Company Name: Reed Elsevier
Company Ticker: REL LN
Date: 2013-11-07
Event Description: Q3 2013 Sales and Revenue Call - Interim Management Statement

Market Cap: 10,277.31
Current PX: 878.50
YTD Change($): +236.50
YTD Change(%): +36.838

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.540
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 6141.053

Q3 2013 Sales and Revenue Call - Interim Management Statement

Company Participants

- Erik N. Engstrom
- Duncan J. Palmer

Other Participants

- Vighnesh Padiachy
- Nick M. Dempsey
- Thomas A. Singlehurst
- Matthew J. Walker
- Sami Kassab
- Patrick T. Wellington
- Steve C. Liechti
- Andrea Beneventi
- Mark P. Braley

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Reed Elsevier IMS Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Erik Engstrom, CEO. Please go ahead, sir.

Erik N. Engstrom

Good morning and thank you for joining us today. I'm Erik Engstrom, CEO of Reed Elsevier and with me is Duncan Palmer, our CFO. I'll make a brief introduction and then hand the call over to questions.

As you may have seen this morning, positive underlying revenue growth trends were maintained across all major business areas in the first nine months of 2013 and underlying revenue growth for the group was 3% both including and excluding the effects of biennial exhibition cycling. We continue to evolve our portfolio. And since the interim results, we have announced a number of small content and data acquisitions and completed several additional disposals across business areas.

Our financial position remains strong with good cash generation. We've completed £550 million of share buybacks so far this year and intend to complete a further £50 million by the end of 2013 to reach the previously announced full year total of £600 million. The full year outlook remains unchanged, with underlying revenues, operating profit and earnings growth on track for the full year.

Now turning to the business areas. Scientific, Technical & Medical grew 2% with our primary research subscriptions, scientific databases and tools and clinical solutions all growing well. Risk Solutions grew 8% with good growth across all business segments. Strong growth in Major Data Services drove 3% growth in Business Information. Legal grew 1% in subdued markets with online growth largely offset by print declines. The rollout of new platforms and applications is progressing well. Reed Exhibitions grew 5%, or 10% excluding biennial cycling, with growth across all major geographies. The strong underlying growth rates in the first nine months benefited from around 3 percentage points of positive timing and mix effects, which are expected to unwind in the full year.

And now operator, we're ready to take questions.

Q&A

Operator

Thank you. [Operator Instructions] Thank you. We will take our first question today from Vighnesh Padiachy from Goldman Sachs. Please go ahead. Your line is now open.

<Q - Vighnesh Padiachy>: Yes. Hi. Good morning, Erik and Duncan. Just a very quick question on the Risk Solutions. You had a similar performance to H1. You had cautioned in the H1 results that it may moderate the growth in the second half. Can you just talk to the different moving parts and how you see the full year outlook there for that division?

<A - Erik N. Engstrom>: Yes, I mean, the trends that we saw in the first half have basically continued for the nine months year-to-date. What we have seen, which I think we mentioned at the half year, was a question about mortgage refinancing activities slowing down a little bit in the U.S. market in general. And that has actually happened and continued and that had a slight negative effect. But on the other hand, we have had other new solution sets that have been selling well and we have had good demand for other solutions, which means that the growth rate year-to-date is still 8% on an underlying basis. But we do highlight here that there's still some uncertainty in the smaller parts of this business that relates to financial services or mortgage refinancing as well as some of the issues that relate to U.S. government that may still fluctuate a little bit for the remainder of the year. But in general that business is doing very well, and we're very pleased with it.

<Q - Vighnesh Padiachy>: Well, let's just say the sort of 7%, 8% for the full year is achievable in your view?

<A - Erik N. Engstrom>: Well, I mean, as you know, we don't focus on these calls to give any forward-specific numbers. But I think it's fair to say that the room for fluctuation that's less than the year is now limited even though there are a couple of these trends coming through that we talked about.

<Q - Vighnesh Padiachy>: Brilliant. Thank you very much.

