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REL.L - Half Year 2015 Relx PLC Earnings Call

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CORPORATE PARTICIPANTS

Anthony Habgood *RELX PLC - Chairman*

Erik Engstrom *RELX PLC - CEO*

Nick Luff *RELX PLC - CFO*

CONFERENCE CALL PARTICIPANTS

Ruchi Malaiya *BofA Merrill Lynch - Analyst*

Thomas Singlehurst *Citigroup - Analyst*

Matthew Walker *Nomura - Analyst*

Andrea Beneventi *Kepler Cheuvreux - Analyst*

Sami Kassab *Exane BNP Paribas - Analyst*

Nick Dempsey *Barclays - Analyst*

Vighnesh Padiachy *Goldman Sachs - Analyst*

Chris Collett *Deutsche Bank - Analyst*

PRESENTATION

Anthony Habgood - *RELX PLC - Chairman*

So, ladies and gentlemen, thank you for coming to the first set of results for RELX PLC and RELX NV, and also for the first consolidated set of results for the Group. And for those of you on the webcast, thank you for listening in.

Financially, I hope you'll agree this is another good set of results, with an 8% constant currency increase in earnings per share, a sterling dividend increase of 6% and a euro dividend increase of 17%. And it's very pleasing that once again all business areas contributed both to underlying sales and adjusted operating profit growth.

The simplification program that we announced in February was implemented by July 1, as planned. For me, the increased transparency to shareholders of having equal economic interest per share reflected right through to adjusted earnings per share is a big step forward in transparency. And Nick will show just how comparable the share prices are now, particularly for the dollar ADRs, where there isn't even any exchange rate effect that you have to calculate.

The simplification also allows us to produce consolidated accounts for the first time, and it facilitates aligning our boards. To this effect, we announced earlier this week that Marike van Lier Lels will be joining the RELX PLC and Group PLC boards with immediate effect, giving our parent companies identical boards for the first time.

Marike has been a member of the NV board for five years and has normally attended the PLC and Group PLC meetings. While neither this nor the production of consolidated accounts per se are of great substance, with our earlier moves this year, they represent a really major simplification of the Group.

So thank you. Erik and Nick will now take you through the results in more detail. Erik.

Erik Engstrom - *RELX PLC - CEO*

Thank you, Anthony. Good morning, everybody. Thank you for taking the time and for being here today.



As you've seen from our press release this morning, our positive financial performance continued in the first half, with underlying revenue and profit growth across all four business areas. We had further strategic and operational progress as we continued to transform our business, primarily through organic development. And we implemented the simplification of our corporate structure and our share listings with a couple of additional steps completed in July.

You can see here that our positive financial performance continued, with underlying revenue growth of 3%, underlying operating profit growth of 5% and earnings per share growth at constant currencies of 8%, all very consistent with our recent trajectory.

All four business areas again delivered underlying revenue growth, as well as underlying operating profit growth. And as you can see on the right, our underlying operating profit growth rates range from just below to just above mid-single digits. So let's look at the results for each business area.

Our STM business grew 2%, with key business trends remaining positive. Primary research, which represents just over half of the division's revenues, saw subscription growth remaining at the level achieved in the prior year. Double-digit growth in usage and article submissions to subscription journals continued, and we launched 40 new journals in the first half, both subscriber pays and author pays open access titles.

We saw continued good growth in databases and tools and in electronic reference across segments. Print books, which represent just under 15% of revenues, saw revenue declines continuing in line with full year 2014, but print pharma promotion revenue declines moderated.

First-half underlying profit growth of 5% reflects slightly favorable phasing, and it's driving margin expansion before currency effects. The reported margin was slightly lower, reflecting adverse effects of exchange rate movements in the period.

Going forward, our customer environment remains largely unchanged. Overall, we expect another year of modest underlying revenue growth, with underlying profit growth continuing to exceed underlying revenue growth.

Risk and business information revenue growth accelerated to 7%, with strong growth across all major segments. Underlying operating profit growth matched underlying revenue growth.

Insurance, which represents just over a third of the division's revenues, achieved continued strong growth driven by demand in US auto, good take up of new products and expansion in adjacent verticals. Business services, which represents about a quarter of the division's revenues, saw strong growth in identity and fraud solutions.

The state and local government segment continued to see strong growth, and federal government trends improved further. Healthcare, now a \$100m business, is progressing well, with like-for-like organic growth rate in double digits. Major data services maintained strong growth, and the remaining other magazines and services were stable.

Going forward, the fundamental growth drivers remain strong, and we expect underlying revenue and operating growth trends to continue.

Legal grew 1%, with underlying revenue trends unchanged. Continued growth in online revenues, which now account for over 80% of the division, was largely offset by further print declines. US and European markets remained stable but subdued, while other markets saw good growth.

Rollout, adoption and usage of the new platform and products continued to progress well, with the commercial launch of the new Lexis platform in Australia off to a good start.

Underlying profit growth remained strong. First-half margin improvement reflects organic process improvements, including slightly favorable phasing, partly offset by small portfolio effects.



Going forward, trends in our major customer markets are unchanged, limiting the scope for underlying revenue growth. We expect underlying profit growth to remain strong for the full year, with further improvement in profitability over the medium term, albeit at a modest rate in 2015 following the sharp margin increase in 2014.

Exhibitions achieved strong underlying revenue growth of 6%, although slightly below the full-year 2014 growth rate. In the US, growth was strong across our events, albeit marginally below prior year. Japan continued to grow strongly, at a similar level to prior year.

Growth in Europe remained modest, but marginally ahead of prior year. China achieved good growth overall, but continued to see differentiated growth rates by industry sector. Revenues in Brazil reflected a general slowdown in the economy. Most other markets continued to grow strongly.

