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EDITED TRANSCRIPT

REL.L - Full Year 2015 Relx PLC Earnings Call

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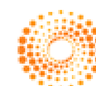

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CORPORATE PARTICIPANTS

Anthony Habgood *Relx plc - Chairman*

Erik Engstrom *Relx plc - CEO*

Nick Luff *Relx plc - CFO*

CONFERENCE CALL PARTICIPANTS

Matthew Walker *Nomura - Analyst*

Nick Dempsey *Barclays - Analyst*

Sami Kassab *Exane BNP Paribas - Analyst*

Ian Whittaker *Liberum - Analyst*

Chris Collett *Deutsche Bank - Analyst*

Bruce Duguid *Hermes - Analyst*

Tom Singlehurst *Citigroup - Analyst*

Patrick Wellington *Morgan Stanley - Analyst*

PRESENTATION

Anthony Habgood *- Relx plc - Chairman*

So, good morning everyone and thanks for coming in. And for those of you on our webcast, thank you for joining us.

We continued to execute well on our financial and strategic priorities in 2015. As a result of which, as you will have already seen, we produced another consistent set of positive results and once again increased our dividends.

In addition, during the year we simplified our corporate structure, increased our transparency to shareholders and changed our corporate name. These changes were also executed well and we are now -- and we have now produced consolidated annual accounts for the first time.

With the change in the UK tax law with respect to dividend credits, our 2015 final dividend, and for the future, there will no longer be any difference in the dividend per share of the two parent companies. So the total economic interests represented by one share in plc will be absolutely identical to those in one share of NV and to one of either of the ADRs.

And together all these changes are a big step in my view, towards making our Group more understandable to stakeholders.

As a result of the corporate simplification, you will also be aware that we moved during the second half to having identical Board structures, with Marike van Lier Lels joining the boards of both plc and Group plc in the summer. She'd been on the NV Board for over five years.

As we further announced this morning, we're continuing to refresh our Boards given the pending retirement of Lisa Hook and Robert Polet at our upcoming AGMs in April after ten and nine years respectively. We will naturally be thanking them for their service in due course, but in the meantime I am pleased that we could announce that Carol Mills and Robert MacLeod will be joining us in April, subject of course to shareholder approval.

Carol is a US technologist with a long executive career and a great deal of US Board experience in technology companies. And Robert is the CEO of Johnson Matthey, the FTSE 100 company in specialty chemicals and a global leader in sustainable technologies. He is also a longstanding Non-Executive Director of Aggreko.

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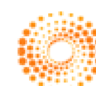

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We also announced that Wolfhart Hauser will replace Lisa as our Senior Independent Director in April.

Thank you. And now I'll let Erik and Nick take you through the results for the year. Erik.

Erik Engstrom - *Relx plc - CEO*

Well, thank you, Anthony. Good morning everybody. Thank you for coming and for taking the time to be here today.

As you've seen from our press release this morning, our positive financial performance continued throughout 2015, with underlying revenue and profit growth across all four business areas, and we made further strategic and operational progress. The organic development of increasingly sophisticated analytics and decision tools remains our number one priority.

Our positive financial performance continued, with underlying growth of 3%, underlying operating growth of 5% and earnings per share at constant currencies of 8%. And as you can see, our performance trajectory has been very consistent over the past five years. All four areas, 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 again range from a bit below to a bit 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 continued strong growth in usage and in article submissions to subscription journals. We launched 73 new journals during the year, 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 represents slightly under 15% of our revenues, saw declines continuing in line with full year 2014, but print pharma promotion revenues stabilized during the year.

Underlying profit growth was again slightly ahead of underlying revenue growth, driving margin expansion before currency effects. The reported margin was slightly lower for the full year reflecting the adverse effects of exchange rate movements.

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 analytics revenue growth accelerated to 7%, with strong growth across all key 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 services 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 and federal government segments grew strongly, and healthcare is progressing well. Major data services maintained strong growth and the remaining other brands and services were stable.

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

Legal grew 1% with key trends unchanged. Continued growth in online revenues was again largely offset by further print declines. US and European markets remained stable but subdued while other markets continued to see good growth. Rollout, adoption and usage of the new platform and new applications continued to progress well, both in the US and in international markets.

Underlying profit growth was strong. The margin improvements reflect organic process improvements and the ongoing decommissioning of systems, partly offset by portfolio and currency effects.

