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EDITED TRANSCRIPT

REL.L - Full Year 2013 Reed Elsevier PLC Earnings Conference Call

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OVERVIEW:

REL.L reported 2013 revenues of GBP6b. 2013 reported net profit was GBP1.1b.



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PRESENTATION

Anthony Habgood - *Reed Elsevier Plc - Chairman*

So, ladies and gentlemen, welcome to Reed Elsevier's 2013 results presentation. And for those of you who've made it in this busy morning, thank you for coming. And for those of you who are listening on our website, thank you for joining us.

I hope you agree with me these are a good set of results as we've continued to deliver on the longer-term strategic and financial priorities. We had underlying revenue growth across all our business areas, with acceleration of growth in both risk and business information.

Underlying operating profit and earnings per share were well up on 2012, with the former benefiting from organic development and portfolio reshaping, while the latter also benefited from lower interest charges and from our share buyback program. These buybacks have been achieved as a result of the strength of both our cash flow and our balance sheet. And you will have seen from our announcement the specifics of the further buybacks that we're planning in 2014.

You will also have seen that we're recommending full-year dividend increases broadly in line with our earnings per share increases across the two parent companies.

As you all know, we announced in September that Duncan Palmer regrettably has given us notice because he had to return to the US for personal reasons. In early January we announced that Nick Luff would be joining us as CFO later this year when he is released from Centrica. We will obviously update you when we have further news on Nick's joining date. Meanwhile, Duncan continues in post. And he will now present our results and then Erik will elaborate on the business developments in more detail.

Duncan.



Duncan Palmer - *Reed Elsevier Plc - CFO*

Thank you, Tony, and good morning, everybody. I would like to start this morning with the financial highlights for 2013. Our primary measures of revenue and operating profit growth are on an underlying basis, which exclude the effects of currency movements and all of the acquisitions and disposals which took place in the past two years.

In 2013 we maintained the trends in financial performance delivered in 2012. Underlying revenue growth was 3% excluding the effects of biennial event cycling in our exhibitions business, or 2% including the impact of cycling. Underlying adjusted operating profit grew 5%.

Adjusted earnings per share growth was 7% in constant currency terms, with the sterling-denominated PLC adjusted EPS up 9% and the euro-denominated NV adjusted EPS up 5%, reflecting a stronger euro during the year. Reported earnings per share were up 9% for PLC and 5% for NV.

Dividends for the full year were up 7% to 24.6p for PLC and up 8% to EUR0.506 for NV. Return on invested capital increased by 0.4 percentage points to 12.1%.

Our financial position remains strong. Net debt to EBITDA after adjusting for the net pension deficit and capitalizing leases was 2.1 times compared to 2.2 times at the end of last year. And this ratio and other credit metrics are comfortably within the range of our credit rating and offer us ample financial flexibility. Operating cash conversion was 97%, consistent with our long-term target of over 90%.

I'll now go through the profit and loss statement in a little more detail. I'll present the results in sterling. In the appendix you can find the equivalent euro results.

As we've discussed previously, the revised IAS 19 relating to pension accounting came into effect from January 1, 2013. Accordingly, 2012 numbers have been restated on the new basis throughout the presentation. This accounting change has no impact on Reed Elsevier's balance sheet or on cash flows.

Revenues were GBP6b and adjusted operating profit was GBP1.7b, with the adjusted operating margin increasing from 27.6% to 29%.

The net interest expense was GBP39m lower at GBP177m, reflecting the impact of term debt refinancings at lower rates, a reduction in average gross debt and favorable rates on short-term debt.

The adjusted effective tax rate was 23.5%, unchanged from the prior year.

Adjusted net profit increased by 7% to GBP1.2b, with the reported net profit up 6% to GBP1.1b.

Now I'll show a reconciliation of reported net profit to adjusted net profit. We present adjusted financial performance metrics to aid the understanding of underlying operational performance and to facilitate period-over-period comparability. We consistently adjust for the amortization of intangible assets which results from acquisitions, such as brands, customer lists and content.

Other tax credits in 2013 of GBP300m include a deferred tax credit of GBP221m from the realignment of certain global business assets. 2012 included an exceptional tax credit of GBP96m.

Turning to earnings per share and dividends, adjusted earnings per share increased by 9% for PLC and 5% for NV, the higher growth for PLC reflecting sterling's year-on-year decline versus the euro. Our policy is to grow dividends, subject to currency considerations, broadly in line with earnings per share while maintaining earnings dividend cover of at least 2 times over the longer term. Consistent with that policy, we are proposing equalized final dividends that deliver a 7% increase in the PLC full-year dividend and 8% for NV, resulting in cover of 2.2 times and 2 times respectively.

I'd now like to focus on the financial results of our major business areas. All five business areas grew underlying revenue in 2013. The differences between underlying and constant currency growth rates reflect the impact of acquisitions and disposals in 2012 and 2013.

There were disposals in each of our businesses during the course of 2013. But the effect was most significant in risk solutions, where we completed the sale of the pre-employment screening business in the first half; in business information, where we made a number of disposals during the year; and in legal, where we spun out the Martindale-Hubbell US lawyer directory into a joint venture in the second half of the year.

The overall net effect of acquisitions and disposals was to reduce 2013 revenues by GBP293m. Total pro-forma revenues for the businesses disposed of in the last four years has been over GBP800m.

