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WILEY

Second Quarter 2017 Earnings Report

December 7, 2016



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About Wiley

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Second Quarter Summary



- **New segment reporting implemented to reflect new management structure – Research (50%), Publishing (37%), and Solutions (13%)**
- **Revenue growth of 2% at constant currency (-2% GAAP), with growth in Journals (+3%) and continued double-digit growth from Solutions (14%) offset by decline in Publishing (-5%)**
- **Adjusted EPS growth of 3%** due to revenue and operating income growth, offsetting higher technology costs, including investment in Wiley's ERP deployment and related systems. **GAAP EPS loss due to unusual charges in the quarter**
- **Completed acquisition of Atypon, industry-leading online library platform for research journals**
- **Judy Verses appointed head of Research, prior senior leadership roles at Rosetta Stone and Blackboard**
- **Full year guidance reaffirmed**

Financial Performance

<i>(millions)</i>	Q2 2017	Q2 2016	Change (ex-FX)
Revenue	\$425.6	\$433.4	1%
Adjusted Operating Income*	\$63.4	\$64.0	3%
Operating Margin	14.9%	14.8%	
Adjusted EPS*	\$0.76	\$0.78	3%

Note, GAAP numbers significantly impacted by unusual charges and credits (-0.97 EPS in aggregate) and foreign exchange (\$15M of revenue, -\$0.04 EPS). No meaningful impact from the shift to time-based journal subscriptions. GAAP revenue down 2%; GAAP EPS a loss of \$0.20

<i>(millions)</i>	1H 2017	1H 2016	Change (ex-FX)
Revenue	\$829.9	\$856.3	0%
Adjusted Operating Income*	\$106.3	\$112.3	(2%)
Operating Margin	12.8%	13.1%	
Adjusted EPS*	\$1.27	\$1.36	(1%)

1H performance includes favorable impact of shift to time-based journal subscriptions: +\$4M revenue, +\$3.8M operating income, and +\$0.05 EPS

* Adjusted to exclude tax charges and credits, pension settlement, and restructuring charges

Research

Journals and Atypon

<i>(millions)</i>	Q2 2017	Q2 2016	% of Revenue	Change (ex-FX)
Journal Subscriptions	\$159.7	\$163.7	78%	3%
Author-Funded Access	\$7.4	\$6.2	4%	27%
Licensing, Reprints, Backfiles, Other	\$36.4	\$37.8	18%	1%
Total Journal Revenue	\$203.5	\$207.6	99%	3%
Platform Services (Atypon)	\$2.5		1%	
TOTAL REVENUE	\$206.0	\$207.6	100%	5%
ADJ. CONTRIBUTION TO PROFIT (CTP)*	\$60.5	\$64.7		0%

- Journal revenue growth from Journal Subscriptions (+3%) and Author-Funded Access (+27%); negligible Q2 impact from shift to time-based journal subscriptions
- CY16 journal subscription billings up 1% with 99% of expected business closed
- Society licensing net gain of \$1M in quarter
- Adjusted CTP flat due to increased technology and other costs to support society business and modest dilutive impact of Atypon (\$0.3M)
- 1H Revenue up 4% (including \$4M from favorable shift to time-based subscriptions); Adjusted Contribution to Profit down 1% (including \$3.8M favorable shift)

Publishing

Books and References, Course Workflow, Test Preparation

<i>(millions)</i>	Q2 2017	Q2 2016	% Revenue	Change (ex-FX)
STM and Professional Books	\$68.1	\$80.2	42%	(12%)
Education Books	\$57.5	\$61.9	35%	(5%)
Total Books and References	\$125.6	\$142.1	77%	(9%)
Course Workflow (WileyPLUS)	\$19.8	\$18.4	12%	8%
Online Test Preparation and Certification	\$7.5	\$6.8	5%	11%
Licensing, Distribution, Advertising, Other	\$10.3	\$9.0	6%	20%
TOTAL REVENUE	\$163.3	\$176.3	100%	(5%)
ADJ. CONTRIBUTION TO PROFIT (CTP)*	\$36.7	\$34.6		8%

- Books and References decline (-9%) due to weakness in traditional textbooks, dummies books, and social sciences reference material
- Online Test Preparation and Certification growth (+11%) primarily due to strength of ACT product; Course Workflow growth (+8%) driven by STEM and Business categories
- Adjusted CTP up 8% due to restructuring savings and lower consumption of distribution, technology and facilities shared services, partially offset by lower revenue
- 1H Revenue and Adjusted Contribution to Profit both down 10%