Operator

Thank you. We will take our next question today from Nick Dempsey from Barclays. Please go ahead, sir, your line is now open.

<Q - Nick M. Dempsey>: Yeah. Good morning. I've got two questions, please. At this time last year, Erik, I think you talked about how the environment for general renewals was going into that November-December renewal season. So it'd be interesting to hear whether there's any changes to the pattern thinking about next year for Elsevier.

And the second question, in Exhibitions, you talked about strong outlook in other markets but slightly below recent high levels. Is that just a comment about the last couple of the months in this year? Or can we think about those other markets slowing a little into next year versus how they've been this year? Thanks.

<A - Erik N. Engstrom>: Okay. Yeah, the first question, environment for renewals in our Scientific business. There are always some fluctuations year-on-year in specific customer types and specific geographies. But if I take a step back and look at where it is today just entering the renewal season, having started some this year versus what we've done over the last year or two years, quite frankly – or last couple of years, broadly speaking, I think net-net, it's in a very similar place. And we have not detected any material differences in terms of the timing of the process or how we're working to it so far, but it's very early in the season. Okay?

The Exhibitions, if you look at where we are today, the other markets here are mostly what many people would call developing markets or the higher-growth economies. And while we have there seen very strong growth over the past couple of years, often well into double-digits, I think it's clear the general economic environment in some of those markets is growing very well still but a little less maybe than it was before. And what we're seeing, as you said, over the last couple of months, we are seeing that sort of the inherent growth rates for us maybe a few percentage points lower there right now or going forward than it has been over the last couple of years. But that might mean, for example, that if you had a country that was operating in the high-teens before, maybe it's now operating more like the low-teens or something that was in the mid-teens might now operate just at the double-digits or something like that. That's in general, what we're seeing in some of those markets. So where this goes a year out, I don't even want to predict. That's more of a macroeconomic environment question.

<Q - Nick M. Dempsey>: That's very clear. Thank you.

Operator

Thank you. We will take our next question today from Tom Singlehurst from Citi. Please go ahead. Your line is now open.

<Q - Thomas A. Singlehurst>: Good morning, Erik. Good morning, Duncan. It's Tom here from Citigroup. And I have sort of one-and-a-half questions, I suppose. The first main one has to do with momentum in the second half. Back in the 1H, you specifically mentioned in the outlook statement that you saw positive momentum into the second half. But if we read the improvement in underlying growth, just as a one-off blip on timing in that division, there doesn't seem to be any sign of increased momentum. I suppose I just wanted to go back and check whether you're still comfortable with the idea of that better momentum more broadly.

And then specifically on the half question relates to Exhibitions sort of the same. Is there genuinely no underlying change, that spike up in growth 1H to nine months [indiscernible] (09:01)?

<A - Erik N. Engstrom>: Yeah. First, your question around momentum, I think if you very – if you want to say it very simply, the growth momentum across our businesses after nine months is virtually identical to what it was after six months. So it's not that the momentum has accelerated or slowed, the way we see it in our overall business on a like-for-like basis, right? So the growth trajectory we had after six months is the same growth trajectory we had in our business after nine months.

Then on your second question, in Exhibitions, if you think what have we seen so far in the year, right, that again in nine months, if you strip out mix and timing shifts and other issues like that, again the true like-for-like growth effects in Exhibitions are again very similar to nine months to what they were after six months. And we did already cover in the previous question the issue around what are we currently seeing right now in some of these emerging markets, where I know some other people have commented that there has been a slight reduction in the inherent growth rate. That's possibly coming through. But still they're very strong growth, double-digits or higher for us.

<Q - Thomas A. Singlehurst>: Just a follow-up, I mean, just going back to the fact that you did talk about better momentum back in 1H, should we just assume that's not happening? Or should we just mean that – should we just interpret it, as you said, that when you said better momentum, you meant continuation of the same kind of growth?

