

Interim report 2018

1843
2018

Interim report

Six months ended September 30th 2018

Contents

- 2 Chairman's statement
- 4 Condensed consolidated income statement
- 5 Consolidated statement of comprehensive income
- 6 Consolidated balance sheet
- 8 Consolidated statement of changes in equity
- 10 Consolidated statement of cashflows
- 12 Notes to the consolidated interim financial report
- 20 Key dates

Chairman's statement



In the first six months of the year, revenue was up 2% or £3.2m compared with the same period last year, and operating profit from continuing operations grew 11% to £11.4m. But, as ever, these headlines do not tell the story of the six months. For that, we need to look at the underlying trends in the different areas of the business.

Firstly, as previously announced, we sold CQ-Roll Call in August 2018 for \$180m, resulting in a profit of £42.8m.

This was paid through a combination of cash (\$80m), debt (\$58.6m), and an 18.2 per cent equity stake in the buyer, FiscalNote, making the Group its largest shareholder. The deal combined two complementary businesses, creating a company capable of offering award-winning journalism along with leading-edge technology, software and products providing access to large quantities of data, news and analysis for all levels of government to help corporations, associations and non-profits of all sizes manage their issues. The CQ-Roll Call business is now classified as discontinued in our financial statements. The impact of the sale on the company's income statement and balance sheet is described on pages 15 to 19.

In circulation, we continued to increase our spending on marketing to drive full-price subscriptions to *The Economist*. Spending was £28.5m, £2.6m (10%) more than in the same period last year. After a slow start, circulation started to grow as various initiatives – including a new app to encourage daily engagement, renewed focus on search-engine optimisation and improvements to our website – began to bear fruit. We now have 19,000 more subscribers than at the same time last year and, with significantly higher marketing spending planned in the second half, we expect the trend to continue.

The first half of the year saw the launch of Open Future, a successful initiative marking the 175th anniversary of the newspaper and aimed at remaking the case for liberal values and policies in the 21st century. The initiative included an online hub with content from *The Economist's* editorial staff as well as commentary from outside contributors sharing different points of view. There were also film and essay competitions for young people, and a global festival held simultaneously in Hong Kong, London and New York.

In the advertising and marketing services part of the business, we have faced significant headwinds in all areas. Although revenue was only 2% lower than for

the same period last year, that is because EuroFinance's flagship event (another resounding success, with over 2,100 attendees over three days) was held in the first half of this year, unlike last year. But the momentum improved towards the end of the period and we expect a better second half.

The Economist Intelligence Unit (EIU) made a good start to the year: the research business was steady, and the consulting business, with its focus on public policy, healthcare and consumer sectors, had an outstanding first half, with revenues growing 47% compared with the same period last year. The EIU is in an exciting phase of product expansion and development, with a number of new data products either recently launched or in the pipeline.

Technology continues to be an important area of focus for the Group. We have recruited a new head of engineering and reorganised our technology teams to make sure we are able to deliver expertly engineered technical solutions. We launched a new Economist app, and have plans to develop this further. We are also on course to replace our core subscription management systems, a major undertaking that should improve the customer experience.

In the last annual report, your former chairman explained that the Board would be reviewing its dividend policy to match the Group's "new arithmetic": the trading environment, a further large increase in spending on newspaper marketing, and the Group's net debt position. Add to this the sale of CQ-Roll Call, which has improved our net debt position but will also reduce annual operating profit by some £10m, and it is clear that the dividend needs to be adjusted. The Board has therefore decided to declare an interim dividend of 45p per share (2017: 61.1p), which will be paid to shareholders on December 19th 2018. The final dividend will, as ever, depend on the performance of the business, but as a Board we also expect it to be adjusted to allow investment in the business. This is in line with our dividend policy of returning cash surplus to business needs to shareholders.