We launched 20 new events and completed some small acquisitions, primarily in high-growth sectors and geographies. Going forward, we expect underlying revenue growth trends to continue for the full year, albeit slightly below the high levels achieved in recent years. We expect cycling out effects to reduce the reported 2015 revenue growth rate by around 4 percentage points.

Our strategic direction is unchanged. It is still to evolve into a company that delivers improved outcomes to professional customers across industries, to get there primarily through organic development and to drive an evolution of our business profile and improve the quality of our earnings, meaning even more predictable revenues, a higher growth profile over time and improving returns.

Organic development is still our number one priority. With electronic and face-to-face at 86% of revenues, the print to electronic migration is largely complete. Face-to-face is continuing to grow well. And we're now primarily focused on driving the next and perhaps even more exciting transition from electronic reference to electronic decision tools, and we do this by adding broader datasets, embedding more sophisticated analytics and leveraging more powerful technology.

Our second priority is the selective reshaping of our portfolio. In the first half, we continued to focus our acquisitions on targeted datasets and analytics and assets in high-growth markets that support our organic growth strategies.

We completed 11 small transactions for a total consideration of GBP69m. And the fact that this rate of spend is slightly lower than the average over the past few years is not a reflection of a change in strategy or a change in approach, but it's perhaps just a natural result of the unusually high activity level in 2014. As expected, the disposals of non-strategic assets are continuing to tail off, and we only disposed of some minor assets for GBP6m in the first half.

With a strong balance sheet and a highly cash generative business, we continue to see the strategic priority order for using our cash as before. After the first two priorities that I just covered, our third priority is to continue to grow our dividends and to grow them predictively, broadly in line with earnings growth. Our fourth priority is to maintain our leverage in a range similar to where it has been over the past five years, and our fifth priority is to use any remaining cash to buy back shares.

I will now hand over to Nick, who will talk you through our financial results in more detail, and I'll be back afterwards for a quick wrap up and our usual Q&A. Thank you.

Nick Luff - RELX PLC - CFO

Thank you, Erik. Good morning, everyone.

Let me start by running you through the income statement. As Erik said, underlying revenue growth was 3% in the first half. Acquisitions added 2% to revenue but disposals reduced it by 2%, so the net effect of portfolio changes was neutral.

Revenues reported in sterling were just under GBP3b, up 4%, reflecting the relative strength of the dollar in the first half, partially offset by euro weakness. Impact on euro reported numbers were significantly greater, as the euro weakened against both sterling and the dollar. Euro-denominated financials are available in the appendix.

Adjusted operating profit in sterling was up 6% at GBP909m, reflecting the underlying growth of 5%, and margin increased by 50 basis points to 30.7%. Net interest expense was slightly higher, reflecting higher average borrowings and currency translation effects, partially offset by a lower average interest rate, which was 3.8% in the first half.

The tax rate on adjusted profit declined slightly to 23.3%, leaving adjusted net profit in sterling of GBP638m, up 6%, with currency movements netting out at this level as the weaker euro offset the stronger dollar.

Following the completion of the simplification steps and the transition to consolidated accounts from 2015, we now have just one adjusted earnings per share figure and that figure is easier to calculate. It can, of course, still be expressed in sterling or euros.

You can see the maths on the screen. Taking the adjusted net profit in either currency, simply divide by the total average shares in the period, giving EPS of 30.1p, up 8%, or EUR0.41, up 21%.

Currency effects netted out for the sterling figure, with the 8% growth being in line with constant currency EPS growth. The euro reported figure benefited significantly from that currency's weakness, hence the growth rate in euros being 13%, ahead of the sterling and constant currency growth. Remember that you need to adjust for the bonus share issue to compare the euro figure to what we previously reported for RELX NV.

Dividends are equalized at current FX rates, of course, but they also reflect the sharp fall in the euro over the past 12 months. We're declaring interim dividends that will give 6% growth for the sterling dividend and 17% growth for the euro dividend. Cover remains solid at 2 times on an aggregate basis.

As you know, our dividend equalization takes account of the 10% tax credit available to some shareholders in the UK, as shown on the slide. Of course, two weeks ago the Chancellor announced that dividend tax credits will be abolished with effect from April 6, 2016. As a result, future dividends will be the same value for each PLC and NV share with no gross up, removing the one remaining difference between the economics of the two shares.

Turning to the business areas, you can see how all four contributed to underlying revenue growth, with the risk and business information being particularly strong. The net effect of acquisitions and disposals had a small negative effect in risk and business information, but that is lost in the roundings at the Group level.

Underlying growth in exhibitions is shown excluding the effects of cycling and timing. In the first half, this was a 6% drag on exhibitions' reported revenues but, as Erik said, we expect the effect to be less marked for the full year at around 4%.

In all four business areas, sterling reported revenues were impacted by currency. Risk and business information and legal, which have the highest proportion of US revenues, benefited the most from translation into sterling, while currency was actually a drag on exhibitions revenue given its significant European presence.

The effect of currency on STM revenues was broadly neutral, with the euro weakness offsetting dollar strength.

Turning to adjusted operating profit, again, all four areas contributed to underlying growth. STM, risk and business information and legal all had underlying profit growth ahead of underlying revenue growth, with STM benefiting from slightly favorable phasing.

Portfolio changes had a net neutral impact overall, while currency movements helped the sterling figures, with 5% constant currency growth translating into 6% growth when converted to sterling. With our hedging looking to moderate currency impacts on sterling and euro reported profits, STM's post-hedging profits did have a significant exposure to the weakening euro; hence the 5% differential between sterling and constant currency profit for STM.

