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

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

The underlying operating trends across our business in the first nine months were very similar to what we reported at the interim results in July. Underline revenue growth was 4% or 3% excluding the effects of exhibition cycling with positive underline revenue growth across all major business areas. We continue to transform our business primarily through organic development supported by a number of selective portfolio actions. So far this year we've completed or announced 25 acquisitions of small content data and exhibition assets for a total consideration of £294 million and this boasts 11 assets for a total consideration of £55 million. We have completed £525 billion of share buy backs and intend to complete a further 75 million by the end of the year to reach the previously announced full year total of £600 million. Our financial position remains strong with good cash generation. The full year outlook is unchanged and we remain on track to deliver another year of underline revenue profit and earnings growth in 2014.

Now turning to the business area, scientific technical and medical grew 2% with our primary research subscriptions and scientific and medical data business and tools growing well. Risk in business information grew 7% with strong growth across business segments driven by volume growth, new product roll out and expansion in adjacent verticals. Legal grew 1%, our customer markets remain subdued but the roll out of new platforms release is progressing well and we



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continue to focus on profit improvements. Exhibitions grew 8% or 7% excluding cycling and timing effects with continued strong growth in the US and in Japan. And now operator, we're ready to take questions.

Operator: Thank you. If you would like to ask a question at this time please the * or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press *1 to ask a question and we will now take our first question from Nick Dempsey from Barclays. Please go ahead.

Nick Dempsey: Yes, good morning guys, I've got three questions please. The first one, just looking at the good margin improvement you're doing in legal and professional this year I wonder if you could help us by talking about how far you are down the track of decommissioning old platforms and other areas of process improvement, in other words can you keep on improving margins going forward despite low revenue growth. Second question for Nick actually, you've got a fair amount of dead instruments with high coupons out there, I just wonder what your first thoughts looking at that are about the right strategy for reducing your average interest rate going forward and the third question looking at the JV and the Chinese auto-insurance market, I'm guessing that's small but you know, within the kind of 3, 4, 5 year view do you expect international expansion for risk solutions to be an important growth driver for the whole of Reed?

Erik Engstrom: Yes, well I'll take the first and the third here and then I'll hand over to Nick to answer the debt questions. When you come to margin progression in legal, this year it's primarily due to aligning prophecies and eliminating duplicate organisation set up around the introduction, launch and roll out of the new platforms and there is some de-commissioning of the system in there but we have hundreds of old systems and we're only in the early stages of the system de-commissioning and that's why we believe that over several years going forward we will be able to gradually tweak the margins up a little bit virtually every year even if we don't see a significant improvement in market growth rates. On the last question on China, in the near term, this is not going to look material in terms of revenue or revenue growth for our risk business or for Reed Elsevier and you said on the time horizon of sort of 3 years out, it's still not going to look material but if you look at our longer term perspective, we think this is a very



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significant future value created for the risk business as well as for Reed Elsevier, so if you look at it on the long term value creation perspective it is significant. So, Nick, do you want to talk about the debt?

Nick Luff: Yes, Nick, as you know we have been benefitting from re-financing some of the higher coupon debt and it's in the interest of interest rates come down quite significantly last couple of years because of that, we actually are largely through that and this in the short term in the sense that we don't have any significant re-financings in 2015, there are some in 2016 so you'll see a bit of benefit there. It's clearly whether we can do anything to accelerate that in terms of redeeming the high coupon debt earlier, that depends on the holders of the debt as well as what we're prepared to offer, so if there are opportunities we'll obviously look at that but it's, I can't guarantee any of that, so we'll look at it but I think it will come slower from here.

Nick Dempsey: Great, thank you.

Operator: Thank you. We will now take our next question from Matthew Walker from Nomura. Please go ahead.

Matthew Walker: Thanks, good morning. The first question is just going back to China and auto. Can you, I understand there are some regulatory changes in that market, can you just explain what's going on and also give a view on the long term central size of that market for risk compared to the current market in the US, secondly, could you just remind us how big is books, print books as a percentage either of STM or of the group that'll be helpful and lastly could you give us some colour on what's the revenue in e bits impact of the acquisitions and disposals that you've announced.