Going forward, trends in our major customer markets are unchanged, continuing to limit the scope of our underlying revenue growth. We expect underlying profit growth to remain strong.

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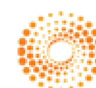

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Exhibitions achieved strong underlying revenue growth of 5%, albeit slightly below 2014. Our underlying profit growth was 2%, slightly ahead of revenue growth after cycling effects.

In the US growth was strong across our events, but slightly below prior year and growth in Europe was moderate, marginally ahead of prior year. Japan continued to grow strongly at a similar level to prior year. China achieved good growth overall, but continued to see differentiated growth rates by industry sector. Revenues in Brazil reflected the general weakness in the economy and most other markets continued to grow strongly. We launched 44 new events and completed 10 small acquisitions, primarily in high-growth sectors and geographies.

Going forward we expect the 2015 underlying revenue growth rates -- growth trends to continue and we expect cycling in effects to increase the reported 2016 revenue growth rate by around 3 percentage points.

Our strategic direction is unchanged. It is still to evolve into a company that delivers improved outcomes to professional and business customers across industries and to get there primarily through organic development, with our number priority being the organic development of increasingly sophisticated information-based analytics and decision tools that deliver enhanced value to our customers.

On this slide you can see our 2015 revenue breakdown by format, geography and type as well as our like-for-like revenue growth rates over the past 12 to 18 months.

Electronic and face-to-face are now 85% of our revenues. Our electronic revenues continued to grow in the mid single digits. Our face-to-face revenue growth rates have moderated slightly to the mid single digits. And our print revenues are still declining in the mid single digits or slightly higher and with some lumpiness.

By geography, North America represents just over half our revenues and its growth rate has been stable at around 3%. Growth rates in Europe have seen a gradual but consistent improvement over the last couple of years, now up to between 2% and 3%. And the rest of the world, which is roughly half emerging markets, or developing markets if you want to call them that, has seen a gradual slowdown from growing just above mid single digits as a whole a couple of years ago to just below mid single digit now.

By type, both subscription and transactional revenues are growing around 3%, and advertising revenues are now almost negligible.

Our second priority is the selective reshaping of our portfolio. In 2015 we continued to focus our acquisitions on small targeted data sets and analytics, and assets in high-growth markets that support our organic growth strategies and are natural additions to our existing businesses. We completed 19 small transactions for a total consideration of GBP171m, slightly lower than the average over the past few years. We also completed the disposal of a number of small non-strategic assets for GBP73m.

With a strong balance sheet and an inherently cash-generative business, the strategic priority order for using our cash is unchanged, as you can see on this slide.

I've just covered our top two priorities, organic development and portfolio reshaping. And I will now hand over to Nick Luff, our CFO, who will talk you through our 2015 financial results, our balance sheet and our other cash priorities in more detail. And I'll be back afterwards for a quick wrap up and our usual Q&A.

Nick Luff - *Relx plc - CFO*

Thank you, Erik. Morning everybody. Let me start by repeating the financial highlights. In 2015 we continued to generate underlying revenue growth of 3% and, coupled with tight cost control, that enabled us to deliver 5% growth in underlying operating profit or 6% at the profit before tax level. And growth in earnings per share at constant currencies is slightly ahead of that at 8%, reflecting the impact of the share buyback program.

Cash conversion remains strong at 94%. Return on invested capital rose on a constant currency basis, but on a reported basis fell back slightly due to currency effects to 12.7%. Leverage remains within the range we have seen in recent years at 2.2 times EBITDA adjusted for pensions and leases.

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The equalized full-year dividends are up 14% for the plc in sterling and up 5% for the NV in euros. That's an average of 10% growth. 2015 buybacks totaled GBP500m excluding what we've spent for the employer share awards.

As the Chairman touched on, this time last year we announced a major simplification of our corporate structure, with the various steps all implemented on or before July 1. That has left us with a much simpler structure, with a single operating entity owned by the two parent companies in proportion to the economic interests of their respective shareholders. This has allowed us to prepare conventional consolidated accounts, and with the ADRs and shares now all on a 1-to-1 ratio, our reporting has been simplified considerably.

In addition, during 2015 the UK Chancellor announced the abolition of dividend tax credits for individuals, meaning that dividends will now be equalized without the need for a tax adjustment.

Looking at the income statement in sterling, the 3% underlying revenue growth is then impacted by M&A activity, and exhibition cycling, which together took 1% of growth to deliver 2% at constant currencies. Against the sterling the dollar averaged 8% stronger in 2015 compared with 2014, whereas the euro was 10% weaker. The net of that was to increase sterling reported revenue by 1%, leaving the overall change at 3%, in line with the underlying growth.