As a result of the revenue and adjusted operating profit growth, we delivered a 50 basis point improvement in the operating margin to 30.7%, reflecting underlying margin improvement, aided by portfolio changes, but negatively impacted by currency effects.



Reported margins in STM were actually down 0.4%, with the euro exposure post hedging that I've just described more than offsetting an underlying improvement.

For risk and business information, while underlying adjusted operating profit grew in line with revenues, the disposal of lower margin magazine and data assets resulted in an increase in the reported margin.

As Erik mentioned, the legal margins benefited from slightly favorable phasing of costs, partly offset by small portfolio effects and by currency translation.

Exhibitions also increased margins, albeit they remain seasonal, with the first half shows having higher margins than those in the second.

I've talked about currency movements a fair bit as we've gone through. We have a very international business, of course, with just over half of revenues coming from North America and close to 20% from continental Europe. The remainder comes from the UK and the rest of the world, including Japan, China, Australia and Brazil. Our currency mix reflects this geographic spread, albeit we look to smooth the impacts of FX movements through hedging in STM, moving a greater proportion of the near-term profits into euros and sterling.

The dollar averaged 10% stronger against sterling in the first half compared with the prior period, whereas the euro was 10% weaker. As I said earlier, these effects netted out for the sterling reported EPS, but they boosted euro reported EPS growth by 13%. For the second half, similar average currency exchange rates will produce a similar effect on EPS, albeit right now the dollar is not quite as strong and the euro is a little weaker than they averaged in the first half.

Turning to cash flow, you can see that adjusted operating cash flow conversion was 85%, a little lower than the 89% achieved in the first half of last year, reflecting some phasing in terms of CapEx and working capital movements. We expect cash conversion to exceed 90% for the full year.

Cash interest payments were broadly in line with the prior year, while cash taxes rose to be in line with the accounting charge, as was the case in full year 2014. Overall, free cash flow for the first half was GBP506m.

Here's how we used that free cash flow. As you can see, M&A activity was modest both in terms of acquisitions, where we spent GBP69m in 11 transactions, and disposals, which resulted in proceeds of just GBP6m from four transactions. We completed GBP300m of this year's GBP500m share buyback program in the first half.

Overall, net debt increased by GBP320m, reflecting the payment of the larger final dividend in May and the first half bias to the buyback program. Nevertheless, leverage remains comfortable at 1.9 times EBITDA, or 2.5 times when you adjust for pensions and leases.

Finally from me, a recap on the corporate structure simplification which was implemented on July 1. We now have a simpler structure, with a single company holding all the Group's activities, owned by the two parent companies in proportion to the percentage interest of their respective shareholders, 52.9% for the PLC; 47.1% for the NV. And after the bonus share issue for RELX NV, the shares in the two parents now have 1:1 equivalence and there is now one overall combined share count.

In addition to the corporate structure simplification, as the Chairman mentioned, we have also adopted consolidated accounts from this year, aligned with the membership of the parent company boards. You will have noticed that the switch to consolidated accounts has not impacted any of the key figures that we report. There is actually one small technical change that slightly increases the statutory EPS for RELX NV for 2015 only, but there is no impact on adjusted EPS or any other figure.

These changes have improved the transparency in the share prices. With 1:1 equivalence between the shares and the respective ADRs, comparison of the prices is much more straightforward. For the UK and Dutch shares, you can assess the price differential simply by converting from euros to sterling or vice versa. For the ADRs, both already in dollars, the prices are directly comparable. The combined market capitalization is also easier to calculate, simply adding together the capitalization of the two parent companies.



And with that, I will hand you back to Erik.

Erik Engstrom - RELX PLC - CEO

Thank you, Nick. Just to summarize what we have covered this morning, our positive financial performance continued in the first half. We made further strategic and operational progress and we implemented a simplification of our corporate structure.

Going forward, the full-year outlook is unchanged. The key drivers within our business remain positive, and we're confident that by continuing to execute on our strategy, we will deliver another year of underlying revenue, profit and earnings growth in 2015.

And with that, I think we're ready to go to questions. Why don't we start over here? We'll go over there. Yes.

QUESTIONS AND ANSWERS

Ruchi Malaiya - BofA Merrill Lynch - Analyst

Hi. Good morning. It's Ruchi Malaiya from Bank of America Merrill Lynch. Just picking up on the point about the shift in reference towards decision tools, is there any way you can help us quantify how far you are along in terms of that shift? I know that will be hard to put a specific number; maybe which businesses are further along in that shift.

And then also related, what types of multiples do you tend to pay for these small fill-in acquisitions of datasets and analytics that help you on that journey? Thanks.

Erik Engstrom - RELX PLC - CEO

So, the transition from reference to decision tools, we are the farthest down that path in risk division. And it's probably no surprise to anybody that the risk division therefore is our highest growth division and also that in the first half this year the growth accelerated a little bit.

And of course, why is that? Well, it's because when you can, you add a lot more value to a customer's decision making when you can do what we're doing here, which is to add broader datasets, more sophisticated analytics and leverage more powerful technology to help them make that decision. And when they can see, measure, track and see that the economic value from the decision is increasing, they want to use more of that solution and therefore our revenues go up.

So, therefore, you can see in the pattern between our divisions that risk is the furthest down that path, and you also know that from the description of the business.

What was more interesting is probably that we see this as an organic transformation that's happening across all divisions. We're doing this across all platforms in all divisions. We have already started to leverage our HPC technology as the platform, the likely platform that can do this at low cost, and the analytical algorithm thinking that we have used in the risk division.

We already started to apply that in the three other divisions, and we have things up and running and operating right now that are leveraging that and heading in that direction in the legal business and in our science and research businesses, and we've started to do some work on this even in the exhibition business to collect and analyze data differently.