Risk solutions demonstrated strong underlying growth of 8%, up from 6% in 2012. And business information improved underlying growth to 4%, up from 2% in 2012.

Looking at adjusted operating profit performance, we can see that underlying profit grew at or ahead of the rate of underlying revenue growth in all five business areas. As with revenues, the differences between underlying and constant currency growth rates reflect the impact of acquisition and disposal activity, most significantly within business information.

We have conducted a thorough review across Reed Elsevier of our central costs and assets shared across our businesses in order to reflect the way our businesses now operate and to give us clear line of sight into their performance. As a result of this, we will be making some changes to the reporting of adjusted operating profit by business segment. These changes are effective from January 2014.

Reed Elsevier has previously maintained unallocated net central costs of about GBP40m to GBP50m per annum, representing the unallocated portions of head office costs, technology management costs and other centrally managed items. Going forward, we will allocate the significant majority of these costs to the business areas on the basis of their usage and benefit derived.

In addition, Reed Elsevier businesses share some significant resources and assets, especially in areas such as technology and infrastructure. We have reviewed these shared costs and assets all across the businesses and, as a result, we have adjusted the allocation to reflect again the usage and benefits derived by each business area.

Over time, much of our shared technology and infrastructure assets have been developed within the legal business, but used across Reed Elsevier. And the revised allocations of shared assets and costs reflect this. As a result, the legal business shows a slight increase in operating margin on the new basis of allocation, STM and risk solutions show an offsetting decrease in their margins, reflecting the benefits and usage they derive from these shared costs and assets. Going forward, we will show margins consistent with the new basis of allocation.

Our EBITDA in 2013 was GBP2b, up 4% from the prior year. In 2013 we converted adjusted operating profit into operating cash flow of GBP1.7b, an increase of 6% over 2012. Our cash conversion increased from 95% to 97%, reflecting lower CapEx and a GBP22m increase in depreciation. The increase in depreciation principally related to higher amortization within the legal business as a result of the investments that we have made to date to build the new Lexis platform.

Turning to capital expenditure in more detail, overall capital investment was 5.1% of revenues. Legal CapEx was 10% of revenues, in line with the prior year but lower than the peak of 12% reported in 2011. The declines in STM and exhibitions reflect normal fluctuations arising from the completion of certain investment programs. We would expect overall CapEx as a percentage of revenues in 2014 to be broadly in line with recent levels.

Depreciation as a percentage of sales increased to 4.1% of revenues in 2013. A breakdown of depreciation by business is shown in the appendix.

Moving to free cash flow, cash interest paid was GBP29m lower than in 2012, consistent with the reduction in net interest expense. Cash taxes increased, a result of higher taxable profit, predominantly in the US. Acquisition integration and related costs after tax were GBP30m, an increase of GBP7m over the prior year. Free cash flow before dividends was up 5% over the prior year to GBP1.1b, half of which was paid out in dividends.

Turning now to the uses of our free cash flow after dividends. In 2013 we completed asset disposals with total consideration of GBP331m and we spent GBP230m on acquisitions and we deployed GBP600m in buying back shares. Taxes payable on acquisitions and disposals were GBP25m in 2013. Other items primarily relate to timing effects and transaction costs on disposals, offset by cash receipts from employee share option exercises.

Net debt at GBP3.1b was broadly unchanged compared to the prior year. Our adjusted net debt to EBITDA declined 2.1 times, reflecting an increase in EBITDA with a broadly similar amount of net debt at the year end. Our unadjusted net debt to EBITDA declined to 1.6 times.

Our debt is denominated in a number of currencies, reflecting the global nature of our businesses. About 60% of our gross debt at the end of 2013 was denominated in US dollars, with the balance in euros and pounds sterling. For the purposes of this slide I will talk in dollar terms.

At the end of December we had net debt of \$5.1b, with gross debt of \$5.4b, the difference representing cash and financial instruments. We have reduced our cash balances from \$1.2b in 2012 to \$300m at the end of 2013, improving the efficiency of our balance sheet.

During 2013 we took further actions to address upcoming maturities, reduce our cost of debt and retain access to long-term liquidity. As a result of these actions and lower market interest rates, the interest rate on gross debt was 4.8% in 2013, down from 5.6% in 2012. Net interest expense was GBP177m in 2013 compared to GBP216m in 2012. As a result of further refinancing and the current interest environment, we would expect the interest rate on gross debt to fall further in 2014.

This slide shows the impact of our actions on the overall debt maturity profile. You will note that our maturities are well spread over future years, with relatively modest amounts coming due each year. We are well positioned to address upcoming debt maturities and will likely finance the remaining 2014 maturities and other funding requirements through a combination of commercial paper and new bond issues during the year.

Turning to the balance sheet, the majority of our capital employed is goodwill and intangible assets associated with historical acquisition activity. Net capital employed at the end of the year was GBP6.6b compared to GBP6.9b at the end of 2012.

Most of our goodwill and acquired intangible assets are US dollar-based. The GBP200m increase -- decrease was driven by currency translation and the impact of amortization and disposals, which more than offset acquisitions. Internally developed intangibles increased, resulting from organic investment in the business.

Property, plant and equipment and investments were largely unchanged. Assets held for sale decreased, reflecting the disposals completed in the year. The net pension obligation reduced, reflecting improvements in asset values and benefits changes in the US.

Reed Elsevier continues to maintain a negative net working capital balance, driven by advanced receipts in our subscription and exhibition businesses. Invested capital at 2013 average exchange rates, adding back cumulative amortization and adjusting for currency and deferred tax effects, was GBP11b, about GBP200m lower than 2012.

