

Economic Review of Centaur Media PLC



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Introduction - A Brief History of Centaur Media PLC

Centaur Media PLC is an international provider of market intelligence and specialist consultancy that inspires and enables people to excel at what they do. (Centaur Media, 2019) A London based company that provides business information, events and marketing to businesses as well as consumers. Some of their key publications specialise in providing insight, data and advice to professionals, they also seek to create expert content and insight through engaging events and digital technology and aim to deliver the best user experience. A company once widely known for publishing in a variety of industries including but not limited to marketing, financial services, legal services, construction, new media and engineering as cited via Bloomberg. This has changed in recent years as their previous business model, strategy and other factors have been plagued which has led the company in a new direction all of which will be analysed further in the report.

The company was formed in 1981 by Graham Sherren but it was not incorporated until 2003 and then taken to the stock market in 2004 where information on the company can be found more systematically after that. It is important to note the brief history of Centaur Media as it interlinks with the study of entrepreneurship deliberated in microeconomics and lean business studies as many entrepreneurial circumstances are born “through the creation of new means-ends relationships and the recombination of resources” (Orlitzky 2018, Pg. 1151) According to former CEO, Mr. Wlimot who oversaw the business operations from 2006 until his departure in 2013 states in *The Independent* article that ‘the company was launched off the back of an opportunity Mr Sherren spotted in the advertising market’ (Clark, 2011) The advertising market began to notice a shift in purchasing power from agency to client direct yet there wasn’t anything that was readily available for the directors so Marketing Week was created. Which turned out to be very successful in the market. This can be considered the early stages of the business model and the structure by which the company has maintained throughout the last few decades in the acquisitions of new markets and retention of existing ones. It has searched for opportunities from shifts in the market and looked at underdeveloped or unrepresented sectors that were not being covered.

The company operates primarily in the B2B sector which is in line with its strategy to move towards a more B2B centric information business unloading most of its minor-leading brands to other media agencies such as Future Plc with the sale of Home Interest division for £32m. A recent announcement also confirmed the completion of sale of its engineering portfolio to the Mark Allen Group as of May 2019. These decisions derive from their strategic review conducted last October in focusing on leading brands and operational execution. Whilst the company focused on rebranding other divisions, it launched Xiem, a division which centralises their key marketing brands and has been the main source of income revenue.¹ All of which are part of their strategy to create further shareholder value as losses from the business has been constant following a decline in print over the last several years.

The company has also gone through several executive changes, as recently as November 2019 with the appointment of Simon Longfield as CFO who brings with him an abundance of financial

¹ The creation of Xiem will make it possible to provide news content, insight, information, learning courses and benchmarking tools from across the portfolio by linking platforms and marketing services to provide clients with an enhanced service.

experience.² He is the successor of Swag Mukerji, who is currently serving as CEO as of September 2019 since Andria Vidler's departure who was CEO from 2013. She is largely credited with the disinvestment and digital shifts that saw the company cut operational costs and swing towards paid-for information and events.

Business Economics

I. Its products and customer base

Aside from being an international provider of business information and specialist consultancy, Centaur Media have curated a deep understanding of what each of those communities require from their track record of providing essential content and data. Their reputation includes a plethora of leading publications in the UK but more so recently on an international scale with the quest of acquisitions and mergers of other companies that specialises in both similar and dissimilar fields. Centaur Media's portfolio of companies can be seen below in table 1 as of December 2018.

PROFESSIONAL SERVICES		FINANCIAL SERVICES	

Table 1: Company brand portfolio (Centaur Annual Report, 2018)

The company has experienced and implemented programmes of radical change over the last 5 years as a reflection of its forward-thinking strategy and recent performance. For example, Andria has led the business transformation which began in 2014 that saw the company evolve, from traditional

² His knowledge is requisite as Centaur embarks on its M.A.P.22 strategy – with the goal of increasing the company's EBITDA margin to 20% by 2022 – refer to Appendix 1

publisher to a more digitally inclined product development³ in response to the economy. Whilst 2017 saw a significant decline in print sales and advertising revenues.