So how you quantify it is slightly harder than to describe are we selling this product in electronic form or in print form, the old version, when you transition from one format to the other, because this is not an either/or proposition. It is a gradual organic transformation where you continue to add more datasets, continue to improve the analytics, and then embed them more and more in the decision making.

So I'm afraid it's hard to give a number and I'm not sure in the near term we're going to come up with a clear number. But you can see it in the business descriptions, and hopefully over time then you can see it in the business success as well.

The second question is what multiples we pay. These are very small businesses that we buy. Most of the time, I would describe them as datasets or assets with analytical tools, and it's very hard for me to say what is the multiple. If you look at from a profit basis, how they operate individually and separately versus how we operate and we plug them onto a platform as a dataset and in analytical we add it onto our platforms, it's very different. So any type of profit multiple would be meaningless. It could be almost anything relative to what we would do.

But I think the interesting thing is, if you look overall at the acquisitions we have made and you look at the revenue multiples of those, that's at least one indicator. And you can actually see over the businesses we've bought over the last few years that the revenue multiples are pretty similar to the revenue multiples that we operate as a whole corporation today. If you look at our enterprise value today compared to our revenues, it's probably -- it's very similar to the average multiple of the assets we buy across businesses.

So let's stay over a minute, come over there. So, how about Tom first?

Thomas Singlehurst - Citigroup - Analyst

Thanks. It's Tom here from Citigroup. I had two questions, one general and then one a bit more specific. The general one is to do with the focus on organic development.

I do recognize that this is maybe just irrational exuberance, but it does feel like we were in a period of extremely low interest rates; you have access to finance. I'm just wondering why you aren't being more aggressive on the M&A, because I appreciate you may not want to add entire legs to your business but there must be stuff out there that is buyable and we have maybe a unique opportunity in terms of availability of financing in order to do that. So just questioning again why so much focus on organic as opposed to larger scale M&A.

And then the second question on STM. You talk about continued double-digit growth in usage and submissions and obviously the launch profile. Do you think at some point we'll start to see your open access titles force a greater alignment between usage and revenue in the STM division?

Erik Engstrom - RELX PLC - CEO

Okay. The first question here, organic. The way we look at it is we think that in the long run you have the best value creation for your customers first if you leverage the areas where you're really strong and you build around those, and I think that's our approach to our organic transformation. We take the areas where we know a lot about our customer groups and we have very valuable historical datasets, and then we build them out, the way I talked about in the transition to decision tools. And we believe that that's the highest value creation for the customer; you build from your core base.

We also believe that from an ownership perspective, from a shareholder value perspective, that to do that over time, to continue to use organic development, organic transformation as your number one driver will ultimately also create the highest shareholder returns and the best increase in shareholder value.

Clearly, at different points in time, financing costs will go up or down, M&A multiples will go up or down, but we see that our primary purpose here is to increase the value in the asset base we're starting with, introduce it organically. And you can see in our return on invested capital that we show after every full year, you can see that our return on invested capital in this business has continued to increase over the last five years.

We don't try to illustrate that on a half year, because it's not meaningful, but every full year we show it. And you'll see, actually, over the last few years you could see that we can drive improving returns in this business, because the return on internal organic development is very, very high.



The second question, on STM, we have continued to see very high growth rates, very strong growth, both in terms of submissions to us and in terms of usage. And we believe that if we can continue to increase the value of our content, the utility of our content, what you can do with our content, we should be able to see continued strong growth in usage. What exactly the number will be in the future is probably not the most important thing. It's the fact that it's strong growth. And we would be very happy if the usage growth continues to grow well above our revenue growth, because that means we're adding more value to the customers.

Now, the question you specifically asked is do I believe that there will be a more direct link between usage and revenues. I'm not sure that will be the case, because we see that usage in itself is a reflection of the value of the overall solution set but it's not a direct link.

In this business, we do not try to price per transaction. We try to give basically an offer in terms of usage where you can use the platform, the content sets, the analytical tools, and use all of their value without having to worry that it has an incremental cost. The customer set in this industry also depend on a predictable spend level over a period of time, and for them it is the total spend that's interesting and therefore the total value and the total spend, so without a direct correlation to usage, transaction volume.

If that's very different from what we have, for example over in a very commercial industry segment, in risk, where you actually have a specific use of our tools for a decision point from one new insurance customer for underwriting one new insurance policy or something, and the important thing for the customer is that they know the cost per transaction, the cost per new insurance policy. And then, when they have higher volumes or lower volumes, our volume will go up and down with it and therefore our revenue base. So different customer sets here have different priorities, but our objective is to get increased value to all of them and then have the pricing reflect that.

So, yes, over here.

Matthew Walker - Nomura - Analyst

Thanks. It's Matthew from Nomura. Three questions, please. The first one is on your STM day I think you showed that the growth rate in paid articles was very strong in the prior year and it slowed last year. What was the growth in paid articles in H1, so not including -- this was traditional journals, so not including author pays?

The second question is on print. You showed on one of the slides it's gone from 18% down to 14%. Was that basically H1 on H1, or was it full year 2014 at 18% and then 14%? And then why the big drop?

And the last question is on the risk side. You mentioned magazines and other services stable. Is that a change? Or it basically says remains stable, so I'm guessing it's not a change. Basically, does that mean that all the print stuff within the old RBI business is basically flat? So obviously you've got pharma going down and you've got print books and medical going down, but are you basically saying that being stable means flat for magazines and other stuff in risk?

Erik Engstrom - RELX PLC - CEO

Okay. Let me cover these here. Let me make sure. You said -- first you said that number of subscription articles, is that what you're talking about, right? So subscription articles as opposed to -- they're paid, but paid subscription ones. So subscription articles has continued to grow over the last several years at almost exactly the same like-for-like growth rate, year on year on year.