Finally I'd like to spend a few moments describing how we see Reed Elsevier's geographic revenue and currency exposure. As you can see, only 7% of revenues are generated in the UK, with just over half generated in North America. 21% of our revenues come from the rest of Europe. Of the remaining 21% of our revenues in the rest of the world, around 30% are denominated in US dollars.

We hedge certain of our future revenues to smooth the year-on-year variation in revenues and profits. The hedging contributed GBP12m to STM profit growth in 2013 compared to GBP24m in 2012. For 2014 we expect this benefit to be positive, but at a reduced level.

You will also note that we have quantified the overall sensitivity of adjusted profit before tax to a 1% strengthening of the dollar against other currencies. The impact is about GBP7m or EUR9m.

That concludes our overview of the financial performance in 2013. Now I will hand over to Erik to talk through our strategic and operational progress.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Thank you, Duncan. Good morning, everybody. Thank you for coming and for taking the time to be here today. As you've seen this morning, our positive operating and financial momentum continued throughout 2013 and we further transformed our business profile and improved our earnings quality, again primarily through organic development.

In terms of our operating and financial momentum, underlying revenue growth, excluding biennial exhibition cycling, was again 3%. Underlying operating profits grew 5%. And earnings per share at constant currencies grew 7%, and this in a cycling-out year.

Return on invested capital reached 12.1%, an increase of 40 basis points over 2012 on a like-for-like basis.

All major business areas again delivered underlying revenue growth, with risk solutions and business information both growing slightly faster than in 2012. And all business areas again delivered underlying operating profit growth.

Our STM business grew 2%, with strong growth in article submissions and usage across science and medical research and further improvement in journal quality metrics. Revenue growth was driven by solid subscription renewals and new sales. Author pays or author's funder pays open-access article volumes continued to grow strongly from a small base.

We saw continued good growth from product innovation in scientific and clinical databases and tools, and we saw good electronic revenue growth across all segments. But declines continued in print book sales and print pharma promotion, together representing close to 20% of Elsevier's revenues.

In 2014 we expect continued volume growth and strong demand for our electronic products and solutions, continued declines in print books and pharma promotion, and modest underlying revenue growth overall.

Risk solutions grew 8%, up from 6% in 2012, with strong underlying revenue growth across all segments. Insurance saw solid volume growth, achieved good uptake on new products and continued its expansion in new verticals and geographies.

Business services achieved good growth in identity and fraud solutions and, as expected, saw a slowdown in mortgage refinancing volumes in the second half.

Government achieved strong new product sales, somewhat tempered by a fourth-quarter slowdown in federal markets. Underlying cost growth was in line with underlying revenue growth.

The 2014 outlook is uncertain for the federal government segment and for the mortgage refinancing market, but the fundamental growth drivers remain strong. Overall we expect good underlying revenue growth across market segments.

Business information achieved further acceleration in revenue growth from 2% to 4%, with strong growth in major data services driven by Accuity, ICIS and XpertHR. We saw modest growth in leading brands and other magazines and services despite weak print advertising markets.

We continued the portfolio transformation during the year and increased the alignment with risk solutions in order to leverage risk solutions' strengths in data, analytics and technology in combination with the broader geographic footprint of our business information assets.

The margin improvement in the year resulted entirely from the continued organic transformation of the business. For 2014 we expect continued good underlying growth in major data services and stable leading brands and other business magazines and services.

Taken together, risk solutions and business information represented almost 30% of Reed Elsevier's total operating profits for the year, with underlying revenue growth of 6%, underlying profit growth of 9% and an operating margin of 35%, and with almost 90% of its revenues in electronics and face-to-face formats, very little advertising and with over a quarter of its revenues outside North America.

Legal again grew 1% in subdued customer markets in the US and in Europe. Across the business growth in electronic product usage and revenues was largely offset by continued print declines. New platform and product rollouts continued as planned, with over 70% of our US customers activated on the new Lexis platform by year end.

Margins expanded 0.7 percentage points as cost efficiencies from process innovation and some initial decommissioning of old systems more than offset inflation and higher depreciation.

For 2014 we will continue the rollout of our new technology platforms and products and maintain our focus on process improvement. Our customer markets remain subdued, however, limiting the scope for underlying revenue growth.

Exhibitions maintained strong underlying revenue growth of 7%, excluding biennial cycling. The US, Japan, Brazil, China and emerging markets all grew well. Europe saw modest growth overall, with good growth in international events offset by softness in some domestic events in Continental Europe.

We launched 37 new events and completed nine small acquisitions, primarily in high-growth geographies and sectors. Biennial cycling effects were reduced to around 5 percentage points of growth.

In 2014 we expect good underlying growth in the US and Japan and limited growth in Europe. In other markets we expect strong growth, albeit at a slightly lower rate than in 2013. 2014 is a cycling-in year, but we expect the cycling effects to be reduced further to around 2 percentage points of growth.

During the year we continued to make progress in our strategic direction towards a company that delivers improved outcomes to professional customers across industries. We're getting there primarily through organic development, supplemented by selective portfolio reshaping, driving an evolution of our business profile and improving the quality of our earnings.

Our number-one priority is to continue to invest in the organic transformation of our business. We are investing in new technology platforms and we're launching new products and services. Now this process often started with the reformatting of traditional print reference into electronic reference. But we're already very far down the format migration path towards our preferred formats of electronic and face-to-face.

