The Economist Group

Interim report

2019

Interim report

Six months ended September 30th 2019

Contents

The Group's revenue in the first six months of the year was £155.6m, and operating profit was £9.5m, 2% and 17% respectively lower than the same period last year. These figures do not tell the whole story, given in particular that they don't benefit from EuroFinance's international event (which this year took place after the end of the half year) and are to a lesser extent flattered by the impact of the US dollar exchange rate. However, they do reflect the environment in which we find ourselves and the transition the business is going through. On that note I am pleased to confirm that in September we welcomed to the Group Lara Boro, who took over as CEO.

The Economist's circulation revenue was 7% ahead of last year following price increases, with revenue per copy 10% higher. However, the number of subscribers fell 6% as a result of the higher prices, as well as lower traffic on economist.com and 15% less spent on marketing than in the previous year. Lara and her team are working on initiatives to improve the trend with a greater focus on retention and customer-lifetime value.

We continued to invest in our digital capabilities and our editorial products, with the launch of a new *Economist* app on iOS, as well as new audio and Daily Watch content from our Films division. Our podcasts attract 2 million listeners and between 13 and 15 million downloads per month. Our daily podcast, "The Intelligence", is proving particularly popular, with some 1.5 million listeners each month. Social media continue to be important for us, and though Facebook and Twitter are still our biggest platforms, we now have over 3 million followers on Instagram and are the fifth-most-followed company on LinkedIn. The Economist Films' YouTube channel hit a major milestone in September, reaching 1 million subscribers.

We are reviewing the project to replace our core subscription-management system in the light of new requirements, new solutions in the market, and our digital product strategy. As a result of this exercise, we may need to review the carrying value on the balance sheet (£16m) of our investment to date at the year-end.

Advertising at *The Economist* was in line with the same period last year, with print advertising 4% ahead, driven by a strong performance in Europe and the Middle East, beating our expectations as clients choose to continue to rely on trusted brands. Advertising in the US and Asia was somewhat weaker. We held significantly fewer events in the first half of this year than last year, and are reviewing our approach to this category–more on this when I report after the end of the year.

The Economist Intelligence Unit (EIU) continues to demonstrate that it is a robust business, with renewal rates at 89%. Revenue held up thanks to core subscriptions and our health-care and consumer-goods consulting businesses. Membership of and revenue from the Corporate Network business continued to grow. The public-policy consulting business had a slower start to the year, however. The EIU is currently focused on its digital transformation and on product development. As a result, significant investments were made in its digital capabilities and talent.

FiscalNote, a company in which we hold a substantial interest, has completed the integration of the CQ-Roll Call business, which was previously part of The Economist Group. FiscalNote is now looking to raise additional capital to support its next phase of growth.

The interim results include a significant change to lease accounting under International Financial Reporting Standards (IFRS), which is worth highlighting here. IFRS now require that property leases be included on the balance-sheet. The effect of this change has been to reduce profits slightly and increase net borrowings by £37m.

The Board has decided to pay an interim dividend to shareholders on December 18th 2019 of 40p per share, a decrease of 5p on last year's figure, reflecting a lower operating profit. EY has carried out its regular independent valuation and has put the cum-dividend share price unchanged at £25.50.

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Condensed consolidated income statement

	NOTE	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 Restated £000	Twelve months to March 31st 2019 £000
Revenue	2	**155,563**	**158,598**	**333,430**
Adjusted operating profit		**10,906**	**13,844**	**36,069**
Acquired intangible amortisation		(330)	(205)	(561)
Exceptional items	3	(1,077)	(2,237)	(4,451)
Operating profit	2	**9,499**	**11,402**	**31,057**
Finance income		3,040	129	3,909
Finance costs		(2,704)	(1,987)	(4,703)
Profit before tax		**9,835**	**9,544**	**30,263**
Income tax		(1,921)	(1,813)	(5,455)
Profit for the period from continuing operations		**7,914**	**7,731**	**24,808**
Profit for the period from discontinued operations	6	-	43,446	43,511
Profit for the period		**7,914**	**51,177**	**68,319**
Attributable to:				
Equity holders of the company		7,914	51,177	68,319
Earnings per share (in pence per share)	4			
Basic		**39.8**	**256.7**	**343.0**
Diluted		39.4	254.1	339.7
Basic - continuing operations		**39.8**	**38.8**	**124.5**
Diluted		39.4	38.4	123.3
Dividends paid per share on a cash basis (pence)	5	75.0	104.0	149.0