Adjusted operating profit reported in sterling rose to GBP1.8b, up 5%, in line with the underlying growth, as M&A had little net impact and currency movements also netted out. The margin increased to 30.5%. Average interest rates continued to fall, offsetting higher debt levels, partly due to currency effects, leaving interest up only slightly. The tax rate and adjusted profit came down a little to 23.2%, leaving adjusted net profit of just under GBP1.3b and adjusted earnings per share at 60.5p.

Looking at the income statement presented in euros, the year-on-year weakness of the euro against other major currencies resulted in strong growth at reported rates. Adjusted earnings per share, as you can see, grew by 20%.

For the remainder of the commentary I will discuss the results in sterling. Copies of the euro denominated results are presented in the appendix in the pack you've got. Following the adoption of consolidated accounts, we will in the future focus on the sterling figures, with euro numbers provided in summary form.

When the Board considers equalized dividends in sterling and euros, they take into account earnings growth, the impact of year-over-year currency movements and overall dividend cover. In the table shown here, I'm working from the plc to the NV, but obviously we consider the growth rates on both dividends.

I mentioned earlier the abolition of tax credits in the UK. You can see here how that has simplified our dividend equalization. When we paid the interim dividend in August, UK tax credits still existed, so to get from the plc dividend to the NV dividend, you had to take the declared plc figure of 7.4p per share, gross it up for the tax credit, and then convert to euros to get the EUR0.115 for the NV. The 2015 final dividend will be paid in May, without a tax credit applying, so then you'll just take the declared plc dividend of 22.3p and convert it straight to the EUR0.288 for the NV. That will be the case for all future dividends.

For the full year then that gives us dividends of 29.7p for the plc, a growth of 14%, and EUR0.403 for the NV, a growth of 5%. The lower growth rate for the NV reflects the removal of the tax credit and the strengthening of the euro from last year's determination date to this. The dividends are twice covered by adjusted earnings per share.

Turning to the business areas, as Erik described, you can see how all four areas contributed to the underlying revenue growth, with the risk and business analytics being particularly strong. As I mentioned earlier, M&A had limited net impact on revenues. Cycling reduced exhibitions revenue growth by 5 percentage points.

Currencies had different effects on each of the businesses. With a higher proportion of US revenues, risk and business analytics and legal, both benefited from the stronger dollar when reported in sterling. In STM and exhibitions, however, where US revenues are a smaller proportion of the total, the benefit of the stronger dollar was more than offset by the weakness of other currencies, particularly the euro.

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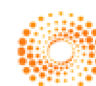

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Underlying profit growth was ahead of revenue growth for the Group as a whole. The growth was driven by a strong performance in risk and business analytics, and from legal, both with profit growth was 7%, which for legal was well ahead of revenue growth. STM also had profit growth above revenue growth. It being a cycling out year meant that exhibitions profit growth was a little bit behind its underlying revenue growth. Currency movements held back sterling reported profit for STM and exhibitions, but benefited risk and business analytics, with the overall net effect being neutral.

The Group continued to make progress in widening margins, adding 40 basis points to reach 30.5% overall.

As Erik explained, STM's margin was slightly down, despite underlying profit growth being ahead of underlying revenue growth, as currency movements had a negative impact. The drop of 50 basis points is broadly in line with the effect we showed you in the first half. Risk and business analytics margin has benefited from currency movements as well as underlying efficiencies. Legal's margin reached 19% despite the limited revenue growth reflecting the tight cost management. Exhibition's margin was higher in part due to the mix of shows being more favorable to margin in a cycling out year.

I've been highlighting the different currency effects as we've gone through. Overall we are more significantly a US dollar revenue business, with substantial revenues also being generated in euros and other currencies. We do hedge certain of our future cash flows to smooth the year-on-year variation in revenues and profits, primarily in STM subscription revenues, giving more stable euro and sterling reported results.

FX rates will of course move from today's level. The sterling is currently weaker against both the dollar and the euro than its average level in 2015. If that's sustained the currency impact on adjusted EPS growth relative to constant currencies will be positive in sterling terms, but negative in euros.

There are no significant changes in the balance sheet other than a drop in net pension obligations, as we moved the Dutch scheme into a new defined contribution arrangement and a lower accounting deficit from the UK scheme.