So most of our efforts are now already focused on driving the ongoing transformation from electronic reference to electronic decision tools. And we do this by adding broader datasets, embedding more sophisticated analytics and leveraging more powerful technology to track, measure and improve the results that come from using our information-based decision tools in order to continually make them more and more valuable to our customers.

Our geographic footprint is also evolving. The transformation from electronic reference to more sophisticated outcome-enhancing electronic decision tools is driving growth in the developed markets in the US and in Europe. And by leveraging our institutional skills, assets and resources, we're expanding in adjacent segments in developed markets.

We're also continuing our efforts to build leading positions in long-term high-growth markets outside the US and Europe, despite their potentially higher near-term volatility.

At this point you might describe about half of our rest of world revenues as coming from developing markets. In the long term it's inevitable that these markets will become larger economies, with higher information intensity, and therefore become larger customer markets for Reed Elsevier.

After organic transformation, our second priority is the reshaping of our portfolio. We're continuing to limit our acquisitions to targeted data, content and analytics assets and assets in high-growth segments and geographies that support our organic growth strategies.

In 2013 we acquired those types of assets across all major business areas, but it's perhaps not surprising that more than half of our total spend was again in risk solutions and business information. We also continued to dispose of assets across business areas, closing 26 transactions during the year for a total consideration of GBP331m.

With year-end net debt to EBITDA at 2.1 times on a pension and lease-adjusted basis and 1.6 times on an unadjusted basis, we have now spent the past four years in a leverage range that we're very comfortable with in the current economic environment.

So with a strong balance sheet and strong cash flow characteristics and with our average acquisition spend comfortably covered by free cash flow after dividends, we will continue to take a pragmatic approach to ensuring that the value compounding in our business translates into shareholder value. We plan to continue to keep long-term dividend growth broadly in line with earnings-per-share growth at constant currencies. And we plan to keep our leverage in a range similar to where it has been over the past four years.

And therefore, in 2014, although we expect disposal proceeds to be lower than in 2013, we again intend to deploy a total GBP600m on share buybacks based on our strong balance sheet and strong cash flow.

So in summary, in 2013 our positive operating and financial momentum continued throughout the year and we saw further transformation of our business profile and improvement in our earnings quality.

Going forward, early trends across our business in 2014 remain broadly consistent with full-year 2013, with some small variations by market and by geography. We're confident that by continuing to execute on our strategy, we will deliver another year of underlying revenue, profit and earnings growth in 2014.

And with that, I think we're ready to go to questions. So let's start over here.

QUESTIONS AND ANSWERS

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you very much, Erik. It's Sami Kassab for Exane BNP Paribas. Two questions, if I may, please. If my memory serves me right, in 2006 the Executive Board, of which you were part of, told the market that Reed Elsevier was a company that year in, year out, could allocate 40% of its annual free cash flows to a buyback. And we had a buyback in 2006, a buyback in 2007.

The crisis came about, the buyback stops. You took over. Things looked up and improved. And this morning you are telling us that you are again allocating around 40% of your free cash flow to a share buyback. Hence my question, should we take from this announcement that you're reverting to the historic capital allocation policy and that going forward Reed Elsevier is a company that year in, year out, should be able to allocate 40% of its free cash flow through a share buyback?

The second question, do you think that, excluding exhibition cycling, we can see an acceleration in organic revenue growth in 2014 without any further disposals? Thank you, Erik.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Let me answer both of those. The first one, the way we look at our business at this point, we do not think that setting a fixed percent policy would be appropriate. If you see how it is we articulated our priorities, that is, number one, to drive organic growth and allocate capital to organic development, organic investment. That's our number-one priority, transform the business. That can fluctuate a bit, but we're not a very capital-intensive business. So it will fluctuate a bit, but that's our number-one priority.



After that, the portfolio reshaping is our second priority. And anyone here, even though our strategy is clear, we're looking to add small acquisitions in the content datasets and assets in high-growth markets and geographies. We might some years find a handful or a dozen of those that are all in the 10s of millions. And we could, once in a while, as we have over the last five years, I think we found one that was over GBP100m, right, or in the hundreds.

So you could see one of those coming in any one given year, and you could even see a scenario, within one 12-month period, two might appear. But you see over a longer time period, over several years, you can see that the pattern we have had is not different from the pattern we're looking for going forward.

But that has some implications for how the cash is used in any one year. And the same thing on the disposal side. I think our strategy with disposals is clear. When we see assets that we cannot transform into the type of asset we want to have across Reed Elsevier, we will sell it. And if we also see an asset that is difficult to transform but we don't see material future value creation, we will sell it. That can also go up and down in different years and the numbers can be different.

So therefore I don't think it's right to look at a specific fixed percentage. But I think our approach should be clear to you at this point, what we're looking to do.

The second question, you said revenue growth, ex cycling, underlying revenue growth in 2014. If I look at it where we are today, at the beginning of the year, and you look at the early trends and the growth rates across our business, there are some small variations here and there by market, by geography, by segment, as I talked about. But if you look at it overall, broadly speaking the growth trends are very similar to what we saw throughout the full year 2013.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you, Erik.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Okay. Let's go over there.