With the acquisitions of MarketMakers and Oystercatchers saw the expansion of its marketing capabilities. Other news associated with business evaluations included Metropolis' acquisition announcement of their financial services division that supported the statement made by Mukerji, the sale of certain portfolios meant it simplified the business and focused on key areas, marketing and legal sectors for recurring revenue streams and to develop a loyal, higher value relationship with international clients. (Proactive, Taylor, 2011) This allowed the core brands to evolve digitally to strengthen their competitive advantage whilst examining cost reduction and growth. These actions can be associated with lean business methods (Collis, 2016)

Over the years, Centaur has made efforts to move "to a more customer-focused approach which has allowed them to build a deeper and lasting relationship with its important customer" (Annual Report, 2018, pg. 12)⁴ Customers now benefit from additional & complementary products. Their business model refers to an...

"information group that advises, informs and connects business professionals through data, insight and events... Content remains king but now the Group can additionally offer end-to-end solutions which combine the strengths of its publishing brands' deep market knowledge and relationships with best-in class business consultancies. When clients need information and insightful guidance, the Group possesses the trusted brands and the capabilities to provide valuable solutions".

CENTAUR MEDIA PLC, Annual Report 2017, pg. 07

The media industries operate as a *dual product* market which is unusual and differs from other industries as mentioned by Picard (1989). This refers to the way that media generate two different sorts of outputs: first, media content (i.e. programmes, news stories etc.) and, second, media audiences; attracted by the content (Doyle, 2010) A look further into their strategy plan regarding divestment sees Centaur create a stronger customer focus based on a subscription plans by only having two sectors that they operate in by 2019, simplifying central overhead and resulting in more net cash from the sale of other assets. This may allow the company to amass a solid customer base for its entering brands and monopolise in their core ones, which could propose the threat of pricing concerns if they are or were to become dominant figures for those key industries or international markets.

Like Doyle (2002) mentions, audiences are the main currency for many media companies and so one must acknowledge the amplitude the economy has when it comes to firms like Centaur. When the economy is flawed as witnessed in 2008 with the global financial crisis, then businesses may suffer and consequently its customer base especially in a B2B domain.⁵

³ Quality of mix continuing to improve digital revenues +20%

⁴ Centaur's top 200 customers in 2018 have increased their spend by 17.9% compared to 2017

⁵ Group revenues fell to 73% of the level achieved in the previous financial year while PBT of £1.7m compared to £14.5m in the prior year, despite a 15% (£11.4 million) reduction in total expenditure, reflecting the severity and speed of the revenue decline during the year (Annual Report 2009)

Prior to the plan (see also table 2), some economists would consider their earlier model of portfolio diversification a healthier option as it operated in different industries so had greater potential in reaching audiences by targeting multiple sectors. We've already established reasons for Centaur wanting to dis-invest however it is important to take into consideration macroeconomic challenges to the business. Technology being a crucial element as the company has made changes to accommodate the advancement of this i.e. from print to digital. There is no way to predict the positive or negative attributes of these macro challenges.