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

Consolidated statement of comprehensive income

	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Profit for the period	**7,914**	**51,177**	**68,319**
Items that may be reclassified subsequently to the income statement:			
Change in fair value of cashflow hedges	(1,582)	(3,541)	(2,191)
Change in value of interest rate hedges	(189)	-	(475)
Net exchange differences on translation of net investments in overseas subsidiary undertakings	3,760	2,720	3,764
Translation reserves recycled to income statement	-	(5,433)	(5,432)
Net exchange differences on foreign currency loans	-	(3,065)	(3,879)
Fair value of equity investments	-	-	2,525
Attributable tax	-	-	(446)
Items that will not be reclassified to the income statement:			
Re-measurement of retirement benefit obligations	(15,208)	22,808	5,766
Attributable tax	2,509	(3,878)	(980)
Other comprehensive (expense)/income for the period	(10,710)	9,611	(1,348)
Total comprehensive (expense)/income for the period	**(2,796)**	**60,788**	**66,971**
Attributable to:			
Equity holders of the company	(2,796)	60,788	66,971

Consolidated balance sheet

	As at Sept 30th 2019 £000	As at Sept 30th 2018 £000	As at March 31st 2019 £000
Property, plant and equipment	8,862	9,543	9,276
Right-of-use assets	31,572	-	-
Intangible assets	66,145	59,822	63,767
Fixed asset investments	36,550	31,820	34,336
Financial assets - loan notes	54,374	44,820	48,518
Deferred income tax assets	9,234	3,037	3,526
Derivative financial instruments	89	-	278
Non-current assets	**206,826**	**149,042**	**159,701**
Inventories	1,209	864	967
Trade and other receivables	57,179	57,711	60,651
Current income tax assets	802	-	122
Cash and cash equivalents	16,279	63,789	17,660
Current assets	**75,469**	**122,364**	**79,400**
Total assets	**282,295**	**271,406**	**239,101**
Trade and other liabilities	(10,734)	(10,553)	(10,432)
Borrowings	(122,503)	(92,715)	(111,391)
Lease liabilities	(28,677)	-	-
Deferred income tax liabilities	(11,452)	(7,042)	(7,276)
Retirement benefit obligations	(32,371)	(1,730)	(17,584)
Other liabilities	(291)	(3,819)	(4,465)
Non-current liabilities	**(206,028)**	**(115,859)**	**(151,148)**
Trade and other liabilities	(139,191)	(129,664)	(141,800)
Borrowings	-	(52,699)	-
Lease liabilities	(7,925)	-	-
Derivative financial instruments	(1,977)	(1,745)	(395)
Current income tax liabilities	-	(17,673)	-
Provisions for other liabilites and charges	(223)	(3,954)	(223)
Other liabilities	-	(394)	(662)
Current liabilities	**(149,316)**	**(206,129)**	**(143,080)**
Total liabilities	**(355,344)**	**(321,988)**	**(294,228)**
Net liabilities	**(73,049)**	**(50,582)**	**(55,127)**

Consolidated balance sheet (continued)

	As at Sept 30th 2019 £000	As at Sept 30th 2018 £000	As at March 31st 2019 £000
Equity			
Share capital	1,260	1,260	1,260
ESOP shares	(4,933)	(2,960)	(4,716)
Treasury shares	(188,823)	(188,823)	(188,823)
Translation reserve	(10,531)	(14,290)	(12,709)
Retained earnings	129,978	154,231	149,861
Total equity	**(73,049)**	**(50,582)**	**(55,127)**

A reconciliation of net debt is set out in the note to the consolidated statement of cashflows on page 11. The interim balance sheet includes for the first time right-of-use assets (£31.6m), lease liabilities (£36.6m) and related tax assets (£0.1m) following a change to accounting standards (see note 1).

