The Economist Group

Interim report 2017

Interim report

Six months ended September 30th 2017

Contents

The headlines tell of a happier first half, with revenue up 9% on the same period last year and profits down only slightly, despite a large increase in marketing costs. As always, though, the half-year figures contain anomalies that make comparisons difficult.

The recurring distortion is the pound-dollar exchange rate. It averaged $1.29 in the first half of this financial year compared with $1.38 last time, and the stronger dollar boosted both revenue and profits. A smaller boost came from an occasional quirk in the calendar: this year's first half contained 27 issues of *The Economist* compared with 26 last year, which meant that the latest figures benefited from a week of extra revenue and profit.

Beyond these twists and turns, what matters more is what is happening on three familiar fronts: the paper's circulation, the changing shape of the advertising and marketing services we offer to clients, and the health of the Economist Intelligence Unit (EIU) and CQ Roll Call. I will deal with each in turn.

On circulation, shareholders will recall that the Board has approved an ambitious strategy to acquire many more full-price subscribers to *The Economist* by increasing spending on marketing. In the first half of this year that spending was £25.9m, some £7.6m (42%) higher than in the same period last year. The full benefits of that extra spending will come through only in the months and years ahead, but we are already seeing signs that the circulation strategy is working: by the end of September the number of full-price subscribers was up 5% on a year earlier. Together with a price increase introduced last year, this meant the paper's first-half circulation revenue was up 25%; even after adjusting for the benefits of that extra week and the stronger dollar, the rise was 16%.

On the second theme—advertising and marketing services—the picture is patchier. After years of sharp decline, revenue from print advertising has been surprisingly robust—down only 2% against the first half of last year. However, revenues from digital advertising were down 5%, and content solutions—the range of products and services we offer to the marketing departments of our clients—produced no more revenue than a year earlier. More positively, revenue from events was up 30%, and a small acquisition called Signal Noise (which presents data in new ways) has made a promising start.

As for the Group's other two legs, the EIU had a lacklustre six months, with revenue and profits both down, while CQ Roll Call's profits were up 7%, helped by the dollar's strength. Both companies' revenues come mainly from subscriptions, which are solid and predictable, but their one-off contract wins have so far been slow to come through.

One factor that is common to everything we do is digital technology. Spending on IT equipment, staff and services is a crucial ingredient of commercial success, and it's not just how much we spend but also how cleverly we choose it and use it. During the first half of this year the IT project list included the revamp of both economist.com and CQ Roll Call, plus more staff and systems for digital marketing and social-media campaigns. On a like-for-like comparison, the Group's digital expenditure in the first half of this year was 19% (some £2.0m) more than in the same period last year, and the pressure to keep spending shows no sign of softening.

Looking ahead, the world and our markets remain even more unpredictable than usual, but we are continuing to push ahead with our strategy. In line with our usual practice, the interim dividend is one-third of last year's total. This means that a dividend of 61.1p per share will be paid to shareholders on December 21st.

To end, one sad farewell and one warm welcome. Helen Alexander, who was the Group's chief executive from 1997 to 2008, died in August, far too young. Later that month the editorial staff moved out of 25 St James's Street, after 53 years and more than 2,700 editions of the paper. The move passed off without a hitch, and editorial is now happily settled in the Adelphi building behind the Strand.

Rupert Pennant-Rea
Chairman

Condensed consolidated income statement

	NOTE	**Six months to Sept 30th 2017 £000**	Six months to Sept 30th 2016 £000	Twelve months to March 31st 2017 £000
Revenue	1	**175,939**	161,887	353,236
Adjusted operating profit		**17,476**	18,347	50,518
Acquired intangible amortisation		**(259)**	(95)	(394)
Exceptional items	2	**(1,185)**	(1,025)	3,894
Operating profit		**16,032**	17,227	54,018
Finance costs		**(3,446)**	(3,788)	(7,689)
Finance income		**37**	44	76
Profit on sale of investment		**-**	2,223	2,946
Profit before tax		**12,623**	15,706	49,351
Income tax		**(2,401)**	(2,796)	(7,988)
Profit for the period		**10,222**	12,910	41,363
Attributable to:				
Equity holders of the company		**10,222**	12,910	41,363
Earnings per share (in pence per share)				
Basic	3	**51.2**	64.7	207.3
Diluted	3	**50.7**	64.3	205.3
Dividends paid per share on a cash basis (pence)	4	**120.0**	129.8	193.2