Lastly, after 13 years with the company, Chris Stibbs will be stepping down as CEO. As well as finding a good home for CQ-Roll Call, Chris has successfully steered the Group through exceptionally turbulent times for the publishing industry, and was instrumental in securing the Group's independence when Pearson sold its stake in 2015. There will be plenty of time for goodbyes, as Chris has agreed to stay on while we choose a successor to ensure a smooth transition.

Condensed consolidated income statement

	NOTE	Six months to Sept 30th 2018 £000	Six months to Sept 30th 2017 £000	Twelve months to March 31st 2018 £000
Revenue	1	158,598	155,417	328,283
Adjusted operating profit		13,844	11,438	39,410
Acquired intangible amortisation		(205)	(236)	(467)
Exceptional items	2	(2,237)	(893)	(1,422)
Acquired intangible amortisation, impairments and exceptional items		(2,442)	(1,129)	(1,889)
Operating profit	1	11,402	10,309	37,521
Finance costs		(3,341)	(3,399)	(6,838)
Finance income		129	37	84
Profit before tax		8,190	6,947	30,767
Income tax		(1,556)	(1,322)	(5,381)
Profit for the period from continuing operations		6,634	5,625	25,386
Profit for the period from discontinued operations	5	44,543	4,597	9,877
Profit for the period		51,177	10,222	35,263
Attributable to:				
Equity holders of the company		51,177	10,222	35,263
Earnings per share (in pence per share)	3			
Basic		256.7	51.2	176.8
Diluted		254.1	50.7	175.0
Basic - continuing operations		33.3	28.2	127.3
Diluted		32.9	27.9	126.0
Dividends paid per share on a cash basis (pence)	4	104.0	120.0	181.1

The accompanying notes to the consolidated financial statements form an integral part of the financial information.

Consolidated statement of comprehensive income

	Six months to Sept 30th 2018 £000	Six months to Sept 30th 2017 £000	Twelve months to March 31st 2018 £000
Profit for the period	51,177	10,222	35,263
Items that may be reclassified subsequently to the income statement:			
Change in fair value of cashflow hedges	(3,541)	3,001	2,897
Net exchange differences on translation of net investments in overseas subsidiary undertakings	2,720	(5,486)	(8,944)
Recycling of foreign exchange gains on translation of CQ-Roll Call through profit on sale of the business	(5,433)	-	-
Net exchange differences on foreign currency loans	(3,065)	3,989	6,425
Items that will not be reclassified to the income statement:			
Re-measurement of retirement benefit obligations	22,808	7,999	9,135
Attributable tax	(3,877)	(1,360)	(1,553)
Other comprehensive income for the period	9,612	8,143	7,960
Total comprehensive gains for the period	60,789	18,365	43,223
Attributable to:			
Equity holders of the company	60,789	18,365	43,223

Consolidated balance sheet

	As at Sept 30th 2018 £000	As at Sept 30th 2017 £000	As at March 31st 2018 £000
Property, plant and equipment	9,543	14,364	12,008
Intangible assets	59,822	147,179	147,929
Fixed asset investments	31,720	-	-
Financial assets - loan notes	44,820	-	-
Deferred income tax assets	3,037	8,050	7,059
Other financial assets	100	100	100
Non-current assets	149,042	169,693	167,096
Inventories	864	1,851	906
Trade and other receivables	53,182	56,833	66,543
Financial assets - derivative financial instruments	-	1,900	1,796
Cash and cash equivalents	63,789	19,690	12,220
Current assets	117,835	80,274	81,465
Total assets	266,877	249,967	248,561
Trade and other liabilities	(10,553)	(14,057)	(13,634)
Financial liabilities - borrowings	(92,715)	(102,652)	(101,077)
Deferred income tax liabilities	(7,042)	(10,636)	(8,319)
Retirement benefit obligations	(1,730)	(27,386)	(26,048)
Provisions for other liabilities and charges	-	(2,967)	-
Other liabilities	(3,819)	(4,345)	(4,904)
Non-current liabilities	(115,859)	(162,043)	(153,982)
Trade and other liabilities	(125,135)	(138,345)	(149,030)
Financial liabilities - borrowings	(52,699)	(47,972)	(27,256)
Financial liabilities - derivative financial instruments	(1,745)	-	-
Current income tax liabilities	(17,673)	(4,244)	(4,791)
Provisions for other liabilities and charges	(3,954)	(370)	(3,786)
Other liabilities	(394)	(506)	(505)
Current liabilities	(201,600)	(191,437)	(185,368)
Total liabilities	(317,459)	(353,480)	(339,350)
Net liabilities	(50,582)	(103,513)	(90,789)

