

BURGUNDY *Global Review*

Emerald Expositions Events Inc.

Emerald Expositions Events Inc. is one of the largest operators of trade shows in the United States. The company manages a portfolio of 55 trade shows, including 31 of the top 250 trade shows in the country. Unlike consumer-facing exhibitions like the Canadian National Exhibition or Comic Con, Emerald operates business-to-business trade shows that are geared towards specific industries, such as sports equipment, apparel, gifts and accessories, home furnishings, jewelry, design, construction, and technology. Their trade shows provide a central place for buyers and sellers to showcase and demonstrate their latest products, meet with industry partners and customers, and stay abreast of the latest market trends.

The vast majority of Emerald's trade shows have grown to become the largest or second-largest trade shows in their respective industries, which are typically composed of a large number of small sellers trying to reach a market with a large number of small buyers. These fragmented markets are ideal incubators for trade shows, which provide a central place for sellers and buyers to meet face to face and do business in an efficient manner. Indeed, many of Emerald's trade shows are "order writing" shows where exhibitors generate sales at the shows themselves. As such, Emerald's trade shows are typically considered "must-attend" events that benefit from strong "network effects" whereby the annual participation of buyers and sellers becomes self-reinforcing, driving high participant loyalty and recurring revenue for Emerald. Emerald's trade shows have also become increasingly profitable as they've grown larger, since the costs of operating a trade show are largely fixed.

Moreover, the leading positions of Emerald's trade shows mitigate the impact of economic cycles, as exhibitors are likely to maintain their participation at "must-attend" events during economic downturns. Emerald also benefits from having a diversified portfolio of events targeting different industries, which tend to experience economic cycles at different times.

These characteristics produce extremely attractive economics for Emerald, which earns operating profit margins above 40% while consuming no capital. Over the years, Emerald has used its substantial free cash flow to acquire other trade shows at reasonable prices, thereby diversifying its portfolio further and supplementing slow-growth, mature trade shows with higher-growth events.

Over the last several quarters, however, Emerald has experienced unexpected declines in a few of its trade shows due primarily to idiosyncratic factors. Although these declines have been offset by growth in other areas of Emerald's portfolio, the company failed to meet its overall organic growth targets. Coupled with a slowdown in the pace of acquisitions, this led to a dramatic fall in its share price, which created an attractive entry opportunity for us this quarter. At less than 9 times free cash flow, Emerald is significantly cheaper than its peers, which trade at approximately 15 times free cash flow, and significantly cheaper than it has ever been since its IPO in early 2017.