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

Condensed consolidated statement of comprehensive income

	Six months to Sept 30th 2017	Six months to Sept 30th 2016	Twelve months to March 31st 2017
	£000	£000	£000
Profit for the period	**10,222**	12,910	41, 363
Items that may be reclassified subsequently to the income statement:			
Change in fair value of cashflow hedges	**3,001**	(3,069)	3
Net exchange differences on translation of net investments in overseas subsidiary undertakings	**(5,486)**	7,464	10,114
Net exchange differences on foreign currency loans	**3,989**	(6,179)	(8,751)
Items that will not be reclassified to the income statement:			
Re-measurement of retirement-benefit obligations	**7,999**	(74,034)	(29,150)
Attributable tax	**(1,360)**	13,326	4,996
Other comprehensive income/(expense) for the period	**8,143**	(62,492)	(22,788)
Total comprehensive gain/(loss) for the period	**18,365**	(49,582)	18,575
Attributable to:			
Equity holders of the company	**18,365**	(49,582)	18,575

Condensed consolidated balance sheet

	As at Sept 30th 2017	As at Sept 30th 2016	As at March 31st 2017
	£000	£000	£000
Property, plant and equipment	**14,364**	9,656	10,355
Intangible assets	**147,179**	141,525	153,523
Deferred income tax assets	**8,050**	19,597	9,753
Other financial assets	**100**	-	100
Non-current assets	**169,693**	170,778	173,731
Inventories	**1,851**	1,594	1,518
Trade and other receivables	**56,833**	58,783	63,934
Financial assets - derivative financial instruments	**1,900**	-	-
Cash and cash equivalents	**19,690**	29,906	22,557
Current assets	**80,274**	90,283	88,009
Total assets	**249,967**	261,061	261,740
Trade and other liabilities	**(14,057)**	(15,645)	(17,311)
Financial liabilities - borrowings	**(102,652)**	(114,214)	(116,134)
Deferred income tax liabilities	**(10,636)**	(9,226)	(11,419)
Retirement-benefit obligations	**(27,386)**	(82,188)	(35,797)
Provisions for other liabilities and charges	**(2,967)**	(6,023)	(2,844)
Other liabilities	**(4,345)**	(3,936)	(3,763)
Non-current liabilities	**(162,043)**	(231,232)	(187,268)
Trade and other liabilities	**(138,345)**	(130,181)	(152,180)
Financial liabilities - borrowings	**(47,972)**	(39,600)	(11,282)
Financial liabilities - derivative financial instruments	**-**	(4,173)	(1,101)
Current income tax liabilities	**(4,244)**	(8,172)	(6,197)
Provisions for other liabilites and charges	**(370)**	-	(861)
Other liabilities	**(506)**	(659)	(529)
Current liabilities	**(191,437)**	(182,785)	(172,150)
Total liabilities	**(353,480)**	(414,017)	(359,418)
Net liabilities	**(103,513)**	(152,956)	(97,678)

Condensed consolidated balance sheet (continued)

	As at Sept 30th 2017 £000	As at Sept 30th 2016 £000	As at March 31st 2017 £000
Equity			
Share capital	**1,260**	1,260	1,260
ESOP shares	**(3,166)**	(2,676)	(2,903)
Treasury shares	**(188,823)**	(188,823)	(188,823)
Translation reserve	**(3,845)**	(8,499)	(5,349)
Retained earnings	**91,061**	45,782	98,137
Total equity	**(103,513)**	(152,956)	(97,678)