Nick Dempsey - *Barclays - Analyst*

Yes. Hi. It's Nick Dempsey from Barclays. Three questions, please. First one, Wolters Kluwer saw flat organic growth in their health books in 2013. And when you look at enrollments in nursing schools and medical schools, they're going up. So I wonder if you could give us some more color on why your books keep going down. And is that the sort of business that you can transform into something else, to your previous point?

Second question. When you look at the print declines that you showed when you shared the different growth by format, how much of those print declines are going into your electronic growth? In other words, if that print keeps coming down by 2, 3 points a year, should overall growth go up or not?

And the third question, since 2008, I think the margin at Elsevier has gone up by about 100bps on average a year. I know that some of that's to do with hedging, and Duncan made the point on that. Excluding hedging, can you keep that margin going up or are we plateauing?

Erik Engstrom - *Reed Elsevier Plc - CEO*

Okay. First, books. You said why down. I think what I said, just to be precise, I think I said print books continued to decline. And in our book segment, one of the major things that's going on is a shift from print to electronic. In some of our specific book segments, that means that we're going from



print to electronic and the overall book revenues in certain subsets is actually growing as you're doing that transition. And the migration from print to electronic creates opportunities to actually introduce a different title set and sell them differently, which can have a positive growth in total.

In some other segments, the print-to-electronic migration is combined with a weak economic environment or specific enrollment numbers in certain sub-segments and so on, where you can actually look and it can end up, like it has done for a couple of years, in negative territory. In some places that's coming back up a little bit, in other places staying down. What exactly -- I think it's more driven right now by what the market environment is in the sub-segments than an overall book trend.

I don't think books, as an overall business, if you think of them as being in print and electronic format, meaning you think of it is as reference or educational materials, I don't think is inherently a bad segment or a bad business or will have permanent negative trends. But you will see a format migration. You'll continue to see a format migration.

If you take our book business overall right now, across all of Elsevier, roughly a third might now be in electronic format or something like that. That's much higher in certain deep scientific segments and in certain medical deep reference than it is in certain non-US -- outside Europe and North America in education is very print-oriented. So you can see it by segment.

That goes to your second question, which I think is a question of in your print declines and the electronic growth, how much of that are independent businesses growing or shrinking and how much of it is a direct migration. And I think we have a combination of both. I think a large part of what you're seeing is a direct migration that we are trying to drive.

When it comes to, for example, in a traditional starting point of scientific reference materials, scientific research or legal research, legal reference materials that traditionally were print businesses that have migrated to electronic, we are trying to drive that electronic migration by offering higher value in an electronic environment than you get in a print environment, and the print declines are directly leading to electronic growth.

In international legal, for example, you still see that happening at this point. We're roughly around the midpoint of that transition. And you can see that the electronic growth is, to a large extent, offset by the print declines. But overall it's a business that's just about flat, as you can see for the overall legal business, as you transition.

So you have a bit of both. And if you wanted to look at it, you also have some print businesses that are shrinking and that are going away. For example, some of our print promotional, print advertising, print pharma promotion, they're shrinking structurally and there are structural changes in that industry.

The third question was margins in Elsevier and hedging. Yes, the number you mentioned on margin increases, I can't remember exactly which year you average, but the absolute reported margins in Elsevier are going up -- have been going up to a large extent due to currency and hedging effects. And to a smaller extent over the last few years the low revenue growth here is to a smaller extent due to organic differences between revenue growth and cost growth.

So if you strip that out, you'll see that the organic development has probably led the margins to go up a very small bit every year, a few probably -- a few 10s of a percent. And the larger piece has been currency effect. But I think that as we continue to drive Elsevier going forward, the number-one priority is increasing value for the customer and therefore to support the volume growth that exists in that industry, and to provide tools that are more valuable and they can do more to manage research.

And as we do that, we are again going to continue to try to do process innovation and global efficiencies to try to keep cost growth in line with or below revenue growth, just the way we have philosophically done for many years.

Okay. Let's go. Keep going that side. Yes.



Mark Braley - *Deutsche Bank - Analyst*

Thanks. It's Mark Braley at Deutsche Bank. One question, and then a couple of technicals. On open access, if I remember the original timetable around the policy changes that were made, we should start to see a bigger volume of open access mandated research coming to publication late 2015 or into 2016. I suppose my first question is is that timetable still what you're expecting?

And then the second part of my question is is your business, if you like, in open access, is that already scaled to deal with that if that does come through? So is the change in your business due to open access? Do you still expect that to be incremental or is there an element of step change that's now on the horizon?

And then the technical ones were I wonder if I can just ask on the cycling impact being rather smaller, is that because of changes in the timing of some of the biennials, or is it because acquisitions have filled in the gap, if you see what I mean?

And then apologies if I missed it, CapEx for 2014, a pound-million number.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Okay. I think I'll let Duncan get back in the end to the CapEx question. But I will start with the other two. The -- on the open access or mandated open access in different geographies, I think the one you probably think about primarily is the UK, the UK policy. The volume growth from that I think to some extent has started, because many people have started to operate in that direction.

And I also think that the implementation will then come through different steps. And I think you will see a gradual evolution. I don't think there will be a step all of a sudden, where on one date it flips. I think you're likely to see different individuals in different research areas move over at different rates, even before they feel like they have to for different reasons. And then I think it will follow afterwards, and there are always implementation phasing issues on anything like this.

We have started to scale up significantly. We have now. I think we have an author-pays option in over 1,600 of our journals and I think we offer over 70 independent standalone author-pays open-access journals as well. And those numbers are both growing on an ongoing basis. And the volume we took in last year was significantly higher than the volume before. But this still represents a small share of what we do, just like it represents a small share of the global volume of research.