<A - Erik N. Engstrom>: Yeah. I'm not sure I specifically remember the word better momentum. But if we did use that word, I don't think that was intentional. We think we have positive momentum this whole year. We have said that we have positive momentum in the first quarter and the first half and the first three quarters. We have continued with what we think is a positive revenue momentum in all business areas. And the inherent like-for-like growth rates after nine months are very similar to those we saw in the first half. They have not slowed down and really not picked up, the growth rates.

<Q - Thomas A. Singlehurst>: It's clear. Thank you.

<A - Erik N. Engstrom>: Yeah.

Operator

Thank you. We will take our next question today from Matthew Walker from Nomura. Please go ahead, sir. Your line is now open.

<Q - Matthew J. Walker>: Thank you very much. Two questions, please. The first thing is on Legal. Do you see any big changes in Legal? I noticed that Thomson had a slightly negative growth in legal. Could you explain the difference between your positive growth and their slightly more muted growth and explain whether you think Legal is actually going to get better next year or not?

And the second question is on around the health vertical and the big acquisition that Experian made yesterday, Passport. Can you say whether you intend to compete with those in that area on the payment side and whether you – I think in the past, you've talked about small bolt-ons. In any verticals, do you feel the need to change that and start making larger acquisitions? Or are you still very happy with just doing small bolt-on acquisitions?

<A - Erik N. Engstrom>: Right. The first question on Legal. We have not really seen any change in trends in the marketplace or in our business this year. I think we're all looking for signs that the Legal market at some point will pick up to return to, what we think, is a long-term growth trajectory again. But if you look at what we see or any market indicators, there has not been anything that signals that, that market trend is really picking it up on a sustained basis. It seems like it's up a bit at quarter then down a little bit the next quarter. So when it comes to the question around Thomson Reuters, I really don't know what exactly is underneath their numbers. But I have commented before that I think between the large competitors in this business, we have different strengths that we emphasize in the marketplace. And over many years, our growth rates have been very, very similar. And any fluctuation that you might see on any six-month period or even a 12-month period of 1 point or 2 points or so, I don't think really is material or signals anything specific. When it comes to the outlook for next year, again we have not seen any signs at this point that the environment is changing, either market environment or the competitive environment.

You've asked about the health side. Specifically, you said Experian's acquisition. Again, I'm not an expert in everything they do, but I view Experian as focused primarily into the consumer credits and their revenue cycle. The health providers' revenue cycle is really where they're heading with this. That is not a side of healthcare that we have focused on in our risk or fraud solutions. We have been focusing other areas. So this is not an area where I immediately see it having any impact on us or something that we would engage in, in the near term.

You asked a question also around acquisition scale. We see our strategy as continuing the way we have articulated, which is primary focus is to drive organic revenue growth by increasing customer value and transforming our own businesses and supporting that with small acquisitions where we are the natural owner. It's very possible that as we do that, we continue to buy companies that are in the tens of millions in the way we have over the last few years. But I've also said that we might once in a while find a business that's in the hundreds of millions. Over the last four years, the only company we have bought that's in that scale was, of course, Accuity, that we merged with Bankers Almanac. Even though the opportunities might come and go, I see the patterns remaining the same as what you've seen over the last few years.

<Q - Matthew J. Walker>: Thank you very much.

Operator

Thank you. We will take our next question today from Sami Kassab from Exane. Please go ahead. Your line is now open.

<Q - Sami Kassab>: Good morning, everybody. First of all, can I ask you whether you have seen signs of improvement in the European Exhibitions markets, especially in France?

Secondly, can you remind me of the contribution of print within Legal and regulatory, and more specifically, the contribution of print in North America?

And lastly, it looks like you have made some good progress in integrating Risk and RBI. Can you quantify the cost savings you think can be achieved by combining both platforms? Thank you, Erik.

<A - Erik N. Engstrom>: Okay. Let's see, European Exhibitions, we have not seen any sign coming through in our business metrics of a pickup. And you asked Continental Europe, in particular, France, which, of course, is a large market for us. We have not seen a pickup. And I think it's important to remember that typically, Exhibitions is not a leading indicator. It more follows business sentiment and business activity a little bit, heading in both down into economic downturns and out of them. And therefore I'm not surprised that we haven't seen anything that goes in that direction.