Consolidated statement of changes in equity

For the six month period ended September 30th 2019

	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 2019	**1,260**	**(4,716)**	**(188,823)**	**(12,709)**	**149,861**	**(55,127)**
Impact of change in accounting policy	-	-	-	-	3	3
Profit for the period	-	-	-	-	7,914	7,914
Other comprehensive expense	-	-	-	2,178	(12,888)	(10,710)
Total comprehensive expense	-	-	-	2,178	(4,971)	(2,793)
Net purchase of own shares	-	(217)	-	-	-	(217)
Dividends	-	-	-	-	(14,912)	(14,912)
At September 30th 2019	**1,260**	**(4,933)**	**(188,823)**	**(10,531)**	**129,978**	**(73,049)**

For the 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)	18,930	9,611
Total comprehensive income	-	-	-	(9,319)	70,107	60,788
Net sale of own shares	-	156	-	-	-	156
Dividends	-	-	-	-	(20,737)	(20,737)
At September 30th 2018	**1,260**	**(2,960)**	**(188,823)**	**(14,290)**	**154,231**	**(50,582)**

Consolidated statement of changes in equity (continued)

For the year ended March 31st 2019

	Equity attributable to equity holders of the company					
	Share capital £000	ESOP shares £000	Treasury shares £000	Translation reserve £000	Retained earnings £000	Total equity £000
At April 1st 2018	**1,260**	**(3,116)**	**(188,823)**	**(4,971)**	**104,861**	**(90,789)**
Profit for the year	-	-	-	-	68,319	68,319
Other comprehensive expense	-	-	-	(7,738)	6,390	(1,348)
Total comprehensive income	-	-	-	(7,738)	74,709	66,971
Net purchase of own shares	-	(1,600)	-	-	-	(1,600)
Dividends	-	-	-	-	(29,709)	(29,709)
At March 31st 2019	**1,260**	**(4,716)**	**(188,823)**	**(12,709)**	**149,861**	**(55,127)**

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 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Cashflows from operating activities			
Operating profit - continuing businesses	9,499	11,402	31,057
Operating profit - discontinued businesses	-	2,174	1,944
Depreciation, amortisation and impairment charges	6,362	2,905	6,588
Acquisition costs	-	-	93
Inventories	(240)	50	(54)
Trade and other receivables	5,081	7,954	6,052
Trade and other liabilities	(5,049)	(14,765)	(3,894)
Retirement benefit obligations	(661)	(1,854)	(3,061)
Provisions	-	-	234
Cash generated from operations	**14,992**	**7,866**	**38,959**
Income taxes paid	(1,815)	(1,874)	(5,446)
Net cash generated from operating activities	**13,177**	**5,992**	**33,513**
Investing activities			
Interest received	36	129	440
Purchase of intangible assets	(3,663)	(3,865)	(8,280)
Purchase of property, plant and equipment	(705)	(501)	(1,253)
Proceeds from sale of subsidiary undertakings, net of taxes paid	-	61,120	47,613
Proceeds from sale of investments	-	214	214
Purchase of subsidiary undertakings, net of cash acquired	-	-	(1,270)
Payment of acquisition deferred consideration	-	-	(3,374)
Net cash (used in)/generated from investing activities	**(4,332)**	**57,097**	**34,090**

Consolidated statement of cashflows (continued)

	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Financing activities			
Dividends paid	(14,912)	(20,737)	(29,709)
Interest paid	(2,403)	(2,992)	(9,934)
Purchase of own shares	(681)	(533)	(2,073)
Payment of lease liabilities	(3,698)	-	-
Proceeds from borrowings	21,000	60,604	203,045
Repayment of borrowings	(10,000)	(45,434)	(222,032)
Net cash used in financing activities	**(10,694)**	**(9,092)**	**(60,703)**
Effects of exchange-rate changes on cash and cash equivalents	468	(1,161)	(193)
Net (decrease)/increase in cash and cash equivalents	(1,381)	52,836	6,707
Cash and cash equivalents at the beginning of the period	17,660	10,953	10,953
Cash and cash equivalents at the end of the period	**16,279**	**63,789**	**17,660**
Net debt			
Net debt at beginning of the period	(93,731)	(116,113)	(116,113)
Net (decrease)/increase in cash and cash equivalents	(1,381)	52,836	6,707
Proceeds from borrowings	(21,000)	(60,604)	(203,045)
Repayment of borrowings	10,000	45,434	222,032
Payment of lease liabilities	3,698	-	-
Adjustment on initial application of IFRS 16	(39,621)	-	-
Other non-cash changes	(113)	(113)	567
Effect of exchange-rate movements	(678)	(3,065)	(3,879)
Net debt at the end of the period	**(142,826)**	**(81,625)**	**(93,731)**
Net debt comprises:			
Total cash and cash equivalents	16,279	63,789	17,660
Lease liabilities	(36,602)	-	-
Borrowings	(122,503)	(145,414)	(111,391)
Total net debt	**(142,826)**	**(81,625)**	**(93,731)**