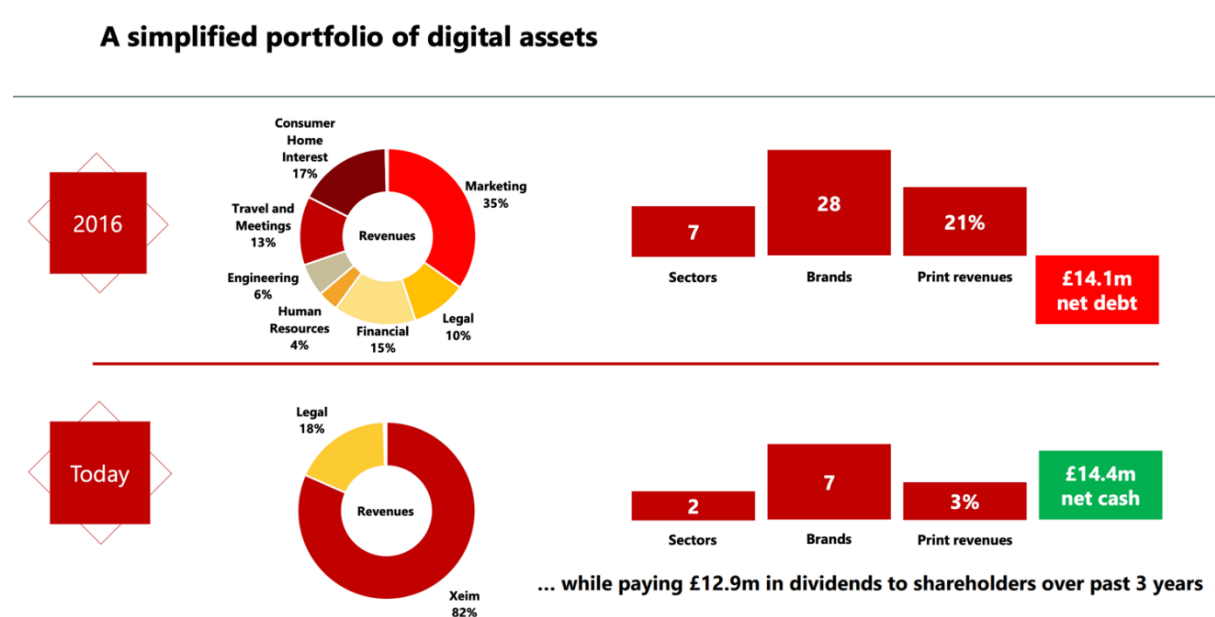


Table 2: Simplified portfolio of Digital Assets (Interim Results Presentation, 2019)

II. Its major competitors

The publishing industry has an estimated turnover of £5.1 billion with export income accounting for 60% of revenue (The Publishers Association Annual Report, 2018) It has a significant contribution to the UK economy and is an ever-growing market. Although major competitors tend to operate differently with some similarities according to Donaldson (1999), 'the adaptation of any one firm results in part from the effects of its competitors'. Even with the UK's publishing industry being one of the most developed, Centaur Media has adapted its strategy to reflect the economy's changes with the rise of readership using digital media despite the fact that the engagement readers have with print provides a solid resource for advertising. The UK's magazine sector is known to be one of the most competitive and vibrant in the world. Regarding employment, publishing was estimated to account for 199,000 jobs in the UK creative industries in 2018, almost 10 per cent of UK creative industries employment.

Informa

One of their biggest competitors also publicly listed on London Stock Exchange (LSE) 100 is an international business-to-business events, academic publishing and information services group. They differ slightly in that they are a market and product-focused operating structure, with four operating divisions in 2018, moving to a five-division structure in 2019. They work with customers in all industries⁶ as well as having considerable international reach with 48% of revenue generating from North America compared to only 8% in the UK, geographical factors can be taken in consideration here when comparing total revenue. Nonetheless, their long-term focus 'is to build a business delivering broad-based, predictable growth and consistent performance, converting profits into cash to distribute to Shareholders and reinvest for continued growth and scale'. (Informa Annual Report, 2017) They also rely on discipline in capital allocation and financial management.

Informa's focus is around end customer markets (which can be located anywhere in the world) and is a key driver for value chain growth and development. As their organisational structure differs to Centaur, there really isn't much comparison between portfolio's in terms of pricing. As it is unlike comparing Apple Music streaming services to Spotify's where they clearly provide the exact same service and so comparison in price can be examined. For instance, the way Informa has grouped its divisions means the way in which they collect their revenue stream differs. Though a comparison on end of year financial statements can be reviewed.

- Revenue increased by 34.9% to £2,369.5m and adjusted operating profit by 34.4% to £732.1m, with revenue growing by 3.7% on an underlying basis and adjusted operating profit by 2.3%.⁷

	Adjusted results 2018 £m	Adjusting items 2018 £m	Statutory results 2018 £m	Adjusted results 2017¹ £m	Adjusting items 2017¹ £m	Statutory results 2017¹ £m
Revenue	2,369.5	-	2,369.5	1,756.8	-	1,756.8
Operating Profit/(loss)	732.1	(368.9)	363.2	544.9	(200.2)	344.7
Profit/(loss) on disposal	-	1.1	1.1	-	(17.4)	(17.4)
Net finance (costs)/income	(82.4)	0.2	(82.2)	(59.1)	-	(59.1)
Profit/(loss) before tax	649.7	(367.6)	282.1	485.8	(217.6)	268.2
Tax(charge)/credit	(116.2)	55.7	(60.5)	(103.0)	148.0	45.0
Profit/(loss) for the year	533.5	(311.9)	221.6	382.8	(69.6)	313.2
Adjusted operating margin	30.9%			31.0%		
Adjusted diluted EPS	49.2p		19.7p	46.0p		37.6p