What you're referring to when you compare one year to prior year, that's an anomaly when you talk about pub dates. So sometimes the pub dates fall a certain time of month or certain time of week, and you have the yearend cutover can be different days of the week. So therefore you can see some different -- and issues can come out a little early or a little late.

So sometimes, when you count an article, it may vary a little bit in a 6- or 12-month period, but the interesting thing is to take over two to three years, is the overall rolling growth rate increasing or falling. And it's basically completely consistent for the last six months, the last two years, five years, 10 years. It's almost exactly at the 4% on average.

But there are some little time shifting anomalies on what counts as a pub date, just around that. But I wouldn't read anything in that. I would look at the averages. And it's basically 4% organic growth of articles published, basically 10% growth in articles submitted.

Second question, print versus electronic, I think you were referring to the chart that had the many years' history up here. Yes. What we have on that chart specifically is many years of full-year history, and then we just put the latest time period and this time the latest time period happens to be the first half. So that's why there is such a more dramatic drop than you would normally see.

And we are slightly more print heavy in the second half than in the first half, usually. So I would expect that, like every prior year, that the full-year print proportion might be marginally higher than the first-half print proportion. We saw that last year.

The last piece you said, in risk and business information, that the other magazines and services were stable. Those are business areas, and within those, within those small properties, you have some electronic services and some print. So you add those business units up, they're stable, meaning they're just above flat, basically, as you said.

But within those, you have -- virtually all of them, you have declining print at the same kind of rates you see everywhere else and growth in electronics. So you have the same kind of format shift happening in almost every asset, but you look at them as a bundle there. The total of that print and electronic shift is just above flat, which is consistent with the past -- last couple of years.

Let's go over here.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Thank you. Good morning, gentlemen. It's Andrea Beneventi from Kepler Cheuvreux. One question, if I may, on STM and in particular on organic growth -- revenue growth for electronic journals. You reported last year, at the end of the first half, 0.5 percentage point of acceleration of growth in revenues. Since the average contract length is three years, I thought the underlying growth in new sales at that time was 1.5%. And in turn, I would have expected a further acceleration of revenue growth by another 0.5 percentage point at the beginning of 2015, while you are reporting now revenue growth in line with last year for electronic journals in STM.

So, is my reasoning flawed or have you experienced any type of change in the pattern of growth that justified this stabilization of the rate, please?

Erik Engstrom - *RELX PLC - CEO*

No. Your recollection of it is consistent with my recollection of last year, which is that the electronic subscription growth of subscription journals last year accelerated by about 0.5 percentage point. And this year, as we said this morning, the like-for-like revenue growth stayed at -- the growth rate stayed at the higher levels that we reached last year, but it did not pick up beyond that. And you could look at it many different ways. You're asking it as why didn't it continue to accelerate.

And it's important that the overall subscription growth rate is a combination of the growth rates that you had in the subscription base. And as you know, broadly speaking, a quarter of the business has an annual renewal cycle and three-quarters of the business has multi-year subscription bases, but on average it's three years long.

And then, so you have some that's annual, a quarter is annual and then a quarter, a quarter, a quarter basically every year. It's not exact numbers, but it's a rough illustration. And then every year you also have new sales coming in. You sell new solution sets to different -- or new combinations of journals you up-sell and you sell to new environment. The combination of that is what drives it.

So in certain years you have a slightly higher acceleration of the renewals, depending on which geographies come in and out, and next year you might have a very -- then it might not step up to the same level. So it's a combination of all those things. It's not just the new sales and it's not a complete triannual rollover. So there are more factors that play into it than that that are both geographic and institution dependent and new sales dependent.

But the good news is that last year the underlying subscription did step up 0.5 percentage point in growth rate and we continued to grow in that subscription base at the higher growth rate from last year.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

So the underlying subscription rate last year, the acceleration was driven by yearly contracts, was it, or by monthly?

Erik Engstrom - *RELX PLC - CEO*

Well, it's always a mix of these. There are many things that -- every year you have different geography, different customer sets, different currencies and new sales, and they all add up to a very large global business. So it's not one thing. It's the overall blend of it.

And every year you have some customers that continue to step up and renew at higher rates. You also have every year some new institutions and new sales patterns. But also you have some every year, some geography or some institution set that's not doing so well, and you can look at the macroeconomic environment and you can predict which areas, if they renew this year, will probably have a slower growth rate than they had in the old one.

There are some emerging markets, some natural resource dependent locations and so on, that this year would look at their next three years and say, we're not going to grow at the same rate we did before; we're going to grow, but not at the same rate. And you can see that there's a mix of that. So every year there's a different mix and every year there's an outcome, but it blends overall to a large extent, just like the macroeconomic pattern will.

Andrea Beneventi - *Kepler Cheuvreux - Analyst*

Thank you, Erik.

Sami Kassab - *Exane BNP Paribas - Analyst*

Good morning, everyone. It's Sami at Exane. A few questions, please. Can you first start with discussing the outlook for the medical books business for Q3, and for the longer term in particular?

Secondly, you kindly started to give us the breakdown of risk and business information, but you stopped at half of it. Could you please share with us the other half of the risk and business information division? You said one-quarter was business services, one-third was insurance; what's the rest?

And lastly, in the press release you mentioned new products and infrastructure investments going in particular into the legal and STM divisions. Can you elaborate on what type of infrastructure investments you're referring to for these two divisions, please, in terms of CapEx?

Erik Engstrom - *RELX PLC - CEO*

Yes. I think I'm going to have Nick talk through the CapEx side. Maybe we can just start there. Nick, why don't you just start with that part? I'll get back to the other questions.