So I don't see any material impact that you can -- you will be able to find from this on our global volumes over the next few years, either as a positive volume or revenue effect or as a negative positive -- or as a negative volume or revenue effect. It's a different payment model for a small slice. And we're very happy to continue to support it that way.

Let's see now, exhibition cycling. I think I understood -- if I'm understanding you right, I think you asked why is it reducing. Well the reason it's reducing is, number one, because we want to reduce the cycling. And therefore we are not changing the strategy of running the business differently to do it; we're running it the way we want to for value creation. But in places where you have a choice on where to introduce a biennial show or in choices where you have a chance of showing -- making some adjustments, you pick the one that actually slightly smooths it out more. But we'd never do that to the detriment of the business itself.

There's one other factor that is in there, and that is that the historical even-year cycling in shows are in our historical markets, which are to a large extent in Europe and are seeing lower growth. And then we have some of our on-year cycling in shows are actually in slightly higher-growth markets and supported that way so that there's a natural organic growth rate difference between the two that are helping. So it's some rescheduling, some acquisitions and a pure organic growth differential. So that's why it's down to 2 percentage points next year.

And the last question was about CapEx. I'm not sure I heard exactly what you asked, but I hope Duncan did.



Duncan Palmer - *Reed Elsevier Plc - CFO*

Yes. The question was what pound number to put into the CapEx in 2014. What we said was, or what I said was that overall CapEx as a percentage of revenues in 2014 would be broadly in line with recent levels. In 2012 it was 5.5% of revenues, 2013 it was 5.1% of revenues. I think in 2011, from memory, it was in that sort of range as well. So I think that answers your question. At least you're nodding at me.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Okay. Why don't we now go over here?

Matthew Walker - *Nomura Securities - Analyst*

Thanks. It's Matthew Walker from Nomura. Just one question really, which is going back to open access. Can you update us on the FASTR legislation in Congress? And can you say, I guess for the US market, if that was successful and the embargo period was changed from six months to zero, let's say, what impact would that have on the business?

Erik Engstrom - *Reed Elsevier Plc - CEO*

I think there are a lot of different legislative initiatives going on and have been going on for over a decade now in many of our different markets, including many in the US. Of course we're now 10 years after the initial policy declaration of the largest government funding agency, NIH. And, as you know, we have now been working with them on a process of voluntary posting since 2005. So we're almost nine years into that one with the largest agency.

There are many different things going on right now, and the one you mentioned is one of them. But I think the primary focus in the US right now is actually on the White House OSTP policy, the Office of Science and Technology Policy that issued something about a year ago in looking at different guidelines by different agencies, and that's where the discussion is happening.

Those are the agencies that are looking at it, and they're looking at different timelines for manuscript posting policies. And they're doing that in conjunction with industry associations and with other user groups. And I think that's probably where you would see a change or some extension of the NIH policy. NIH represents about half the research of that sort -- of that -- of what's covered, so over half is already covered.

Your question theoretically is if something went to zero, embargo period, well that means then if you actually want it to be published with zero, then you're back to the UK policy, which is then the only reason anybody would publish is because it's an author-pays model, which an author-pays open access, which we're perfectly fine doing and we've demonstrated we can do and scale up.

So there you basically have two choices. Either you want to have it published with immediate availability without subscription fees, then it's an author or author's funder paid model. You pay from that side. And then it's immediately available for free to the user, but you pay on the author or the generating funding body side.

Or you have a traditional subscription model, where it's free to the authors and free to the funding bodies to submit and get published, but the subscribers pay. And if you say that you want to switch at the point of publication, you pick between the two basically. You say -- do you want it free to users or do you want it free to authors? And at zero, that's the choice you've then made, and there's nothing wrong with that choice. It's an alternative that we're operating with, as I said, and growing rapidly.

Okay. Let's go over there.



Vighnesh Padiachy - *Goldman Sachs - Analyst*

Morning. Hi. It's Padi from Goldman Sachs. I've only got one question on the legal business. I note your subdued outlook, but you seem to be launching a lot of new products and applications. Do you think you can grow ahead of a subdued market because of all that activity, or is there no pricing benefit to that?

Erik Engstrom - *Reed Elsevier Plc - CEO*

Well of course, what we are trying to do in legal, as in our other markets, is to make sure that we continue to improve our content, our datasets, our electronic tools, our analytics, our platforms and embed them, make them more valuable so that our customers see more value, want to use them more, and over time we have more customers who want them from us so that we can grow our revenues. That's what we're hoping for and that's what we're trying to do.

And the market is slow right now. You can see that from us. You can see that from any other provider into the legal market. You can see it from legal industry studies. It's basically a flat market.

So therefore we are focusing all our time not on predicting the market, but on doing exactly what we just talked about, which is to improve our own products and roll them out and roll up platforms and then streamline our operations behind it as we modernize. So that's what we're focusing our efforts on. And that should then, over time, put us in a better position to get improved revenue growth, even if the markets are not improving.

But it's very, very difficult because you're dealing with a market that's currently not growing. And you're dealing with other service providers that are not really growing. And you're dealing with people who like the tools they use. The tools that we provide them and other people are providing them, they're good tools. They're used by professionals that are very busy and they see good value in them. And therefore the base case is that it's difficult to break out of the broad market growth that we have in a business of this scale. But that's of course what we're trying to do.