Solutions

Online Program Management, Assessment, Corporate Learning

<i>(millions)</i>	Q2 2017	Q2 2016	% of Revenue	Change (ex-FX)
Online Program Management	\$28.0	\$23.1	50%	21%
Professional Assessment	\$16.1	\$15.8	29%	2%
Corporate Learning	\$12.1	\$10.5	22%	16%
TOTAL REVENUE	\$56.3	\$49.4	100%	14%
ADJ. CONTRIBUTION TO PROFIT (CTP)*	\$5.9	\$2.6		129%

- Online Program Management (OPM) growth (+21%) due to increased program enrollment
- OPM ended the quarter with 231 programs under contract compared to 216 programs at the end of Q2 2016. Total partner count at 37. Strong partner and program pipeline in view.
- Corporate Learning up 16% on strong growth across regions. New clients signed in France, Germany, Finland, and Mexico
- Adjusted CTP up 129% with improvements coming from all three areas of the business
- 1H Revenue up 13%; Adjusted Contribution to Profit up from a loss of \$1.5M to a profit of \$6M

Adjusted Shared Services Costs

<i>(millions spent)</i>	Q2 2017*	Q2 2016*	Change (ex-FX)
Distribution and Operation Services	\$19.1	\$20.1	0%
Technology and Content Management	\$66.9	\$62.6	9%
Finance	\$11.9	\$10.8	13%
Other Administration	\$30.1	\$31.6	(2%)
Total	\$128.1	\$125.1	5%

- Technology spend (excluding Content Management) increased by \$5.7M (+10%) in the quarter due in part to incremental ERP and related systems investment. Full year Technology spend (excluding Content Management) still expected to be up about 5% over FY16
- Higher Finance costs mainly reflect higher professional fees and tax settlements
- Continued actions to drive operational excellence and cost efficiencies
 - \$6.8 million in restructuring charges in the quarter
 - \$5.9M relate to cost reduction initiatives across shared services functions, most notably Distribution and Technology

Balance Sheet

Balance Sheet (millions)	As of 10/31/16	As of 10/31/15
Cash and Cash Equivalents	\$267.4	\$308.2
Short Term Debt	\$0	\$150.0
Long Term Debt	\$884.0	\$739.1
Net Debt	\$616.6	\$580.8
Net Debt to adjusted EBITDA (ttm)	1:9	1:5

- Strong balance sheet continues to provide flexibility for investment and return of capital
- Pursuit of M&A opportunities for strategic revenue growth continues
 - Atypon acquisition closed (approximately \$120M funded by revolver)
 - Small acquisition in the quarter (Ranku)
- Recorded a non-cash settlement charge of \$9 million related to a limited time, voluntary lump sum pension distribution program for terminated vested employees. Buyouts funded by pension plan assets (no impact to Free Cash Flow)

Cash Flow

Cash Flow (millions)	1H 2017	1H 2016
Net Income	\$19.5	\$76.1
Cash From Operations	(\$86.1)	(\$126.5)
Composition Spend	(\$16.6)	(\$20.0)
Tech, Prop, Equip	(\$52.7)	(\$46.2)
Free Cash Flow (FCF)	(\$155.4)	(\$192.7)
Selected Uses of Cash:		
Acquisitions	(\$135.8)	(\$16.7)
Dividends	(\$35.9)	(\$35.2)
Share Repurchases	(\$21.3)	(\$44.7)

- Free Cash Flow improvement due to timing of cash collections (gains from database model)
- Full year 2017 Technology, Property and Equipment spend to be \$115M; Composition spend to be \$50M
- Unfavorable tax judgement in Germany related to years 2003 to 2015. \$62M in deposits forfeited; \$48M one-time charge (mostly non-cash) recorded in Q2. FY17 cash impact = \$5M
- Repurchased 194K shares this quarter at a cost of \$10.0 million, an average of \$51.56 per share. Over 4.3 million shares left in authorization programs

FY17 Outlook Reaffirmed

Metric	Expectation
Operational Revenue Performance	Flat
Operational EPS Performance	Mid-Single Digit Decline

Guidance excludes FX, favorable shift to time-based journal subscriptions, acquisition impacts, and unusual charges and credits

- Strong dollar vs. British pound in particular expected to adversely impact full-year reported results vs. FY16; *unfavorable* to 1H reported results by \$24 million of revenue and \$0.05 of EPS
- Revenue and EPS impact of shift to time-based journal subscriptions expected to be *favorable* to revenue by \$37M and EPS by \$0.42; Q1 impact of \$4M and \$0.05; remainder in Q3
- Partial year impact from Atypon and Ranku expected to be approximately +\$20M revenue and -\$0.15 EPS. Dilution includes:
 - Impacts of acquisition accounting (amortization of acquired intangibles)
 - Costs associated with initiating the migration of Wiley Online Library to Atypon's Literatum platform

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