Erik Engstrom: Okay, again, let me take those in order here. The China joint venture. The deregulation that is happening in the Chinese market is that previously the rates on what we think of as compulsory third party insurance as well as the pricing and level of discounts on discretionary first party insurance, for yourself, they were essentially set by the government and these regulations are gradually being relaxed, which means that the rules on using new risk factors and analytics to determine discounts to sort of race cars and so on are actually therefore going



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to be changing and drive the demand for the kinds of services that we can offer together with our joint venture partner, so that's what's happening to the industry as a whole. If you look at it as a, in terms of scale, the Chinese auto market if you just look at sort of number, number of passenger cars in China is order of magnitude today sort of half the US or four times the UK in size and in terms of the total insurance market there, again it is smaller than the US but it's probably at least double the size of the UK market, so if you look at it that way, it's a material opportunity now to actually continue to build our sophistication, offer improved services that therefore have increased value to the insurance industry there. Of course, it will take time, we are starting with a joint venture that will have people managers and some revenue but it's not material in the context of our business or risk business in the near term but we do think, as I said before, this is a very material opportunity in the long run, exactly how many years it will take to be a significant proportion we don't know at this point, it largely depends on how the local market and local economy develops but we think in the long run that this is a material value creator for us.

Second question print books, STM, the total print book revenue this year is just under 15% of the total STM revenue, so you can then do the maths and ratio to anything else you'd like. On terms of acquisitions I'll just hand it over to Nick, just to illustrate, I mean it's clearly not significant related to our market cap.

Nick Luff: Matthew, absolutely, if you take the acquisitions themselves we've made this year on an annualised basis on revenue it's a slight negative in the sense that acquisitions are slightly smaller than the disposals, on profit it's a slight positive, the acquisition makes slightly more than the businesses we're selling. If you look within year the acquisitions have been timed more later in the year as you know in terms of the larger ones coming in the second half so slightly bigger effect this year than for the year annualised but it's not material overall.

Matthew Walker: Okay, thank you very much.

Operator: Thank you, we will now take our next question from Tom Singlehurst from Citi, please go ahead.



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Tom Singlehurst: Good morning, it's Tom here from Citi Group. I had a couple of questions, both on the subject of print books. You talked about an uncertain trajectory in terms of sales going back at the first half, so the first question was whether the trajectory ended up being a bit more lumpy than you'd anticipated or whether, ultimately the out turn and the slight slowdown in growth was pretty much what you were expecting at that point and then the second question linked to that is just whether print books belong in the portfolio sort of longer term, I mean is this something that you can hive off and sell or is it something that's ultimately embedded in terms of what you do and therefore difficult to sort of separate from the rest of the STM division?

Erik Engstrom: Well, first of all the print books, print books have been in decline for several years as you go on a, primarily as they go through format transition from print to electronic. When you go through that format transition and subscription business the way we have in our journals and many other subscription businesses across Reed Elsevier the migration is, it is fairly easy to predict normally pretty mechanical and happens in a way that you don't see much lumpiness. It's a good transition for subscription businesses and it is predictable, when it comes to books and transitioning from print to electronic it is a good transition for the customer, it is a good transition for us and the overall trends are predictable, however, the exact pattern year on year, quarter on quarter, month on month is unpredictable because there are individual decisions that tend to be lumpy and come throughout the year and therefore the specific growth rates are hard to predict but over several years it's easy to predict and that means when you ask us when we looked at it for the half year, you said was this what we expected we said that the print books decline in the first half had moderated compared to prior year and we just didn't know exactly how it would develop. The print book decline this year has still moderated compared to last year, it's a reduced rate of decline this year, however, the month on month lumpiness continues exactly the way it has in the past and this time it just happened to influence our overall growth rate so it rounded it up and rounded it down and therefore it's more visible but the lumpiness is the kind of lumpiness we have seen over the past few years and that we would expect to have continue. When it comes to the question of print books in the portfolio or not, you have to see that in the context of what I just said, which is that these are to a large extent important professional reference materials that are migrating from print to electronic and in that migration they're becoming more valuable to the customer and they are becoming better



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businesses for us. They're more useful, have more utility, more updated, more accurate all the time and a better business, higher value for the customer, therefore we think it is a good thing even though the transition might be a bit lumpy and if these are content text material professional information tools that we want to be in in the long run we are very happy to go through that sort of slightly unpredictable transition phase for a while to end up in a very good place. When you look at our deepest reference type materials in books they are now almost at the 50% point in terms of transition from print to electronic and we have some of the ones that are more used in educational environments, they're more in a 25% - 30% electronic, so therefore we're still in a stage where there's a fair amount of format migration built in to this lumpiness and therefore we do not see this as a portfolio decision but rather as a format migration process that we have to work our way through.

Tom Singlehurst: That's very clear and just a last one follow up if I presume you could still take sort of smaller sort of portfolio decisions at a sort of micro level sort of going in and out of various

Erik Engstrom: Yes, that's, yes I should have mentioned that, that's a good point, just like in the rest of our portfolios all of our other products and geographic bits, sold off certain slices of our print book portfolio over the last couple of years and we will continue to do so over the next 12 months and 24 months but they will be smaller slices on the edges of the content sets that we are providing today.

Tom Singlehurst: That's very clear, thank you very much.