¹2017 restated for the implementation of IFRS15

Table 3: End of Year 2018 Results (Informa Financial Statements, 2018)

⁶ Life Sciences, Aviation, Fashion & Jewellery, Technology, Medical Equipment, Pharmaceutical Ingredients, Health & Nutrition, Maritime, Humanities & Social Sciences, Finance, Advanced Manufacturing, Agriculture, Construction & Real Estate, Science, Technical & Medical, Pharma & Biotech, Waste Management, Telecoms, Beauty & Aesthetics, Infrastructure, Pop Culture, Transportation, Brand Licensing, Hospitality & Leisure, International Yachting

⁷ Statement from their press release (7 March 2019): Informa PLC Results for 12 Months to 31 December 2018: Combination & Creation 2019: Performance & Growth

Euromoney Institutional PLC

Euromoney Institutional Investor PLC (Euromoney), is another major competitor to Centaur. They are an international business information group covering mainly an extensive portfolio of events for the telecoms, financial and commodities markets. Comparable to Centaur in providing market information and data but differ as they serve markets which are semi-opaque; 'where there is information which organisations need in order to operate effectively but the information is hard to find. Price discovery is a good example'. Their strategic process is like Centaur in focusing on key areas, having an active portfolio management and gaining financial independence.

This is represented in their increase of net cash from £78.3m at September 2018 to £93.8m which left them at a strong financial position end of December 2018.⁸ There is also increasing recognition of their pricing products with the launch of three new cash-settled derivative contracts as well as successful acquisitions.⁹

<i>£'m unless stated</i>	2019	2018 (restated²)	Change	Underlying³ change
Adjusted¹				
• Total revenue	401.7	390.3	3%	0%
• Adjusted operating profit	105.4	101.6	4%	5%
• Adjusted operating profit margin	26%	26%	-	1ppt
• Adjusted profit before tax	104.6	99.9	5%	9%
• Adjusted diluted earnings per share	77.6p	73.6p	5%	
Statutory				
• Revenue	256.1	244.8	5%	
• Operating profit	30.6	107.9	(72%)	
• Operating profit margin	12%	44%	(32ppt)	
• Profit before tax	29.5	106.8	(72%)	
• Diluted earnings per share	56.6p	181.3p	(69%)	
Net cash	50.1	78.3	(36%)	
Total dividend per share	33.1p	32.5p	2%	

A detailed reconciliation of the Group's adjusted and underlying results is set out on pages 6 to 11 of this statement

Table 4: End of Year 2019 Results (Euromoney Full Year Results, 2019)

After reviewing the other two major competitors and analysing their organisational structure, you will find that Centaur makes up a very minor percentage of the UK publishing industry with a revenue of £24.1 m according to their interim results ending 30 June 2019.

The type of market these businesses operates in is also relevant here as this determines the economic profit or loss of a company's future especially when examining the market structure; in this case an oligopolistic industry when demand is a distinctive feature.

⁸ The increase proceeds came from the disposal Mining Indaba at £20.0m

⁹ Active portfolio management to drive higher growth: BoardEx and The Deal integrated, performing well and supporting evolution of other Group companies

III. Its pricing strategy

Having conducted a lot of market research there isn't much to go on re their pricing strategy concerning the overall organisation. As the company is made up of sub-brands, I had enquired to several publications within their portfolio to request information about their subscription service but did not get a response. This may be relevant in estimating the total revenue for comparison factors of a certain brand to another within the same industry, but I will not spend too much on this section as there are other areas to discuss that will be of more value.

- Subscription pricing strategy is a method for most of its publications
- A business model where customers pay a subscription to have access to a product or service
- There are pros and cons to this strategy and companies must be careful when pricing as customers will compare price to value

It is common for companies to have brands that reflect lower premium content and brands that generate premium content revenue. In this case, Centaur's portfolio consists of brands that make a good contribution to both avenues.

IV. The characteristics of the market that it operates

This area will be explored as there is an abundance of characteristics (in no order) that can have an influence on the market that Centaur operates in.