Nick Luff - RELX PLC - CFO

Yes. So CapEx in the first half was slightly ahead of what it was a year before. Legal's the biggest part of that, and in particular new Lexis where we're still rolling out now internationally. Erik mentioned Australia. So that's where most of it's going. So it is mostly into product development.

Sami Kassab - Exane BNP Paribas - Analyst

And in STM, any new product investments -- big products investments in STM?

Nick Luff - RELX PLC - CFO

Yes. It's going into ScienceDirect, mainly, but also into things like Scopus and EVISE, so there is some new product development there as well.

Sami Kassab - Exane BNP Paribas - Analyst

Thank you.

Erik Engstrom - RELX PLC - CEO

Okay. So let's see here. You said -- the first question you asked was medical books. You mean -- and I'm assuming that you meant any books in the healthcare space. Well, the -- you asked both for Q3 and long term. Well, this is one of our -- I shouldn't say one. All our print books are basically, at this point, the ones that have the most transactional revenue profile within the STM division.

Because some are subscription based, some have moved to electronic subscriptions and electronic content based, but there's still a fair amount of print books left and they tend to be transactional and they tend to grow month on month. And we actually have slightly larger months in July, August, September than we do in spring, which is not unusual either; that's an industry pattern. Even though it's a small piece of our business, it does actually have a little bit of an impact on our growth rates, as you know.

What exactly will happen in Q3 I don't know, because it is very month to month and you might remember that last year we had some volatility on the month to month in the third quarter. So I don't have a specific outlook. What I can tell you is year to date, in the first half, so far this year the print book declines are very much in line with full year last year by the time you average out the volatility we had last year.

The full year last year compared to the prior year was marginally better last year, but in this year we're in line with last year. But there was also a fair amount of volatility last year, so I can't comment on the quarter on quarter going forward.

You ask long term; long term, I'd expect that all our print books, and it's very similar when you look in the different subject areas, whether it's science, technology or medicine or medical education, that these are continuing to migrate from print to electronic. So some of the print book decline is a direct format migration into electronic, of course.

And many of these transitions are happening with a marginally positive revenue trajectory while they're transitioning, but with a fair amount of lumpiness and volatility while it is happening. Not the kind of predictability when you migrate a subscription contract from print to electronic with a contractual term. This is transactionally based.

So in the long run, I expect the print to electronic transition to continue, and I expect that it will follow similar adoption curves to our other businesses. And the most reference oriented books, whether that's in science or medicine, are already past the 50% mark of electronic. The more education oriented content sets are probably, broadly speaking, beyond the quarter of transition at this point, but not quite at the halfway point. So what exactly that will do in any one quarter or any one year, it's not easy to predict.



Sami Kassab - *Exane BNP Paribas - Analyst*

You said the transition from print to electronic books was marginally positive for revenues. Is it marginally positive for margins, as well, or more meaningfully positive for margins?

Erik Engstrom - *RELX PLC - CEO*

Well, I'm saying it's marginally positive on revenue on average, but there's some lumpiness and cyclicity in it. And I would argue that again, when we have had format transitions, we've seen many of these in the past across our whole businesses. And even though you intuitively think that you migrate from print to electronic you should have a completely different margin structure, it is not so obvious.

Because when you move to an electronic platform you increase the value so much and you build out the content sets, they build out the analytical tools we talked about, you broaden the utility, and the expectation for it to be accurate and current is much higher. So you actually move to a slightly different version of a business proposition, and it's not necessarily a big difference in margin. What we have seen across the Company is that the margins are probably, over time, slightly positively impacted as well, but it's not a dramatic step.

Sami Kassab - *Exane BNP Paribas - Analyst*

And lastly, in this business do you see any risk of content commoditization with open education resources and alternatives to the traditional textbooks?

Erik Engstrom - *RELX PLC - CEO*

We are very small in the education business here. As you know, it's a very, very small portion of our overall business. And what we do in the education segment is very specialized. It's very, very specialized and it's driven for very specific certification, very specific professional skills in the medical and health industry. So we're probably not the leading indicator of this or the most affected. And we're not an expert. We're not experts on that segment. There are other people who are more deeply exposed to this or engaged in it.

Sami Kassab - *Exane BNP Paribas - Analyst*

I will ask them tomorrow. Thank you very much, Erik.

Erik Engstrom - *RELX PLC - CEO*

Thank you. I didn't answer your -- at least, I don't think I answered your middle question on risk. I was going to get to that. You said what's left. So, broadly speaking -- again, this is not accounting; it's a little bit like our estimates before on subscription base. Broadly speaking, a third is insurance. Broadly speaking, a quarter of it is what we call our old business services. Broadly speaking, again, roughly 10% is the government and healthcare group of the whole risk and business information.

And again, broadly speaking, the remaining third or so comes from mostly assets based on the old Reed business information that are now blended in, of which two-thirds are really deigned as services now, Accuity, ISIS and so on, and the little bit left are the hybrid businesses now that are still transitioning and we sometimes call major -- we call them leading brands and sometimes other magazines and services in there, broadly speaking.

Go back there.

Nick Dempsey - Barclays - Analyst

Yes. It's Nick Dempsey from Barclays. Got two more questions, please. First one, just if your acquisition spend in the second half is in the same kind of ballpark as we've seen in the first half. Can we expect a notably higher buyback spend next year?

And the second question, over at Thomson Reuters I think they did 3% organic in legal in the first quarter; we haven't heard of the first half yet. Are your sales guys seeing any signs of improvement that could expect -- lead you to expect some improvement of that 1%, or is the gap just to do with mix?

Erik Engstrom - RELX PLC - CEO

Well, how about I'll let Nick answer the first one here and I'll get back to you on the second.