Consolidated balance sheet (continued)

	As at Sept 30th 2018 £000	As at Sept 30th 2017 £000	As at March 31st 2018 £000
Equity			
Share capital	1,260	1,260	1,260
ESOP shares	(2,960)	(3,166)	(3,116)
Treasury shares	(188,823)	(188,823)	(188,823)
Translation reserve	(14,290)	(3,845)	(4,971)
Retained earnings	154,231	91,061	104,861
Total equity	(50,582)	(103,513)	(90,789)

A reconciliation of net debt is set out in the note to the consolidated statement of cashflows on page 11.

Consolidated statement of changes in equity

Six-month period ended September 30th 2018

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2018	1,260	(3,116)	(188,823)	(4,971)	104,861	(90,789)
Profit for the period	-	-	-	-	51,177	51,177
Other comprehensive income	-	-	-	(9,319)	18,931	9,612
Total comprehensive income	-	-	-	(9,319)	70,108	60,789
Net sale of own shares	-	156	-	-	-	156
Dividends	-	-	-	-	(20,738)	(20,738)
At September 30th 2018	1,260	(2,960)	(188,823)	(14,290)	154,231	(50,582)

Six-month period ended September 30th 2017

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2017	1,260	(2,903)	(188,823)	(5,349)	98,137	(97,678)
Profit for the period	-	-	-	-	10,222	10,222
Other comprehensive income	-	-	-	1,504	6,639	8,143
Total comprehensive income	-	-	-	1,504	16,861	18,365
Net purchase of own shares	-	(263)	-	-	-	(263)
Dividends	-	-	-	-	(23,937)	(23,937)
At September 30th 2017	1,260	(3,166)	(188,823)	(3,845)	91,061	(103,513)

Consolidated statement of changes in equity (continued)

Year ended March 31st 2018

	Equity attributable to equity holders of the company					
	Share capital	ESOP shares	Treasury shares	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At April 1st 2017	1,260	(2,903)	(188,823)	(5,349)	98,137	(97,678)
Profit for the year	-	-	-	-	35,263	35,263
Other comprehensive income	-	-	-	378	7,582	7,960
Total comprehensive income	-	-	-	378	42,845	43,223
Net purchase of own shares	-	(213)	-	-	-	(213)
Dividends	-	-	-	-	(36,121)	(36,121)
At March 31st 2018	1,260	(3,116)	(188,823)	(4,971)	104,861	(90,789)

The translation reserve includes exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other currency instruments designated as hedges of these investments.