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

Condensed consolidated statement of changes in equity

For 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)

For six-month period ended September 30th 2016

	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 2016	1,260	(2,480)	(188,823)	(6,715)	119,488	(77,270)
Profit for the period	-	-	-	-	12,910	12,910
Other comprehensive expense	-	-	-	(1,784)	(60,708)	(62,492)
Total comprehensive expense	-	-	-	(1,784)	(47,798)	(49,582)
Net purchase of own shares	-	(196)	-	-	-	(196)
Dividends	-	-	-	-	(25,908)	(25,908)
At September 30th 2016	1,260	(2,676)	(188,823)	(8,499)	45,782	(152,956)

Condensed consolidated statement of changes in equity (continued)

For the year ended March 31st 2017

	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 2016	1,260	(2,480)	(188,823)	(6,715)	119,488	(77,270)
Profit for the year	-	-	-	-	41,363	41,363
Other comprehensive expense	-	-	-	1,366	(24,154)	(22,788)
Total comprehensive income	-	-	-	1,366	17,209	18,575
Net purchase of own shares	-	(423)	-	-	-	(423)
Dividends	-	-	-	-	(38,560)	(38,560)
At March 31st 2017	1,260	(2,903)	(188,823)	(5,349)	98,137	(97,678)

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.

Condensed consolidated statement of cashflows

	Six months to Sept 30th 2017	Six months to Sept 30th 2016	Twelve months to March 31st 2017
	£000	£000	£000
Cashflows from operating activities			
Operating profit	**16,032**	17,227	54,018
Depreciation, amortisation and impairment charges	**3,012**	2,124	6,969
Acquisition costs	**-**	-	200
Inventories	**(349)**	(226)	(142)
Trade and other receivables	**4,435**	5,856	3,976
Trade and other liabilities	**(9,995)**	(7,004)	2,128
Retirement-benefit obligations	**(813)**	(3,530)	(5,531)
Provisions	**(447)**	-	819
Cash generated from operations	**11,875**	14,447	62,437
Income taxes paid	**(4,377)**	(8,907)	(12,661)
Net cash generated from operating activities	**7,498**	5,540	49,776
Investing activities			
Interest received	**37**	1,251	1,283
Purchase of intangible assets	**(3,092)**	(3,419)	(7,460)
Purchase of property, plant and equipment	**(5,628)**	(862)	(2,693)
Costs relating to sale of property, plant and equipment	**-**	(871)	(871)
Proceeds from sale of investments	**-**	2,223	2,224
Purchase of subsidiary undertakings, net of cash acquired	**-**	-	(1,535)
Net cash used in investing activities	**(8,683)**	(1,678)	(9,052)
Financing activities			
Dividends paid	**(23,937)**	(25,908)	(38,560)
Interest paid	**(3,054)**	(3,278)	(6,146)
Purchase of own shares	**(263)**	(196)	(423)
Purchase of treasury shares	**-**	(474)	(474)
Proceeds from repayment of loan notes	**-**	2,665	2,665
Proceeds from borrowings	**46,904**	27,889	27,889
Repayment of borrowings	**(19,821)**	(13,160)	(42,243)
Net cash used in financing activities	**(171)**	(12,462)	(57,292)

Condensed consolidated statement of cashflows (continued)