Nick Luff - RELX PLC - CFO

Yes. I think on the buyback you'll have to wait and see, and we'll see what happens in the second half. As Erik said, I don't think you should take what happened in the first half on M&A spend to mean anything. It just happened to be the pattern of how things fell. So we'll see what the M&A spend is, how everything else pans out, where the leverage is at the end of the year, and then we'll make the judgments in early next year as to what that means for buybacks next year.

Erik Engstrom - RELX PLC - CEO

The only thing I want to add to that is you saw that what happened last year, that the net spend on acquisition and disposal changed by a few hundred million, and we've lowered the buybacks this year by a hundred. So we can absorb a fair amount of fluctuations or volatility in net acquisition disposal spend at these levels and not change our buyback levels directly. So it's linked to it, but probably the direction of the -- in the direction of the fluctuation of the spend, but muted.

So your second question here was legal, any signs of improvement. Well, as you probably know and as we can see, the general US business environment has been fairly solid over the last six months and I don't see any current signs of that's changing materially now. Legal markets in the US, as well as legal markets in Europe, continue to be stable but fairly subdued. On the other hand, there are signs, of course, that the general economic environment in the places where we operate might be slighter higher, and over time that should then come through to the legal industry and therefore come through to the people who sell and service the legal industry.

If you look at the industry data that is available, there are a lot of different studies on the legal industry, lots of different referred party research firms. And if you look at their indicators that they have, they've been pretty stable over the last few years now. And in the first quarter, there was not much of a difference compared to a year ago.

I wouldn't be surprised if there are some pickups that people see in the near term or medium term, but the question is do they actually hold and does that then continue over the subsequent quarters, and is it a real trend or is it just continuing fluctuations around a low growth environment.

So, in the near term, I don't know. In the long term, we're still convinced that this industry will return to growth, maybe not the same kind of growth it had in the middle of the last decade at the peak of the cycle. But we do believe that this industry will return to growth and that we would not be surprised to see it over time, but we're not a leading indicator.

The comparison to Thomson that you mentioned, I don't really know what's inside their growth rates and the timing of them and so on, so I can't really comment on that.

Going back.

Vighnesh Padiachy - *Goldman Sachs - Analyst*

Morning. Hi. It's Paddy from Goldman Sachs. I've got a couple of questions, really. Firstly, on risk, you had a pretty good organic growth rate in the first half. Do you think that's sustainable in the second half, or is there any phasing or anything we should be aware of in the first half?

And the second question is just for a little bit more color on the exhibition side. What sort of growth rates or declines are you talking about in Lat Am, Brazil? And a bit more color on China, because I think you had a new show at the new venue as well, or a show at the new venue.

Erik Engstrom - *RELX PLC - CEO*

Okay. You said risk, growth. Yes, our risk growth rates are -- as I mentioned before, they're based on, across all the different segments in risk, mostly based on transactional volumes. There's some subscription based, but there's a transactional volume component of them, which means that to predict month on month is a little bit harder than the ones who are fully subscription based.

So, looking forward, we don't know exactly what will happen over the next few months, of course. But let me put it this way. You asked -- in the first half there was no phasing, there was nothing unusual, there was no timing related, there was no -- so this was a real straightforward across the board 7% there.

That does not mean that that's exactly the growth rate it will be going forward. It has varied a little bit up and down in the past, as well, and it can vary a little bit up and down. But I would look at the 7% more as a sign of the strength of the overall division and its inherent growth capability. But there's nothing funny in the number. There's no timing or phasing in it.

Your second question was exhibitions. You asked specifically on growth rates, and you mentioned Brazil as an example. If we look at Brazil, Latin America as a whole, you can see that the Brazilian economy has clearly slowed down. And if you look at our growth rates in Brazil, our like-for-like first-half organic growth rates in Brazil, it's broadly stable. Let's put it that way.

But if you compare that to what it was a few years ago, when it was growing strongly in double digits and then has slowed down, so now we basically had a flattish first half in Brazil. And because those markets are so volatile, again, forward looking examples on exhibitions is very hard to do, because they're industry specific and then you're three to six months out. I don't know what the second half will look like, but in the first half it's sort of flattish.

You then asked, in China -- sorry, what was the question on China again, the same question? Yes?

Vighnesh Padiachy - *Goldman Sachs - Analyst*

And the new venues.

Erik Engstrom - *RELX PLC - CEO*

Oh, sorry. I forgot. Yes, exactly. So, in China, on average, overall, if you add up our Chinese growth rates right now on the businesses we operate there, they're still seeing what I consider good growth, decent growth. It's again down from the average overall growth rates we had two, three years ago. It's slowed down, but it's good growth.

However, it's very industry specific and different from Brazil, where you basically feel like the whole economy has just slowed down its overall growth rate. In China, there are industry specific differences. Some segments are growing very rapidly, because they do actually support industry and parts of the economy that continue growing, and other segments have slowed down significantly because of reprioritization and regional differences. So it's a very segment-by-segment growth rate difference, but overall still good growth.



You asked about the new venue. Well, of course, the new venue in Shanghai we think is a very good thing. It's a good opportunity for everybody involved and it's a good opportunity for us. And we have some partnerships there that we're very happy with and look forward to doing more with. So it's going well. But I just think for us, with 500 exhibitions spread over the world evenly or globally, any one specific change or any one specific venue is not going to move the needle on the overall results in any way that you can notice.

So let's come back over here.

Chris Collett - *Deutsche Bank - Analyst*

Good morning. It's Chris Collett from Deutsche Bank. I've just got a question on legal and the shift towards more focus on decision tools. Within LexisNexis, though, you're somewhat underweight, aren't you, on practice management software and legal process outsourcing or corporate legal services? So I'm just wondering to what extent can you really shift Lexis from being a legal research platform to something which is much more of a decision making and software system? And can you do that organically or do you need to make acquisitions in order to hasten that shift?