- The uncertainty of Brexit* – As a company that operates in an economy that is driven by market value and being that is publicly listed, there are major concerns when it comes to the exposure of the economy. The debate of Brexit has proven to be harmful to businesses and may continue to suppress consumer confidence as companies are at a stage where they must prepare for a post-Brexit world and formulate a contingency strategy for it.¹⁰
- Employment* - According to the 2018 Economic Employment Report, the UK creative industry accounted for 2 million jobs, an increase of 1.6% in the previous year. The uncertainty of Brexit also poses questions relating to the attraction and retention of talent. Will there be a decrease in employment rate with people leaving the UK and how will this affect the business? Their annual statement reports considerable efforts made to keep high-level employees including employee benefits and training.
- Environmental issues* – With the rise of globalisation & technology there is no doubt that media companies are forming their strategy around a digitally advanced organisation. Though there is still an opportunity for print publication, companies are now encouraged to take on corporate responsibility¹¹ in relation to environmentalism. The notion of sustainability is another contributor to the movement but the adoption of management practices that

¹⁰ Now updated to reflect recent General Election vote. Extract from *The Telegraph*, 2019 with a significant majority now assured, Boris Johnson will get to work quickly - with Brexit at the top of his agenda.

¹¹ As outlined in the Annual Report 2018 – Corporate Responsibility; Environment: Our impact on the environment

businesses now have in place is due to the engagement of proactive environmental responsibility. (Madsen, 2018)

- d. Technology – Media companies rely heavily on technology for the creation, distribution and exhibition of various forms of media content, changes in technology affect economic processes between and within the media industries. This can be seen throughout Centaur strategy to a more digitally inclined business model as we move from the generation of print and the risks associated with it. What does the future of media companies look like?

V. The macro environment that it faces

When examining macroeconomics factors, the global economic crisis in 2008 had a detrimental influence on the company. Albarran (2004) makes a significant point in how the economy has important implications for the business performance and prospects of firms in all sectors, including media. Centaur's annual report (2009) indicate a 73% fall in overall revenue compared to the previous year as seen in the table 5 below, this has a substantial effect on 'reduction in total expenditure, reflecting the severity and speed of the revenue decline during the year'. That financial year, the directors decided to restrict dividend payments to reflect the increased level of investment they had made in online businesses, which was expected to underpin significant growth in the future. Cost reductions also represented a swift and decisive response to these difficult trading conditions.

	2009	2008
Revenue (decline)/ growth by revenue type	%	%
Print	(35%)	(2%)
Events	(22%)	0%
Online products	(12%)	11%
Other	25%	(56%)
Total	(27%)	0%
Revenue share by client type	%	%
Audiences	24%	22%
Marketers	76%	78%
Total	100%	100%
Adjusted EBITDA margin¹	%	%
	11%	24%
Revenue per employee – continuing operations	£000	£000
	95	115
Adjusted PBT²	£m	£m
	4.4	19.2
Adjusted EPS³	Pence	Pence
	2.1	9.2
Cash conversion rate⁴	%	%
	88%	90%

Centaur like many media companies operate in an oligopoly market competition. These are often created when the industry is dominated by a small number of large companies and there are barriers to the entry of new firms. Companies tend to sell a differentiated product, but this is not always common as you can find through the examination of Centaur's competition of Informa and Euromoney. Unlike other markets, the one in which Centaur operates in can dictate the terms of trade to the consumer. There isn't as much fear of serious economic retaliation by the consumer or effective challenges from new entrants which are positives of an oligopolistic market.

This inversely allows the market to set price and control the supply in order to maximize profits. Companies like Centaur as a result can enjoy positive economic profits in the long run (Hoskins, McFadyen & Finn, 2004) On the other hand, the output of a single company can affect the pricing of their competitors or other competitive action; for example, the move to digital formats.

Table 5: Centaur's Annual Report 2009

On the other hand, the output of a single company can affect the pricing of their competitors or other competitive action; for example, the move to digital formats for some brands therefore these firms must practice strategic behaviour by anticipating the possible reactions and counter moves of competitors and making the best decision accordingly. In addition to this, companies like Centaur and particularly highly specialized industries where producing a product or providing a service requires considerable research and development.