The second question you asked was on Legal, right, print component?

<Q - Sami Kassab>: Yes, exactly.

<A - Erik N. Engstrom>: And basically, we have just about 20% to low-20% of Legal is in print. And clearly, that's slightly lower than that in the U.S. because it's slightly higher than that in some of the international markets. But it's not materially higher because North America is still a significant part of the business, right?

The last question was the progress around integrating Risk and Business Information. Yes, it is progressing. We are still operating the way we said at the half year, where we have one Global Chief Executive for that group, we have one Global Head of Technology overseeing that combined group and one Global Head of Human Resources, for example. But we still operate the two separate finance departments, and therefore, report on them separately.

When it comes to the question around cost savings, they are not material, to be honest, because the primary driver of this decision was to get the Risk Solutions together with the Business Information assets and footprints that we can leverage the technology and the database that's in the Risk business combined with the international footprint of RBI to create a platform for international growth for Risk over time as well as to get the Risk technology and skills embedded more in the major data businesses in RBI. So it's a long-term revenue driving strategy as opposed to a cost reduction strategy.

<Q - Sami Kassab>: That's very clear. Can I come back on the first question and ask whether you've seen any signs of improvement in the North American Exhibitions market?

<A - Erik N. Engstrom>: Well, the North American Exhibitions market has for us been strong for the last two, three years now. I mean, we have seen organic revenue growth in North America that fluctuates between high-single digits and low-double digits for two, three years, right? So if you look at the strong growth, let's call it high-single digit growth, we have not seen that fluctuate or change or pick up in any way over the last six months, if that's what you're looking at, sort of the more recent update. It's similar to what it's been over the last year or two.

<Q - Sami Kassab>: Thank you very much, Erik.

Operator

Thank you. We will take our next question today from Patrick Wellington from Morgan Stanley. Please go ahead. Your line is now open.

<Q - Patrick T. Wellington>: Yeah. Good morning, everybody. A couple of things. Firstly, Erik, if I read your half year statement, you said the operating momentum in our business remains positive. So there wasn't a sort of better statement in there, so you'd be reassured your memory is good.

Secondly, could you breakdown, if possible, a little bit of the growth between the science and the health business? Are we as yet seeing any positive organic growth in health? We observed these days that it's Wolters Kluwer's fastest growth business at 4%. So as you change the shape of that business, is there a possibility of a bit of an improvement in that direction?

And then finally, the buyback is the same size as we saw before. And arguably, your pace of disposals, which has been very fast, has slowed down a bit over the last couple of months. Are we likely to see more disposals out of the sort of print end of RBI or anywhere else over the next two or three months?

<A - Erik N. Engstrom>: Yeah. Okay. Yes, okay. First question on science and health. Well, if you look at that business at a whole, we, as you know, eliminated the structure and the attempt to even try to attribute the revenue streams between those historic segments now about 18 months ago. And the reason was that it became very hard to separate, they're all sharing platforms in many of those businesses. So we stopped doing that. And therefore – but the way I can describe it is this, that inside health, the Clinical Decision Support, the sort of clinical solutions segment there that you mentioned, Wolters Kluwer, for example, they talk about the clinical solutions. That solution net profit growing double-digits for us. And we think that's similar to the market opportunity and to other players and has been doing that. So that's doing very well.

The research-related side of health for us is growing very much like the research-related side in science, the databases and tools are similar across. There are two issues that are hurting Elsevier's growth rates and they cut across segments. They relate to the print book sales. Particular to individuals and particular in educational markets, they are declining. They're continuing to decline at similar rates as to before. So print book sales, of course, a large component in North America and in Europe declining mid-to-high single-digits over the last couple of years as well as pharma promotion, so print pharma promotion in particular. Those are declining in mid-to-high single-digits. So if you do the math, you can say that those together might represent close to 20% of Elsevier. And with those declines, you can see that, that's what's affecting the growth rates. At this point, if you asked me today, are those trends any different from what they were few months ago, I'd say we have seen no sustained sort of a change in those trends or no trends raised over the last six months. Of course, we're all hoping that this will change over time.