A significant proportion of our goodwill and intangible assets are held in US dollars. As a result, currency movements impact invested capital in a slightly different way to how they impact profits. In particular, a stronger dollar as we had in 2015 pushes up invested capital by more than it pushes up profits. As you can see from the slide, at constant currency, return on invested capital would have increased from 12.8% to 13.4%, but that negative currency impact helped the reported return down to 12.7%.

Turning to cash flow, CapEx increased to GBP307m, equivalent to 5% of revenue. Legal CapEx remained at 10% of revenue as we began to roll out the new Lexis platform internationally. As expected, CapEx in STM, having been lower in 2014, picked up to a more normal 4% of revenues. Cash flow conversion remained strong at 94%. Cash interest and cash tax were similar to the prior year. And over time cash taxes paid are expected to be similar to the adjusted tax charge and you can see that was the case for 2015.

Here's how we use that free cash flow. You can see disposal proceeds are broadly the same as in 2014, but acquisition spend was lower at GBP171m. Share buybacks of GBP500m were GBP100m less than the previous year. With the majority of our debt in US dollars, currency translation had the effect of increasing debt in sterling terms, leaving net debt at GBP3.8b, with a leverage of 1.8 times or 2.2 times when you adjust for pensions and leases.

Let me put some numbers to what I presented earlier about our priorities for the uses of cash. Our first priority is to invest to support organic growth, one component of which is CapEx. As I said earlier, CapEx was 5% of revenues in 2015 in line with the average of the last few years.

Second, we look for value-enhancing acquisitions which support our organic growth strategy. At GBP171m, 2015 was a relatively low year for M&A spend, but our average is around GBP300m. Being opportunity dependent it will inevitably vary from year to year.

Next we look to provide a reliable growing dividend, managing currency fluctuations as we do so. The current level of the dividend is using up around half of our free cash flow.

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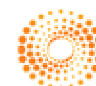

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We aim to maintain leverage measured on a conservative basis and adjusted for pensions and leases in or around the 2.1 to 2.5 range we've been in, in recent years. Of course with a growing business, increasing EBITDA does provide increasing debt capacity each year.

With that overall approach to the utilization of cash and to leverage, we've been able to fund share buybacks of around GBP2b over the last four years, retiring about 10% of the combined total shares in issue. For 2016 we are planning to allocate a further GBP700m to buybacks, with GBP100m of that having already been deployed.

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

Erik Engstrom - *Relx plc - CEO*

Well, thank you, Nick. So just to summarize what we've covered this morning. During 2015, our positive financial performance continued. We made further strategic and operational progress, and we simplified our corporate structure. Going forward, trends in the early part of 2016 are consistent with 2015 across our business 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 2016.

And with that, I think we're ready to go to questions. Why don't we start up front here? Yes, why don't we start over here and go around?

QUESTIONS AND ANSWERS

Matthew Walker - *Nomura - Analyst*

Thank you very much. It's Matthew Walker from Nomura. Two questions please. Where are we with decision tools as potential revenue in STM and legal?

And also, I think the other question on legal again is why not invest more in the legal solutions market to improve the growth rates, like at Thomson etc? Thank you.

Erik Engstrom - *Relx plc - CEO*

Okay. Yes, first question, decision tools. In summer you probably attended our technology seminar that we had in late last year. We talked about the transition from electronic reference to electronic decision tools in detail.

And I think, as you might have heard there just a couple of months ago, is that we've gone very far down this path in the risk and business analytics division. And in legal and in STM we're in the very early stages. And we've built some tools out that are both more analytical tools on our core platforms, meaning the big Lexis Advance and the big ScienceDirect platforms, and we've also started to spin off a few specific decision-support-tool type services that are priced separately and sold separately. And I think we talked about some of those [in Denmark], some of those.

But the answer is we're in a very early stages, but we're pursuing it on both sides, both on the core platform and in separate standalone tools.

On the second question, you said why aren't we doing more in legal solutions. Well, I can't quite comment on what other people are doing, but the way we look at it is the following, that there are several segments that are adjacent to our core service that we own today and offer today that are slightly higher growth segments.

And you could argue that one strategy for us would be to buy into those segments at high market multiples and therefore get the blended growth rate to go up because we now own faster growing segments. We think of it slightly differently and that is that that does not change the value

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equation much to the customer. That does not add much value to the customer and I'm not sure it adds significant value to our shareholders as owners of those because we buy them at market prices.