Financial Aspect

Short term and long-term financing

There are always approaches that companies will apply to gain short-term financing for whatever reason, overhead costs, company restructuring, new product implementation or increase in employment. As a publicly listed company, the value of a company can be the subject of stock market appraisals & fluctuations. According to reports and articles, although Centaur has made efforts to increase cash net flow, its dividends to shareholders have remained at a decline for several years. The company has sought to apply lean business methods with the offset of brands to generate cash, a more centralised system and organisation re-structure. Centaur has focused heavily on removing non-value brands by selling it off to competitors and acquiring or merging with international companies. The cash injection is said to strengthen their existing brands as well as invest in some of their more junior ones. The reshaping of the portfolio has allowed the company to focus on key division such as marketing which brings in much of its revenue. Although reports from 2019 at a total revenue of £24.1m indicate 4% down from last year this reflects adjustments made due to operating loss and costs incurred from supporting disposed businesses. The company is also focused on a progressive dividend policy and return of cash to shareholders after a complicated relationship and underperformance for almost a decade. (Morrison, 2018)

Many critics have argued that due to the loss last year it is not sustainable for the company to continue paying a dividend if it does not have enough cash flow to cover the payment. Still Centaur's short-term plan to increase profit margin by eliminating the long tail of marginal and loss-making activities can be examined above. A total payment of £5m was estimated to go to shareholders via a dividend of 3.5p per share in 2020. Healthy profit margins are expected to grow at 20% by 2022.

The long-term financing approach is centred on restructuring the business model creating a less diversified portfolio which can be observed in 'Its products and customer base' segment above. The profit/loss margin is exemplified for moving in this direction, for instance the company ended the first quarter with a net cash of £14.4m after working capital adjustments and costs.¹²

Major financing and recent investment activities

As identified throughout the report, Centaur Media has downsized rapidly and focused on business growth with key sectors. Under the direction of Vidler, the product development has seen successful growth digitally despite central overheads being a cause of early losses as well as certain international deals falling through. Ambitions for year ending 2019 were better anticipated in relation to sales, acquisitions and transfers which meant performance results would be accounted for the following year. The progress in reshaping the portfolio helped the company deliver a further increase in the

¹² Refer to Appendix 3 to analyse 3-year profit & loss margins year ending 2019

proportion of revenues that it receives from repeatable and recurring sources, from 44% to 48%. Advertising now represents only 18% of group revenues. Centaur is now a more resilient and focused business with good opportunities for long-term growth and margin enhancement. Operational improvement initiatives at Econsultancy & MarketMakers, product development and international sales are examples of revenue acceleration. Abreu-Ledón *et al.* (2018) article on lean production suggest the lean approach can be identified in Centaur's business model as they seek cost efficient opportunities by eliminating waste made possible by the creation of a simpler business (Womack et al., 1990) In order to compete in an increasingly globalized environment, firms need to continuously improve. The evaluation creates more value for its customers with fewer resources (Balocco, 2019)

Another method of major financing revolves around oligopolists attempt to maximize profits. Bradley (2010) suggests that most firms collude with each other in the long run rather than competing and undercutting one another if they realise the 'bigger picture'.

Conclusion

The company has undergone tremendous changes in the last decade, not just with its leaders but in the way it chooses to operate its business. The last annual report alluded to '*A New Centaur – A Clear Strategy*' and this resembles where they stand now; from its entrepreneurial foundations to a clearer, simpler current model. Its effective changes have meant more cash flow and dividends for its shareholders and this has been led by organisational performance. Donaldson (1999) mentions this in his concept of performance driven change; how high-performance fosters organisational growth which is closely affected by the portfolio properties of the organisation. However, there are other studies that offer mixed results and does not agree with this (Chavez et al, 2015)

Despite setbacks throughout recent years, the company continues to accelerate in business performance by maintaining some of the largest and well-known brands in their marketing portfolio brand.¹³ Some of their other brands are showing promising growth and have been core revenues for the company.

The company strives to be innovative and keep up with the times, but it has a lot of making up to do particularly concerning its long-lasting relationship with shareholders. Its strategic ambition will bring necessary change but how much and for how long is unknown especially when considering macro and micro-economic factors. Organisational structure continues to be topic of conversation, as the company faces high turnover with millennials in the business, so they need to think about long-term retention of low-mid, senior level staff and not just directors.

The main question with Centaur is evident: How will the company continue to accelerate its growth?

Although recent deals have proven to be a great source of influx for the company, the difference between Centaur and its major competitors is the scale of the business. Analysts of the business would suggest that for the company to become a global information provider it would need to secure a massive transformational deal besides the journey that is currently underway. An analysis of their prospects is essential to ensure it maintains a steady and healthy increase as the market continues to be held back by economic and political uncertainty.

