of our investment in that period, this period, and for the year is part of the downtick in profitability for the segment overall this year. But we fully expect that that's going to grow as we build that business globally.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

And lastly on the University Services side with reenrollment slowing somewhat, does it take a little bit longer to get back to those operating margins or is this more of just a normalization as you described for this one-, two-, three-quarter period?

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

A

We're expecting that we're going to get back to – over the longer term, we're going to get back to the kind of rates that we've been talking about for long-term performances. So we said we expected to see EBITDA margin in that business of 17% or greater, and we'll get there.

This is – I should now note, this isn't a year of investment for us in that business as well, as we are seeking to expand our capability to attract students at ever improving rates in terms of student acquisition costs and provide better services.

So we will see lower margin in the OPM business here. We've been signaling that. It's really driven by investment and some additional challenges that we've been seeing around marketing costs in the short term.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Okay. Very helpful. Thanks for the color.

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

A

Thanks, Dan.

Operator: [Operator Instructions] And currently we don't have any questions on the queue. And at this point I'd like to hand it over back to our President and CEO, Mr. Brian Napack.

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

Great. Well, thanks for the great questions and thanks everyone for joining today. We'll look forward to sharing our second quarter results in December. Thank you again.

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