Consolidated statement of cashflows

	Six months to Sept 30th 2018	Six months to Sept 30th 2017	Twelve months to March 31st 2018
	£000	£000	£000
Cashflows from operating activities			
Operating profit - continuing businesses	11,402	10,309	37,521
Operating profit - discontinued businesses	2,174	5,723	9,556
Depreciation, amortisation and impairment charges	2,905	3,012	6,230
Inventories	50	(349)	596
Trade and other receivables	7,637	4,435	(7,828)
Trade and other liabilities	(14,448)	(9,995)	5,578
Retirement benefit obligations	(1,854)	(813)	(1,595)
Provisions	-	(447)	(808)
Cash generated from operations	7,866	11,875	49,250
Income taxes paid	(1,874)	(4,377)	(7,431)
Net cash generated from operating activities	5,992	7,498	41,819
Investing activities			
Interest received	129	37	84
Purchase of intangible assets	(3,865)	(3,092)	(7,669)
Purchase of property, plant and equipment	(501)	(5,628)	(6,198)
Proceeds from sale of investments	214	-	273
Proceeds from sale of business	61,120	-	-
Net cash generated from/(used in) investing activities	57,097	(8,683)	(13,510)
Financing activities			
Dividends paid	(20,738)	(23,937)	(36,121)
Interest paid	(2,991)	(3,054)	(5,824)
Purchase of own shares	(533)	(263)	(213)
Proceeds from borrowings	60,604	46,904	64,724
Repayment of borrowings	(45,434)	(19,821)	(58,875)
Net cash used in financing activities	(9,092)	(171)	(36,309)

Consolidated statement of cashflows (continued)

	Six months to Sept 30th 2018	Six months to Sept 30th 2017	Twelve months to March 31st 2018
	£000	£000	£000
Effects of exchange-rate changes on cash and cash equivalents	(1,161)	(1,511)	(3,604)
Net increase/(decrease) in cash and cash equivalents	52,836	(2,867)	(11,604)
Cash and cash equivalents at the beginning of the period	10,953	22,557	22,557
Cash and cash equivalents at the end of the period	63,789	19,690	10,953
Net debt			
Net debt at beginning of the period	(116,113)	(104,859)	(104,859)
Net increase/(decrease) in cash and cash equivalents	52,836	(2,867)	(11,604)
Proceeds from borrowings	(60,604)	(46,904)	(64,724)
Repayment of borrowings	45,434	19,821	58,875
Other non-cash changes	(113)	(114)	(226)
Effect of exchange-rate movements	(3,065)	3,989	6,425
Net debt at the end of the period	(81,625)	(130,934)	(116,113)
Net debt comprises:			
Cash at bank and in hand	63,789	19,690	12,220
Bank overdrafts	-	-	(1,267)
Total cash and cash equivalents	63,789	19,690	10,953
Borrowings	(145,414)	(150,624)	(127,066)
Total net debt	(81,625)	(130,934)	(116,113)

Notes to the consolidated interim financial report

NOTE 1 Analysis of results by business

	Six months to Sept 30th 2018	Six months to Sept 30th 2017 As restated	Twelve months to March 31st 2018 As restated
	£000	£000	£000
Revenue by business			
The Economist Businesses	128,155	128,007	268,050
The Economist Intelligence Unit	30,443	27,410	60,233
	158,598	155,417	328,283
Operating profit by business			
The Economist Businesses	5,717	6,022	22,131
The Economist Intelligence Unit	8,127	5,416	17,279
	13,844	11,438	39,410
Acquired intangible amortisation	(205)	(236)	(467)
Exceptional items (reorganisation costs)	(2,237)	(893)	(1,422)
	11,402	10,309	37,521

The prior year comparatives have been restated to exclude the revenue and operating profit of CQ-Roll Call.

Revenue and costs have been restated by £3,261,000 for six months to September 30th 2017 and £6,124,000 for twelve months to March 31st 2018 to reflect grossing up of agents' commissions following a change to accounting standards.

NOTE 2 Exceptional items

	Six months to Sept 30th 2018	Six months to Sept 30th 2017	Twelve months to March 31st 2018
	£000	£000	£000
The following exceptional items have been charged to operating profit:			
Reorganisation costs	2,237	893	1,422

Notes to the consolidated interim financial report (continued)

NOTE 3 Earnings per share

	Six months to Sept 30th 2018	Six months to Sept 30th 2017	Twelve months to March 31st 2018
	£000	£000	£000
Profit for the period from continuing operations	6,634	5,625	25,386
Profit for the period from discontinued operations	44,543	4,597	9,877
Profit for the period	51,177	10,222	35,263
Adjustment in respect of non-operating exceptional items			
- Profit on sale of business	(62,154)	-	-
- Attributable taxation	19,363	-	-
Normalised earnings	8,386	10,222	35,263