¹³ market-leading brands we engage the marketing industry with over 7 million touch points per month across proprietary editorial content, digital products, insight and analysis.

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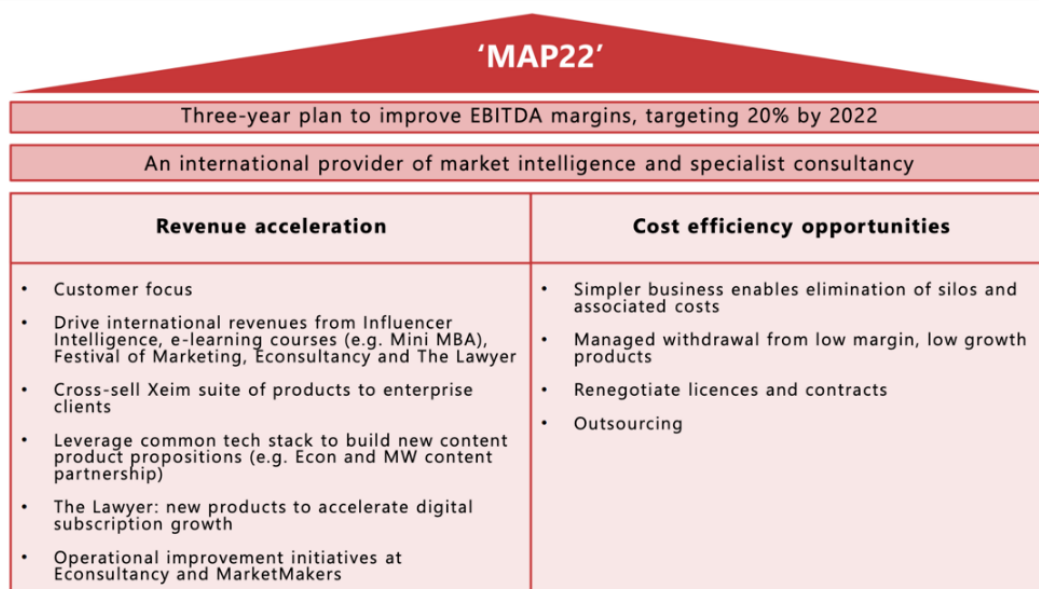
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Appendixes

Appendix 1

Margin Acceleration Plan 2022



Appendix 2

Disposals achieved strategic benefits and attractive prices

£m	2019
Revenue	7.0
CAP ⁴	2.9
Tax	(0.7)
Adjusted ² Profit from discontinued operations	2.2
Gross proceeds from disposal programme	21.75

- The Group sold its legacy publishing and event assets in the Engineering, Financial Services, Human Resources and Travel and Meetings sectors
- Simpler business gives annualised cost savings of £5m → at current EV/EBITDA ratio, this generates c.£30m of shareholder value

Appendix 3

Three Year Profit & Loss

Year ended 31 December	continuing 2018 (£m)	continuing 2017 (£m)	continuing 2016 (£m)	not restated* 2015 (£m)
Revenues	70.5	64.7	59.0	69.9
Other operating income	0.8	0.7	0.7	0.6
Adjusted operating profit	5.2	4.1	4.2	10.5
Finance costs	(0.2)	(0.4)	(0.5)	(0.7)
Adjusted profit before tax	5.0	3.7	3.7	9.8
Share based payments	(0.8)	(0.5)	0.1	(0.7)
Amortisation of acquired intangibles	(2.8)	(2.5)	(2.2)	(2.2)
Impairment of goodwill	(13.1)	-	(7.2)	(11.9)
Additional impairment of trade receivables	-	-	(1.5)	-
Earn-out consideration	-	(0.6)	(0.6)	(0.1)
Acquisition related costs	-	(0.6)	-	-
Profit on disposal of subsidiary	-	-	-	0.4
Exceptional operating costs	(0.5)	(0.2)	(1.2)	(0.9)
(Loss)/profit before tax	(14.2)	(0.7)	(8.9)	(5.6)
Taxation	(0.1)	(0.4)	(0.1)	(1.3)
(Loss)/profit for the period attributable to owners of the parent	(14.3)	(1.1)	(9.0)	(6.9)
Adjusted diluted earnings per share (pence)	2.6	1.8	1.9	5.3