NOTE 1 Accounting policies

The interim financial information for the six month period ended September 30th 2019 has been prepared on the basis of the accounting policies set out in the 2019 annual report, except for the change to lease accounting noted below.

The interim financial information was approved by the Board of directors on November 19th 2019 and is unaudited. The financial information for the year ended March 31st 2019 has been extracted from the full accounts for that period which have been filed with the Registrar of Companies and on which the auditors gave an unqualified report.

Change to accounting policy: IFRS 16 Leases

The Group has adopted IFRS 16 "Leases" at April 1st 2019 and applied the retrospective approach. The standard requires lessees to recognise right-of-use assets and corresponding liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard replaces the operating lease expense with a depreciation charge on the underlying asset and an interest expense on the liability. Comparatives for 2019 have not been restated and the cumulative impact of adoption has been recognised as an increase in net assets with a corresponding increase in retained earnings at April 1st 2019. Opening asset and liability values have been restated as follows:

	April 1st 2019 £000
Non-current assets	
Property, plant and equipment (right-of-use assets)	34,946
Deferred income tax assets	3,287
Current assets	
Trade and other receivables	(137)
Non-current liabilities	
Financial liabilities – borrowings	(32,349)
Deferred income tax liabilities	(3,287)
Other liabilities	4,230
Current liabilities	
Financial liabilities – borrowings	(7,272)
Other liabilities	585
Total increase in retained earnings at April 1st 2019	**3**

The Group's lease portfolio consists of property and equipment leases. The lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at transition. The right-of-use asset has been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments and incentives relating to the lease in the balance sheet immediately before the date of transition. Transition recognition exemptions, as permitted under IFRS 16 relating to short-term and low-value leases have been applied as well as practical expedients taken, where available, to simplify the transition process. Revenues and costs for these items will therefore continue to be expensed directly to the income statement.

The impact on the income statement for the half year is to reduce profit before tax by £426,000 (increasing operating profit by £99,000 and increasing net finance costs by £525,000). There is no overall impact on the Group's cash and cash equivalents although there is a change to the classification of cash flows in the cash flow statement with lease payments previously categorised within net cash generated from operations now being split between principal and interest elements within financing activities. In the period to September 30th 2019 there were £4,223,000 of lease payments classified as principal (£3,698,000) and interest (£525,000).

At September 30th 2019, the Group has right-of-use assets of £31,572,000 and has also included a lease liability of £36,602,000 as part of its net debt. This does not impact how debt covenants are measured.

NOTE 2 Analysis of results by business

Revenue by business	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
The Economist Businesses	124,936	128,155	268,636
The Economist Intelligence Unit	30,627	30,443	64,794
	155,563	158,598	333,430
Operating profit by business			
The Economist Businesses	6,622	5,717	18,355
The Economist Intelligence Unit	4,284	8,127	17,714
	10,906	13,844	36,069
Acquired intangible amortisation	(330)	(205)	(561)
Exceptional items	(1,077)	(2,237)	(4,451)
	9,499	11,402	31,057

NOTE 3 Exceptional items

The following exceptional items have been charged to operating profit:	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Movement in contingent consideration relating to acquisitions	-	-	(609)
Reorganisation costs	1,077	2,237	3,895
Impairment of software costs	-	-	1,165
	1,077	2,237	4,451