When it comes to the disposals, we have continued to sell off businesses. And a number of transactions in the second half is likely to be very similar to the number of transactions in the first half. However, in the first half, we had one very large one, and that closed in the screening business and we had a couple others that might look bigger. And therefore, the sort of the individual sizes of the disposals may be smaller in the second half. So if you look at it going forward, I expect us to continue to do what we have done, which is to look at every asset, asset-by-asset, to see if this is something we want to keep or exit. But again, you're likely to see more of the volume being in the smaller asset categories, the ones that literally are assets in the tens of millions. And we don't have very many left and that could be of the scale of the screening.

<Q - Patrick T. Wellington>: Great. Thank you.

Operator

Thank you. We will take our next question today from [ph] Giasone Salati from Redburn (24:45). Please go ahead. Your line is now open.

<Q>: Hi. Good morning. I guess, I'm following on to Patrick's question. In terms of disposals, when we take a step back and look at 3% organic revenue growth this year, surely, I mean, we could achieve a higher growth rate if we were more aggressive on disposals of some underperforming businesses. At what point do you think you're happy in the current economic environment with the organic revenue growth of, say, 3% or down there? Or at what point do you think you might start another cycle of assets of refining your asset base to achieve a higher revenue growth?

<A - Erik N. Engstrom>: Well, the way we look at it is that the primary decision driver for whether we dispose an asset or not is whether we think that this specific asset can be transformed into the kind of asset we want to be in, a real information solution that delivers increasing value to customers, and if we can do so in a way that creates value for shareholders. And in some cases, that has a positive effect on near-term organic revenue growth. In other cases, it has a negative effect. We have sold some businesses that had organic revenue growth and some large ones that had organic revenue growth that was higher than Reed Elsevier's average. But we also sold a lot that were lower. We sold Totaljobs and we sold screening that were above the average, and we sold – for example. And we sold lots of small print assets that were lower. So the near-term impact on underlying revenue growth is not the primary driver. It's the long-term asset type, the opportunity to transform it, how it delivers value to the customers and if we see that shareholder-enhancing sort of value creation transformation or not.

<Q>: Okay. And then that's to say you're not happy to discuss a long-term organic revenue growth or an organic revenue growth that you think would be appropriate to achieve the shareholder value?

<A - Erik N. Engstrom>: No. If you look at any type of – if you take an underlying revenue growth in our business, in any given year or in any given period of years, will depend on to one side, what we do to drive our business, how did we operate it, the kind of solutions we offer to our customers and to probably an equal extent, what's going on in the macroeconomic environment and what's going on in our specific customer markets at that time. And therefore, we're going to focus on the first. And that's what we're going to do, put all our efforts and energy into it and not trying to forecast or predict the second to come up with a total number.

<Q>: Okay. That's very clear. Thank you very much.

Operator

We will take our next question today from Steve Liechti from Investec. Please go ahead. Your line is now open.

<Q - Steve C. Liechti>: Morning, chaps. Just on – first of all, first question on Legal, can you just educate me here? If we were expecting or if we're seeing financial markets picking up and corporate activity in terms of M&A picking up, shouldn't that work through to the legal market overall? Or is it offset by other stuff going on overall? That's the first question.

And then secondly, could you just delve a little bit more deeply into specifically Brazil and China in the Exhibitions side to give any feel for specific numbers there? I mean, you mentioned obviously just a lower percentage rise, but just I mean, just in Brazil and China specifically, please? Thank you.

<A - Erik N. Engstrom>: Okay. Let's just start with the Legal question. Over time, if you see the financial markets picking up and M&A activity picking up, that over time should lead to law firms involved in that activity being busier and therefore ultimately having an impact on the activity of law firms, their use of information and therefore the people who supply them with that information like us. So I think that, that's absolutely right. But it's not a leading indicator. It's a lagging indicator and it's almost two steps removed.