	Number 000s	Number 000s	Number 000s
Weighted average number of shares	25,200	25,200	25,200
Shares held in treasury	(5,040)	(5,040)	(5,040)
Shares held by the Employee Share Ownership Plan (ESOP)	(222)	(215)	(218)
Weighted average number of shares	19,938	19,945	19,942
Effect of dilutive share options	201	235	203
Diluted weighted average number of shares	20,139	20,180	20,145

Earnings per share	Pence	Pence	Pence
Basic - continuing and discontinued operations	256.7	51.2	176.8
Diluted - continuing and discontinued operations	254.1	50.7	175.0
Underlying - continuing businesses excluding non-operating exceptional items	33.3	28.2	127.3
Normalised - excluding non-operating exceptionals	42.1	51.2	176.8

Notes to the consolidated interim financial report (continued)

NOTE 4 Dividends

	Six months to Sept 30th 2018 £000	Six months to Sept 30th 2017 £000	Twelve months to March 31st 2018 £000
Cash dividends paid			
Final dividend for previous year of 104.0p per share (Sept 30th 2017 and March 31st 2018: 120.0p per share)	20,738	23,937	23,937
Interim dividend for year ended March 31st 2018 of 61.1p per share	-	-	12,184
	20,738	23,937	36,121
Dividends proposed in respect of the period			
Interim dividend proposed of 45p per share (Sept 30th 2017 and March 31st 2018: 61.1p per share)	8,975	12,184	12,184
Final dividend proposed for year ended March 31st 2018 of 104.0p per share	-	-	20,738
	8,975	12,184	32,922

Dividends paid in respect of the company's shares held by the ESOP have been deducted in arriving at the total dividends paid and proposed.

Notes to the consolidated interim financial report (continued)

NOTE 5 Discontinued operations

Discontinued operations relate to CQ-Roll Call, Inc and Capitol Advantage LLC which were sold to FiscalNote, Inc. on August 20th 2018. An analysis of the results and cash flows of discontinued operations is as follows:

	Six months to Sept 30th 2018	Six months to Sept 30th 2017	Twelve months to March 31st 2018
	£000	£000	£000
Revenue	15,238	23,783	44,444
Operating profit	2,174	5,723	9,556
Finance costs	(10)	(47)	(92)
Profit before tax	2,164	5,676	9,464
Income tax	(412)	(1,079)	413
Profit after tax	1,752	4,597	9,877
Profit from sale of business	62,154	-	-
Attributable tax	(19,363)	-	-
Profit for the year from discontinued operations	44,543	4,597	9,877
Operating cash flows	5,718	8,157	11,504
Investing cash flows	60,457	(908)	(2,296)
Financing cash flows	(10)	(47)	(92)
Total cash flows	66,165	7,202	9,116

Notes to the consolidated interim financial report (continued)

NOTE 6 Disposals

On August 20th 2018, the Group completed the sale of CQ-Roll Call, Inc and Capitol Advantage LLC to FiscalNote, Inc. The disposal gave rise to an after-tax profit on sale of £42,791,000, after deducting disposal costs and the net book value of assets and liabilities sold. The gain was recognised as an exceptional item within discontinued businesses in the income statement.