NOTE 4 Earnings per share

	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 Restated £000	Twelve months to March 31st 2019 £000
Profit for the period from continuing operations	7,914	7,731	24,808
Profit for the period from discontinued operations	-	43,446	43,511
Profit for the period	7,914	51,177	68,319
Adjustment in respect of non-operating exceptional items			
- Profit on sale of business	-	(62,154)	(62,427)
- Attributable taxation	-	19,363	19,240
Normalised earnings	7,914	8,386	25,132

	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)	(282)	(222)	(240)
Weighted average number of shares	19,878	19,938	19,920
Effect of dilutive share options	199	201	194
Diluted weighted average number of shares	20,077	20,139	20,114

Earnings per share	Pence	Pence	Pence
Basic - continuing and discontinued operations	39.8	256.7	343.0
Diluted - continuing and discontinued operations	39.4	254.1	339.7
Underlying - continuing businesses excluding non-operating exceptional items	39.8	38.8	124.5
Normalised - excluding non-operating exceptionals	39.8	42.1	126.2

NOTE 5 Dividends

Cash dividends paid	Six months to Sept 30th 2019 £000	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Final dividend for previous year of 75.0p per share (Sept 30th 2018 and March 31st 2019: 104.0p per share)	14,912	20,737	20,737
Interim dividend for year ended March 31st 2019 of 45.0p per share	-	-	8,972
	14,912	20,737	29,709
Dividends proposed in respect of the period			
Interim dividend proposed of 40.0p per share (Sept 30th 2018 and March 31st 2019: 45.0p per share)	7,950	8,972	8,972
Final dividend proposed for year ended March 31st 2019 of 75.0p per share	-	-	14,912
	7,950	8,972	23,884

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.

NOTE 6 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 Restated £000	Twelve months to March 31st 2019 £000
Revenue	**15,238**	**15,238**
Operating profit	2,174	1,944
Finance costs	(1,364)	(3,788)
Profit before tax	**810**	**(1,844)**
Income tax	(155)	2,168
Profit after tax	**655**	**324**
Profit from sale of business	62,154	62,427
Attributable tax	(19,363)	(19,240)
Profit for the year from discontinued operations	**43,446**	**43,511**
Operating cash flows	102	102
Investing cash flows	60,457	46,951
Financing cash flows	(1,320)	(4,309)
Total cash flows	**59,239**	**42,744**

Subsequent to both the sale of CQ-Roll Call Inc and publication of the 2018 interim report, the Group completed a refinancing of its former bank facilities and its US Private Placement notes in November 2018. These notes had originally been taken out to finance the acquisition of CQ-Roll Call Inc. Following completion of the re-financing, finance costs incurred on the repaid US Private Placement notes were reclassified as relating to discontinued operations.

NOTE 7 Disposals and investment in FiscalNote

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 a profit on sale of £43,187,000 before tax, 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:	Six months to Sept 30th 2018 £000	Twelve months to March 31st 2019 £000
Property, plant and equipment	2,584	2,584
Intangible assets	98,484	98,484
Trade and other receivables	7,703	7,703
Cash and cash equivalents	12	12
Deferred income tax liabilities	(8,099)	(8,099)
Trade and other liabilities	(6,004)	(6,004)
Deferred income	(12,959)	(12,959)
Net assets disposed	81,721	81,721
Directly attributable costs	3,496	3,552
Taxation (£6,162,000 deferred tax)	19,363	19,240
Foreign exchange translation gains recycled from reserves	(5,432)	(5,432)
Profit on disposal	42,791	43,187
Total consideration	**141,939**	**142,268**
Satisified by:		
Cash	63,369	63,698
12.6% PIK loan notes in FiscalNote, Inc.[1]	46,008	46,008
Preference shares in FiscalNote Holdings, Inc. [2]	32,562	32,562
Total consideration	**141,939**	**142,268**

[1] The loan notes are carried at amortised cost using the effective interest method. The amount of interest income accrued and recognised in the income statement in the period is £3.0m (2018: £nil).

[2] The preference shares are measured at estimated fair value with changes in the fair value recorded in equity prior to disposal. On disposal, gains or losses are taken to the income statement.

Key dates

Interim dividend payment	December 18th 2019
Annual general meeting	July 14th 2020

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Notes