First, it drives law firm activity, and then the law firm activity picks up in a sustained way, then it comes to us. So we are not the leading indicator there. Over time, there will always be some cyclicality in the legal markets that relates to these activities. But there are also other long-term drivers of legal information, which has to do with increasing regulation, legislation, also increasing litigation over time, which has some cyclicality in it as well. So I think you're absolutely right. But it's not an early indicator or a leading indicator.

Brazil and China in Exhibitions, they are two countries that fit exactly with the explanation I used before for developing markets and other markets, which is that growth there for us is still strong and all the indicators we have right now is that it continues to be strong albeit a few percentage points below where they've been before. So the story that we had before around it's a country like one of those that's been in the high-teens, it might right now look like it's going to operate more like in the in low-teens, right, from a high-teens to the low-teens. Or if it has been in the mid-teens, it looks more like it's now operating at sort of just about double-digits. So we consider those to be very good long-term growth markets and still having strong growth even though they are going through cycles in terms of growth rates over the last two years as well as right now and likely to do that in the future.

<Q - Steve C. Liechti>: Great. Thanks.

Operator

Thank you. We will take our next question today from Andrea Beneventi from Kepler. Please go ahead. Your line is now open.

<Q - Andrea Beneventi>: Yes. Good morning. A question on Legal, please. I've seen in some industry magazines like news on the restructuring plan involving Martindale-Hubbell following the joint venture with Internet Brands. And I'm wondering if that information is reliable. And if so, if you could develop a little bit on what we should expect on the profitability of the Legal business after the change, please?

<A - Erik N. Engstrom>: Yes. I mean, Martindale-Hubbell, our Web-based marketing services joint venture, has been announced and completed. We have now transferred our assets into a joint venture that's being operated there. And as a part of that combination, that joint venture has now done some alignments of cost structures and we'll continue to evolve these operations and transform that business just like we're transforming other businesses. This is too small a part of Legal to have any material impact on the business overall in any metric that we share in terms of total Legal business performance.

<Q - Andrea Beneventi>: Thank you, Erik.

Operator

Thank you. We will take our next question today from Mark Braley from Deutsche Bank. Please go ahead. Your line is now open.

<Q - Mark P. Braley>: Yeah. Hello. Just a question on sort of how you feel about the balance sheet looking into 2014, potential for further buybacks. And to be specific, one for Duncan, how much is the outstanding refinancing need for 2014? Or have you now effectively pre-funded all of that?

<A - Erik N. Engstrom>: Okay. I'll let Duncan answer the second piece. But maybe I'll just first talk about the question around the balance sheet and the buyback in general. That, as you know, we've said before that we are comfortable in our current leverage range. We said that when we were at 2.3 times net debt-to-EBITDA on a pension and lease-adjusted basis, we set that at 2.2 times and at 2.1 times. So we're clearly comfortable in the range that we're operating in this business. And therefore, we said earlier this year that with a strong balance sheet and strong cash flow characteristics and with our typical average acquisition spend covered by free cash flow that we will over time take a pragmatic approach to making sure that the value compounding in the business translates into real shareholder value.

This year, we thought that the most pragmatic way to do that was to increase our share buybacks by a certain amount beyond the gross disposal proceeds. We have not yet made any decisions on what that will be or how that looks for next year, what we'll do for next year at all. But I think that what we've done this year is an approach to thinking about it that I think reflects how it is that we will look at it in the future. Whether that will mean specifically more buybacks or not is something we haven't decided on and we'll look at early next year.

<Q - Mark P. Braley>: Okay.

<A - Duncan J. Palmer>: On the debt refinancing, I mean, we have about $900 million of debt that comes due in 2014. We have not pre-funded that. We don't really see any strong need to do so. We have plenty of capacity both within our existing lines and also ability to access the markets that will mean that we will be able to refinance that amount of money in 2014 in a fairly straightforward manner.

<Q - Mark P. Braley>: Okay. Great. Thank you.

Erik N. Engstrom

Okay. Thank you, operator. I see that there are no further questions. So thank you for joining us today. I look forward to speaking to you again soon.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.