Yes, coming this way.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Thank you, Erik. Good morning. It's Andrea Beneventi from Kepler Cheuvreux. Another two questions on legal from me, please. First, could you quantify the savings you expect from the commissioning of the old Lexis and maybe also the timing of the process? And secondly, what share of legal revenues come from duplicated contents that are sold to the same customers in both print and online formats and with each format billed separately, please? [Something like that].

Erik Engstrom - *Reed Elsevier Plc - CEO*

Yes. On the savings and decommission of old systems, we do not think of the decommissioning as a separate cost bucket. We see what we're doing as a multi-year process where we're, over time, replacing hundreds of old systems with a modern infrastructure from front to back, from the front-end customer interface to the content database to the back office.

And we're going through that slice by slice, module by module, customer segment by segment, continent by continent, geography by geography. So therefore -- and at the same time as we're doing that we're then streamlining our own operations, our organization structure, our systems, our content processes and so on. And, while we're currently operating with a duplication in some geographies, and we operate both on the old and the new in the US, our largest market right now, we see this as a never-ending process then of driving process efficiencies out of it as we gradually decommission one or two of the old systems at a time.

So the way I see it is it's going to take many years and it will be a gradual process. And we have not tried to separately quantify what would be the decommissioning part of it. What you're seeing in our margins though is that every single year now since we hit our peak spend point a couple of

years ago is that we're now trying to drive our cost growth below revenue growth, despite the fact that we have increasing depreciation coming through. And that is because of these efforts in combination. So that's the way we view it. And it will take several years and it will be a gradual process.

The second question was the duplication, where people are buying both. We have, as you probably know in our legal business, I think our total print share is something like 23%, give or take 1. I think it's 23% this year. And in that print, we have mostly print that is migrating over to electronic. We do not have what I think of as a massive business that is being double-billed and billed separately and effectively charging twice for the same content because our history is not coming from that part of the business.

We are not, in our largest market, an old, large-scale traditional print book publisher or print document that is migrating over. We actually -- LexisNexis has a slightly different history from that. So in the US we started off as effectively an electronic platform service that required inputting plugged-in content. So we have slightly different history from that. And as we look at most of our European businesses, it is not a duplication; it is a migration, the way I think of it.

So as you migrate, we're going to get back to the thing we talked about before, when we talked about the print growth, the print decline is offset by electronic increase but is basically a migration and net-net in legal you're essentially just about flat in that migration.

Okay. Can you move back? Right here.

Giasone Salati - Redburn Partners - Analyst

Thank you. It's Giasone Salati from Redburn. A couple of questions, please. Both I think are a bit technical. Based on the currency hedging you have in place now, can you give us a very precise outlook -- I'm just kidding. Just a broad outlook of what impact on margins we could have, depending on currency movements or on the currency rates you have now in the market?

And secondly, the increase in depreciation as a percentage of sales, is that going to continue to any sizable amount? And is that hiding an actually better underlying EBITDA trend compared to adjusted operating profit?

Erik Engstrom - Reed Elsevier Plc - CEO

I understood the first one. I'm going to ask Duncan to answer that one. The second one, I didn't understand what you said exactly, so I'm definitely going to ask Duncan to answer that one.

Duncan Palmer - Reed Elsevier Plc - CFO

I didn't understand it either.

Giasone Salati - Redburn Partners - Analyst

It's got to be my accent. Depreciation as a percentage of sales was up, I think, this year. Do you expect that to be up again in 2014? And is that hiding actually a better underlying EBITDA trend in terms of OpEx?

Erik Engstrom - Reed Elsevier Plc - CEO

Okay. I've got it now. Yes.

Duncan Palmer - *Reed Elsevier Plc - CFO*

I understand the question now.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Me too.

Duncan Palmer - *Reed Elsevier Plc - CFO*

On the currency, what we quantified, and I think what we quantified quite specifically was that we think the sensitivity of our overall profit before tax, two currency movements, particularly a 1% move in the dollar against all other currencies. So if you look at that sensitivity, what we quantified was that that would have an impact of about GBP7m, which is also about EUR9m on our overall profit before tax. That's the sensitivity of that. And you can ripple that through into our overall margin or you could make an estimate of that because you've got interest deducted in that, but you could probably estimate out the interest impact as well. And so that would probably give you the ability to look at overall margin.

We do quantify, I think, in the appendix the impact -- and I haven't got a number exactly in front of me now, but it is in the appendix, the impact on the Elsevier margin of the hedging program, exactly how much impact that was. From memory, I think it was about double in 2012 what was in 2013. I think in 2013 it was 0.3%, from memory. I haven't got the chart right in front of me, but it's in the appendix. And we would expect it in 2014 to be still positive but a little bit less. It was GBP24m, I think, in 2012, GBP12m in 2013 and it will be less but still positive in 2014.

Giasone Salati - *Redburn Partners - Analyst*

And on depreciation?

Duncan Palmer - *Reed Elsevier Plc - CFO*

Depreciation. You're right, yes. So depreciation was higher as a percentage of sales in 2013 than 2012, largely reflecting the fact that there's, I think, more depreciation in the legal business. So I think it was a \$22m increase in depreciation or a GBP22m increase in depreciation. I think GBP16m of that, from memory, is legal. The vast majority was legal.