Erik Engstrom - *RELX PLC - CEO*

The way we look at it is that the transition to more sophisticated decision tools is about making the legal decisions, trying to value a lawsuit, trying to value a litigation case, trying to value different legal issues and make decisions on them, either for a law firm or for a corporation. That's where we want to be. And we do think we can handle that organically, with small additional plug-ins of different content sets or analytical tools or small software plug-ins here and there.

We think that's a slightly different question from are you also going to scale up and operate big in legal process outsourcing or be in ERP systems or software sales to law firms, for example. And you can put them in buckets or you can say they blend a bit in the legal industry. But I think it's a slightly different question to that. We see our primary focus to add value to the legal decisions and to do that through organic development. That's the way we think of it.

And clearly that will involve, here and there, some small plug-in acquisitions. Just like we have everywhere else in our businesses, we will continue to do that in legal, but not materially different. We do not see this as separate segments and we're going to now go and acquire our way into building up a presence in a separate segment that's software systems, ERP business management systems or outsourcing services. That's not where we're heading. We're heading in an organic transformation towards decision tools.

Chris Collett - *Deutsche Bank - Analyst*

Thanks. Could I just follow up with Thomson Reuters have been growing very well with their acquisition of Practical Law Company, and I know that Lexis has its own version of it that you've been expanding. Can you just talk a little bit about how successful you've been in replicating with a similar service?

Erik Engstrom - *RELX PLC - CEO*

Yes. We see it as -- again, I think the difference here is one of organic development versus acquisition, not about conceptual thinking around that migration. Different from maybe the previous question, where you'd say some of those service segments are different and separate. This we believe is an integral part of how it is you work and make decisions and so on over time.

And we go after that type of content set and that type of support tool in the way we do everything else, which is organic development, building on the strengths we have, building on the content sets we have, the expertise we have and the platforms we have, as opposed to acquiring them, and we continue to do that.

We, of course, have then gone out and probably run ahead of the industry in different geographies. From the UK based Practical Law Company that was sold to Thomson with a UK base and some things in the US, we've gone after it -- we were early in other markets because of the organic development there, and we're continuing to develop in the geographies that you're mentioning too. So that's the way I see it.

Let's go over here.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you, Erik. I have a question on the exhibitions division, please. When I started looking at Reed Elsevier 15 years ago or so, you had around 500 exhibitions at RELX. 15 years later, you've been launching every year 20, 30, 40 shows and you still have 500 events in your portfolio, suggesting you've closed as many as you've launched. The growth rate of that division has been amongst the best performing assets within Reed Elsevier consistently, except in 2009, 2010.

Can you help me understand why you have not expanded the size of the portfolio and why wouldn't you do it in the coming years? So why still stick with 500 events and not double the size? You're still fairly small in terms of global market share, albeit a leader, few percentage points, so why not -- why haven't you doubled the size of the portfolio and why wouldn't you double it in the next 10 years?

Erik Engstrom - *RELX PLC - CEO*

If you look at the overall division, if you look at the overall revenue base and the revenue growth rate, you're absolutely right. The revenue growth rate of this business has been above the corporate average and, for those of you who cover that industry, I'm sure most of you would say that it's also been, on average, above the industry growth rate. And it's certainly been -- I know it has been less volatile than the industry because of the way we're spread out, the broad-based portfolio we have as well as the way we run the platform.

The number of exhibitions in it is something that we believe that you need to continuously launch and refresh your portfolio. This is a dynamic industry and dynamic business, and you can't just sit on some old set of large shows and then keep growing them more, then over time milking them. You have to continue to launch a spin-off and so on, especially in high-growth industries, in high-growth segments and high-growth geographies.

At the same time, industrial shifts occur. Industries shrink in certain regions, and certain topics are less interesting. And then, what happens is we then fold them back into a bigger show, or we combine them with something else or we make it an adjacency to another show, which means it's the same show.

So, therefore, the total count does not increase by the number of launches, because every year we recombine or merge, cancel some shows out of the portfolio to keep it fresh, and that's part of how it is we're achieving this organic growth rate over time.

So, if you say how many shows do I expect us to have in the future, I would expect over the next decade, if you still sit here, that we would continue to increase -- that we would increase the number of shows slightly, but not at the same rate that we're launching, because there's a fair amount of remerging or recombination rate every year. So it should go up.

But the way I look at it is that we're trying to capture revenue streams in the industry. As you know, we have roughly 5% of the total exhibition industry revenues and we're probably still the number one in the industry by a fairly large margin. So we believe that there's plenty of space to continue to expand organically and through small acquisition, because 75% of this industry is in very small operators.

So we consider the strategy pursued in exhibitions so far, in terms of portfolio approach, to be the blueprint for the future as well. Except that what we're doing now with the exhibition business to standardize and globalize our technology platform, just to start to collect significantly more data, adding significantly more analytical tools into that business and turning it more into an industry support service around an exhibition where we know more and we can help them conduct business and transact based on all the knowledge we have and the knowledge we can help them with.



Which means that, over time, you're going to say that sounds like the kind of business that we want to take a leadership in globally, and it links to the skill sets, the assets we have in the rest of the Company. But we're still, on a portfolio basis, going to continue to do what we've done before. It's just that it will be driven off central technology platforms and more sophisticated in terms of data and analytics.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you.

Erik Engstrom - *RELX PLC - CEO*

Okay. Well, thank you. I think that's the end of our Q&A session. Thank you very much for coming and I look forward to seeing you again soon.

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