The net assets of the business at the date of disposal were as follows:	£000
Property, plant and equipment	4,102
Intangible assets	96,966
Trade and other receivables	7,703
Cash and cash equivalents	12
Deferred income tax liabilities	(8,099)
Trade and other liabilities	(6,004)
Deferred income	(12,959)
Net assets disposed	81,721
Directly attributable costs	3,497
Taxation	19,363
Foreign exchange translation gains recycled from reserves	(5,433)
Profit on disposal	42,791
Total consideration	141,939
Satisfied by:	
Cash	63,369
12.7% PIK loan notes in FiscalNote, Inc.	46,008
Preference shares in FiscalNote, Inc.	32,562
Total consideration	141,939

Notes to the consolidated interim financial report (continued)

NOTE 7 Impact of the sale of CQ-Roll Call on the income statement

Year ended March 31st 2018

	NOTE	As reported* £000	CQ-Roll Call £000	As restated £000
Revenue	1	372,727	44,444	328,283
Adjusted operating profit		49,504	10,094	39,410
Acquired intangible amortisation		(521)	(54)	(467)
Exceptional items	2	(1,906)	(484)	(1,422)
Acquired intangible amortisation, impairments and exceptional items		(2,427)	(538)	(1,889)
Operating profit	1	47,077	9,556	37,521
Finance costs		(6,930)	(92)	(6,838)
Finance income		84	-	84
Profit before tax		40,231	9,464	30,767
Income tax		(4,968)	413	(5,381)
Profit for the year		35,263	9,877	25,386

* Revenue and costs have been restated by £6,124,000 to reflect grossing up of agents' commissions following a change to accounting standards.

Notes to the consolidated interim financial report (continued)

NOTE 7 Impact of the sale of CQ-Roll Call on the income statement (continued)

Six-month period ended September 30th 2017

	NOTE	As reported* £000	CQ-Roll Call £000	As restated £000
Revenue	1	179,200	23,783	155,417
Adjusted operating profit		17,476	6,038	11,438
Acquired intangible amortisation		(259)	(23)	(236)
Exceptional items	2	(1,185)	(292)	(893)
Acquired intangible amortisation, impairments and exceptional items		(1,444)	(315)	(1,129)
Operating profit	1	16,032	5,723	10,309
Finance costs		(3,446)	(47)	(3,399)
Finance income		37	-	37
Profit before tax		12,623	5,676	6,947
Income tax		(2,401)	(1,079)	(1,322)
Profit for the period		10,222	4,597	5,625

* Revenue and costs have been restated by £3,261,000 to reflect grossing up of agents' commissions following a change to accounting standards.

Notes to the consolidated interim financial report (continued)

NOTE 8 Impact of the sale of CQ-Roll Call on the balance sheet

The balance sheet cannot be restated to reflect the sale of CQ-Roll Call. The following tables highlight the impact of CQ-Roll Call on reported assets and liabilities.

Year ended March 31st 2018

	As reported £000	CQ-Roll Call £000	Excluding CQ-Roll Call £000
Property, plant and equipment	12,008	3,431	8,577
Intangible assets	147,929	89,877	58,052
Trade and other receivables	66,543	7,344	59,199
Cash and cash equivalents	12,220	1,690	10,530
Non-current trade and other liabilities	(13,634)	(4,498)	(9,136)
Non-current deferred income tax liabilities	(8,319)	(7,393)	(926)
Trade and other liabilities	(149,030)	(15,582)	(133,448)
Current income tax liabilities	(4,791)	(396)	(4,395)

Six-month period ended September 30th 2017

	As reported £000	CQ-Roll Call £000	Excluding CQ-Roll Call £000
Property, plant and equipment	14,364	3,726	10,638
Intangible assets	147,179	93,519	53,660
Trade and other receivables	56,833	8,274	48,559
Cash and cash equivalents	19,690	3,582	16,108
Non-current trade and other liabilities	(14,057)	(4,083)	(9,974)
Non-current deferred income tax liabilities	(10,636)	(8,989)	(1,647)
Trade and other liabilities	(138,345)	(15,397)	(122,948)
Provisions for other liabilities and charges	(370)	(370)	-

Key dates

Interim dividend payment December 19th 2018

Annual general meeting July 16th 2019

The Economist Newspaper Limited and its subsidiary companies
Registered in England and Wales under Number 236383 Registered office: The Adelphi,
1-11 John Adam Street, London, WC2N 6HT