And again, as new Lexis comes on, I think that that depreciation is catching up. So I probably would expect depreciation to be a little bit higher in 2014 as well. So if that answers your question.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Yes. In effect, right, that therefore because we're having slightly higher depreciation, if you wanted to do an EBITDA calculation excluding that slight increase, it would be slightly better on a trend basis. Not a big number, but slightly better.

Giasone Salati - *Redburn Partners - Analyst*

Thank you.

Erik Engstrom - *Reed Elsevier Plc - CEO*

So let's move back.



Marie Joos - *KBC Securities - Analyst*

Hi. [Marie Joos] from KBC Securities. Your outlook statement for the exhibition business was quite cautious. Could you elaborate a little bit on the trends you are seeing and the recent developments in Europe and sentiments or discussions with customers, but also the geographical breakdown?

And then actually the same for the emerging markets, so you expect a slightly slower growth rate. Could you shed a bit of light on that? Is it because of macroeconomic conditions, tougher comps or another specific reason? Thanks.

Erik Engstrom - *Reed Elsevier Plc - CEO*

Yes. Yes. If you look at exhibitions, you said first in Europe, what we're seeing right now in our different European markets, both geographically and in terms of segments, it's in Europe very similar to last year. If you look across, of course, there are always some variations here and there in different regions, but Europe is very similar to a year ago. And you saw where we ended up last year. But there's no -- there's of course no indication here of what that will look like in six or nine or 12 months as we get towards the end of the year. It's too early for us to tell. But at this point it's not materially different in Europe.

In emerging markets, you said, we are doing -- currently doing very well in emerging markets. We're continuing to grow strongly. But the macroeconomic environment, the economic industry growth cycle there has slowed down a bit in our large markets. It's very clear that that's what's happening to the industries around us, industries we serve.

We are still growing very well. We're going to continue to grow very well in those markets if the economy stays where it is today. But where you previously -- in a country, for example, where you've previously seen a growth rate in the mid teens, you might now be just about double digits. Or where you previously saw something in the low double digits, you might now be in the high single digits on some of those markets that we see the slowdown. The economies might have slowed in the mid teens. You might now be just about double digits.

Or when you previously saw something even more than that, but because we see growth opportunities, we're launching exhibitions in the sectors. We're extending our international brands into those markets, we're taking new geography and so on. We can grow in exhibitions if the economic situation is the way it is today. We can grow faster than the local GDP growth in the economy. But still, if it's a slower growth rate overall, we will be a few percentage points lower in those geographies. That's what we're seeing today. Okay?

Alex DeGroot - *Panmure Gordon - Analyst*

Thank you. Morning, everybody. It's Alex DeGroot from Panmure Gordon. I have a question related to assets for sale in the balance sheet, 21 versus I think a short 300 last year. Is that a proxy for where we are on the disposal program, because I would imagine most of the heavy lifting has now been done in terms of exiting those businesses where you felt the fit was weak?

Erik Engstrom - *Reed Elsevier Plc - CEO*

Yes. I think the anomaly there is probably that last year we were in the process of selling a couple of big things right at the end. And I can't remember exactly where we were on the screening business, but I think that was one of our larger disposals and it happened early in the year. So if you look at where we are now, we're still active. We did close a couple of sales in January this year, but they're much smaller. Last year we had bigger ones pending right at the turn. So that's the explanation of why the number is what it is right now.

If you then go to your second question is where are we overall in our disposal program? We are going to continue all the time to review our assets and try to transform them. Our transformation strategy is as we have described it. We're going to continue to do that.

We will still find assets on an ongoing basis that we see that the transformation is not working out the way we'd hoped to, or it's working out the way we'd hoped to but it's changing slightly and we don't see a lot of value creation and we might exit. So I think you will see a continued process of selling off assets.

But I think it's more likely that you'd see a continued process of small assets, individually smaller assets at lower numbers than the two, three, four that have been larger that we have spun off or sold in the last two years. There have been a few that were larger than the typical. I think if you take those three, four out and then go with a lower one, that's probably the type you'll see more -- continuing to process more.

Okay. So back here then again, please.

Tom Singlehurst - Citigroup - Analyst

Hi. It's Tom from Citigroup. Just one question. It's on risk solutions and business information. You keep on flirting with the idea of combining them fully, or at least certainly showing them on a combined basis. I was just wondering, is there any inefficiency from having them separate or is there any efficiency from bringing them together and just having them as one big lump, not separately disclosed in the way that you are currently?

Erik Engstrom - Reed Elsevier PLC - CEO

I'm not sure I would use the headline one big lump. But what we're doing there is strategic to drive future growth opportunities. We have risk solutions, where you have a very high-quality manager of very large databases, very powerful analytics, very advanced technology, but primarily US-oriented and in certain risk markets.

What we then -- when we put that together with the old RBI under larger umbrella, with one CEO, you can now leverage those skills, those assets alongside the broader geographic footprint and industry-specific databases in business information. And that enables then a process of getting faster into adjacent markets, both adjacent segments, industry segments, as well as faster geographic expansion, when you have a footprint you're building on and a skillset and an employment base.

That's why we're doing it. It is not clear to me that this will have any material cost benefit or any integration cost because we're not looking at fundamental cost changes around that. It is more of a growth platform combination that we're looking for.

So hopefully, over many years in the future, you will actually see that they have built on each other's footprint and each other's assets to get high organic growth over a longer period of time than they would have done separately. That's the logic.

Okay. Well thank you very much for coming and hope to see you again soon.

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