Operator: Thank you. We will now take our next question from Vighnesh Padiachy from Goldman Sachs. Please go ahead.

Vighnesh Padiachy: Hi, morning, it's Paddy, I've got a couple of questions really, one back on the science. Can you talk a little about the main subscription journals and I know it's a bit early for the renewal season but what is the outlook for pricing look like for that business? And my second question is just broadly, more broadly on the sort of organic revenue growth and thinking about next year, can you perhaps talk about the sort of factors and how you're thinking



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about whether growth might accelerate a little bit, do you think a weaker economy has issues for you in some of the businesses, you know, I'm thinking of sort of Russian exposure from the legal market, that sort of thing.

Erik Engstrom: Okay, on STM, our journal subscription outlook it's a little bit too early for us to really have a clear view of how the sort of new renewal season is going to shape up going forward because we are just entering that period now but in general what we're seeing is that the environment seems very similar to what it was over the last six to twelve months, we are not seeing any material changes that are leading up to believe that we are going to enter a different process from what we've gone through over the last six to twelve months. When it comes to the overall growth outlook you specifically mentioned Russia here, there are specific spots in the world of course that are slightly troubled, based on what's going on today or in terms of general macro-economic adjustments, but if you look at it from us, we are really almost nearing total sort of world GDP in our revenue footprint in some of our businesses such as science and exhibitions and in some of the others we are more North America heavy, so if you look at it that way, overall we have not seen a material impact, net impact on our business. We can see the slowdown that we talked about in exhibitions, in Brazil for example or we can see the continuing slow growth in continental Europe, those are two examples. When it comes to the specific spots you talked about such as Russia, yes, we have spotted that in certain events that we are holding in Russia, it seems like there might be sort of hesitation for people there to commit to spending money. On the other hand, Russia as a whole represents a fraction of 1% of Reed Elsevier's total revenues, which means that it is not material to any one division and certainly not to Reed Elsevier as a whole.

Vighnesh Padiachy: Right, thank you Erik, can I just have one quick follow up. Does that mean, you know for next year if things like medical improve a little bit, print is less of a drag, organic growth can accelerate or do you think you'll remain sort of similar trends to this year?

Erik Engstrom: Well, I mean if you look at overall across Reed Elsevier we have not seen anything today that leads us to believe that the environment that we are entering is changing in a material way in either a positive or a negative direction, I mean we do not try to spend a lot of time looking at the macro-economic environment and forecasts for our customer markets over time because



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regardless of whether they are a little fast or a little slower, we're going to keep doing the same thing and all our time focusing on what we can do to improve the value we provide to our customers or the efficiency that we operate with internally and we have not actually spent much time looking at the environmental, sort of the macro environment in the outlook for next year.

Vighnesh Padiachy: Very clear, thank you.

Operator: Thank you, we will now take our next question from Sarah Simon from Berenberg, please go ahead.

Sarah Simon: Yes, hi, I've got two questions. First one is on legal, you talked about kind of tweaking the margins higher, would you describe 2% as a tweak, I'm really trying to get a feel for whether think you can do this kind of quantum of margin improvement in subsequent years because that seems quite a stretch and the second one is on RBI, can you just give us an idea of what a pro forma revenue number for RBI would look like given all the disposals that you've done. Thank you.

Erik Engstrom: Okay, on the legal margin side, no I would not describe 2% as a tweak, what we think about a tweak is what we can do year on year organically on a like for like basis on an ongoing basis, but you see what we have done over the last two to three years on a true organic like for like basis, we have probably tweaked that margin maybe on average 50 basis points or a little bit less, right that's the way I think of a tweak and in some years we might do a little more, in some years we might do a little less than that. Now this year, we've managed to do a bit more than that on an organic like for like basis so far and in addition we have some portfolio impact on margins with the things that we have been buying and selling in joint ventures spin outs that up the margins a bit also, so that has contributed to your 2% margin differential this year, so I

Sarah Simon: Great.



Erik Engstrom: I think that is beyond what we would normally consider a tweak and if you look at it going forward I think we should be able to drive margins up a little bit each year but not like what we've done in the last six or twelve months.

Sara Simon: Great.

Erik Engstrom: When you look at the RBI we don't have at this point for you a direct sort of a RBI pro forma revenue to share with you but by the time we get to the full year, we'll be able to help you and say what are the different portions, roughly.

Sarah Simon: That's great, sorry can I just have one more, which is on the books question. If you have migration obviously, you have revenues that come in in the digital book side of things rather than print, is the issue that the recognition of the digital revenue is slower than the print because you know, in theory migration as a massive pricing difference shouldn't really have an impact on revenues on a net basis.