	Six months to Sept 30th 2017	Six months to Sept 30th 2016	Twelve months to March 31st 2017
	£000	£000	£000
Effects of exchange-rate changes on cash and cash equivalents	**(1,511)**	2,741	3,360
Net decrease in cash and cash equivalents	**(2,867)**	(5,859)	(13,208)
Cash and cash equivalents at the beginning of the period	**22,557**	35,765	35,765
Cash and cash equivalents at the end of the period	**19,690**	29,906	22,557
Net debt			
Net debt at beginning of the period	**(104,859)**	(97,028)	(97,028)
Net decrease in cash and cash equivalents	**(2,867)**	(5,859)	(13,208)
Proceeds from borrowings	**(46,904)**	(27,889)	(27,889)
Repayment of borrowings	**19,821**	13,160	42,243
Other non-cash changes	**(114)**	(113)	(226)
Effect of foreign-exchange rate movements	**3,989**	(6,179)	(8,751)
Net debt at the end of the period	**(130,934)**	(123,908)	(104,859)
Net debt comprises:			
Cash at bank and in hand	**19,690**	29,906	22,557
Total cash and cash equivalents	**19,690**	29,906	22,557
Borrowings	**(150,624)**	(153,814)	(127,416)
Total net debt	**(130,934)**	(123,908)	(104,859)

NOTE 1 Analysis of results by business

	Six months to Sept 30th 2017 £000	Six months to Sept 30th 2016 £000	Twelve months to March 31st 2017 £000
Revenue by business			
The Economist Businesses	**124,746**	109,428	242,624
The Economist Intelligence Unit	**27,410**	28,551	60,788
CQ Roll Call	**23,783**	23,908	49,824
	175,939	161,887	353,236
Operating profit by business			
The Economist Businesses	**6,159**	4,838	19,930
The Economist Intelligence Unit	**5,426**	8,027	17,921
CQ Roll Call	**5,891**	5,482	12,667
	17,476	18,347	50,518
Acquired intangible amortisation	**(259)**	(95)	(394)
Exceptional items (note 2)	**(1,185)**	(1,025)	3,894
	16,032	17,227	54,018

NOTE 2 Exceptional items

	Six months to Sept 30th 2017 £000	Six months to Sept 30th 2016 £000	Twelve months to March 31st 2017 £000
The following exceptional items have been charged/(credited) to operating profit:			
Release of provisions for contingent consideration relating to acquisitions	**-**	-	(7,163)
Reorganisation costs	**1,185**	1,025	2,408
Onerous lease provision	**-**	-	861
	1,185	1,025	(3,894)

NOTE 3 Earnings per share

	Six months to Sept 30th 2017	Six months to Sept 30th 2016	Twelve months to March 31st 2017
	£000	£000	£000
Profit for the period	**10,222**	12,910	41,363
Adjustment in respect of non-operating exceptional items			
- Profit on sale of investments	**-**	(2,223)	(2,946)
Normalised earnings	**10,222**	10,687	38,417
	Number	Number	Number
	000s	000s	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)	**(215)**	(205)	(207)
Weighted average number of shares	**19,945**	19,955	19,953
Effect of dilutive share options	**235**	136	199
Diluted weighted average number of shares	**20,180**	20,091	20,152
	Pence	Pence	Pence
Earnings per share			
Basic	**51.2**	64.7	207.3
Diluted	**50.7**	64.3	205.3
Normalised - excluding non-operating exceptionals	**51.2**	53.6	192.5

NOTE 4 Dividends

	Six months to Sept 30th 2017	Six months to Sept 30th 2016	Twelve months to March 31st 2017
	£000	£000	£000
Cash dividends paid			
Final dividend for previous year of 120.0p per share (Sept 30th 2016 and March 31st 2017: 129.8p per share)	**23,937**	25,908	25,908
Interim dividend for year ended March 31st 2017 of 63.4p per share	**-**	-	12,652
	23,937	25,908	38,560
Dividends proposed in respect of the period			
Interim dividend proposed of 61.1p per share (Sept 30th 2016 and March 31st 2017: 63.4p per share)	**12,186**	12,652	12,652
Final dividend proposed for year ended March 31st 2017 of 120.0p per share	**-**	-	23,938
	12,186	12,652	36,590

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

Key dates

Interim dividend payment	December 21st 2017
Annual general meeting	July 17th 2018

Notes

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