Erik Engstrom: It shouldn't if you are operating in a predictable environment where you have subscription institutional decision making and that's why we have seen a very steady migration with a steady growth rate as you migrate from print to electronic in our journal businesses in STM as well as in some of the legal businesses. When you are dealing with volatile market end user markets where individual decisions are taking place such as North American educational print books where there are also students decisions around buying a new book, buying a used book, or renting a book, or sharing a book, or experimenting with shared books or rented books combined with an electronic platform that is being offered, it is slightly less predictable and it is slightly more dependent on the environment you're selling into and in some of those markets we're selling these print books primarily in terms of volume in North America but as part of the education market dependent as well as then Western Europe that has been pretty slow on some different government budget changes, so we're actually selling into volatile and unpredictable markets with slow or difficult economic transitions combined with the format transition and that's why it's unpredictable and we don't know month on month, or quarter on quarter, exactly what that net effect will be. There is no material impact on, from the accounting differential on how you sell a print book to an electronic, right, because that's small migration each year, even



though I mean it's accurately pointed out that the slight accounting difference depending on how it kind of materially used, there is a slight accounting difference but that's not a material piece right now on the quarter on quarter variation in volatility.

Sarah Simon: That's great, thanks.

Operator: We will now take our next question from William Packer from Exane BNP Paribas, please go ahead.

William Packer: Hi there, thanks for taking my questions. Firstly just to clarify on the STM revenue growth profile for 2014 should we expect Q4 to be more in line with Q3 or H1 and obviously driven in part by the size of the print book contribution. Just to follow up on Sarah's question could you just clarify on a kind of wider basis the revenue models that you were using for your new e books, is it typically more subscription based or is there some kind of combination, obviously there's quite a lot of variety among your peers as they transition their STM books and then finally, just a quick question on exhibitions, you talk about continued trends generally in Europe, have there been any signs of slowdown from the recent macro weakness? Thank you.

Erik Engstrom: Okay, sorry on STM you talked about revenue growth. The way we look at it there is that more than half that business as you probably know are subscription based and well over half is subscription based and over half is in the primer research subscription and when it comes to that part of the business it's fairly predictable and we expect the growth rate that we saw on the first half that continued through the first nine months to continue for the full year. Right, it can only be some marginal changes by the time we get to the end of the year so that money is predictable and it's growing faster than a year ago, alright. Then, you have the print books and there's also some other contractual businesses in there, that is as we've said it has a certain amount of lumpiness, month on month and quarter on quarter and we can't tell you exactly what it will be over the next month or two or three months, the proportion of print books changes at a slight bit throughout the year but not materially, so only marginally higher towards the end of the second half than the first half, not in any material way for a model but it can have the effect of just rounding up or rounding down and that's why we don't actually know what the trajectory will be for print books for the rest of the year, even though the declines in this year



are actually more moderate than they were a year ago, so it is declining less this year than last year so far.

Second question, on the revenue model for e books. Well we had a wide variety of models there. In some businesses, in many of them we actually sell the books and it is a direct sale sell just like it is for print for print content and in others its subscription based where you have access for a period of time and in others it is used during a specific period, sort of as a on a course, course basis so there's actually a pretty wide variety of models there that have already been deployed and I expect that will continue because you're actually selling the sort of the electronic book into alternative use methods, right and the pricing model will reflect that, will continue to reflect that. Exhibitions, we say the trends are continuing, I think we have mentioned before in the year as well as in this one that compared to prior years we have seen a slowdown in Brazil and China our two largest emerging markets in the macro-economic environment, which is probably not a surprise but when it comes to the crux around Europe, continental Europe as well as UK we have not seen a material difference in growth rates now compared to six months ago or twelve months ago, so we have not seen at this point any impact from what I think you are referring to meaning recent economic slowdown in Europe.

William Packer: Great, thanks that's very helpful, just one follow up on the e books how have margins developing versus the old print books, obviously some costs taken out of the printing, binding and distribution, is that a trend that we should be examining?

Erik Engstrom: No, I think it's very easy to think when you look at format transition in advance that when you switch from print to electronic there'll be certain cost blocks that go out. What we have seen now though, because all of Reed Elsevier have now gone through something like this at one point or another, what we've seen is that as you transition from print to electronic, yes, certain costs go away, on the other hand you are providing a much more valuable service and information tool to the customer so that other costs can enter instead to keep it more accurate, more current and therefore mature print is a very high margin business, relative to what historically you might think and when you actually then move it over to electronic, we have not seen an automatic step up in margins, we have not seen a worsening either. Margins have



tended to move over fairly smoothly, so I would not start to model or expect any material step in margins during that gradual transition.

William Packer: Great, thanks.

Operator: There are no further questions.

Erik Engstrom: Okay, thank you operator, so as there are no further questions, thank you all for joining us this morning.

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