We think that the real value increase for our customers as well as for our shareholders comes from taking the assets that we own today, the real content assets that we have and the global platforms that we have today, and organically develop those into more sophisticated analytical decision tools that add more value to the customer.

We're creating a value that they don't have today. Therefore they see more value, they can demonstrably improve their economics and they want more of it and we get higher organic growth over time. And if we do that organically, from a shareholder perspective, we leverage the assets we already have and we're creating something that has higher return on invested capital from a shareholder perspective. So we believe that our strategy should continue to be the organic transformation into more sophisticated analytical decision tools for many value creation reasons, both for customers and for shareholders.

Nick Dempsey - *Barclays - Analyst*

Yes, it's Nick Dempsey from Barclays. I've got two questions please. So the first one at STM. So you're seeing print book declines not get worse, but that's getting smaller in the mix, pharma's now stable and software must be getting bigger in the mix. But you haven't yet climbed off the 2%, which you would expect through a mix effect from all of that. In fact I reckon you're getting slightly worse within your 2%. So is journals slowing within STM?

And the second question, just on exhibitions. You talked about margins getting a positive benefit from the mix of bi-annuals etc in 2015. Does that mean that margins could go down in 2016 as the flip of that happens?

Erik Engstrom - *Relx plc - CEO*

Let me just make sure I understood the second question. Can you say that again?

Nick Dempsey - *Barclays - Analyst*

Inside the 2%, which you don't give us a decimal place, I'm wondering if STM has gone from over 2.0 to under 2.0.

Erik Engstrom - *Relx plc - CEO*

That was the first question, right.

Nick Dempsey - *Barclays - Analyst*

Yes.

Erik Engstrom - *Relx plc - CEO*

I didn't understand the second one.

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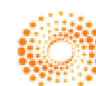

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Nick Dempsey - *Barclays - Analyst*

The second question, yes. So I think Nick was telling us about how there was a margin effect in exhibitions, why they went up in 2015, which was related to the mix of the shows in terms of bi-annuals versus annuals. I'm wondering if that flips the other way so that we get a negative impact from margin in 2016 and we have to worry about margins going down.

Erik Engstrom - *Relx plc - CEO*

Okay. Okay, let me take the first one. You're saying in STM, is the growth rate getting worse within the 2%. The answer is no.

And you're saying that print books continued at a similar rate and you said that print pharma is stabilizing. It's absolutely true. But the point is that print pharma is less than 5% of the total. And if you look at all the other growth rates in terms of databases and tools and so on, STM has seen a little bit of what we saw overall for the whole company that the US continues to grow well, Europe has improved a little bit, but the rest of the world in some markets have actually slowed slightly marginally. And that's across different types of print and different databases and tools, different things.

So you take a little bit of a decimal point off there on a couple of those things, that will offset the fact that something that's less than 5% improved a little bit. So you're talking about very small numbers, that's why.

On the exhibitions, there's no reason to worry about the margins in exhibitions in 2016, no. But what we sometimes have is in the cycling in shows, in the cycling in shows in odd years -- we have cycling in shows in both years. We have about 100 cycling shows. We have lots cycling in in odd years, lots cycling in in even years, and not always the same shows; they keep shifting.

But so therefore it's not a like for like. But sometimes in the odd years the cycling in shows might have slightly -- they're lower, they're smaller, but they might have a slightly higher contribution margin. And then the even years, you have slightly more cycling in, but each one has slightly lower margins. But then, on the other hand, you spread your overheads differently, which is that if you add it all up it actually is not that different year on year in margins in exhibitions. And our history would show that, that the margin progression in exhibitions has been small, but very steady and very stable. So I wouldn't worry about it in any one year.

Nick Luff - *Relx plc - CFO*

Just put some numbers around that. The exhibition margin was up 0.9% in 2015 against 2014. About half of that was currency. So the other half is a combination of underlying efficiencies and that cycling effect that we were just talking about. I can't say what currencies are going to do in 2016, but we can do enough in efficiencies to offset. You can see the numbers are not big. It's just we're talking about relatively small movements.

Erik Engstrom - *Relx plc - CEO*

Yes, you're talking about decimal points when you talk about exhibition margins and you can see the history.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you. I'm Sami Kassab at Exane. I have three questions please. First, can you comment on the impact you're seeing from the macroeconomic environment in emerging markets, especially focusing on Elsevier and in particular in the context of sharp currency swings? Are you seeing any impact in Brazil, Russia, Saudi Arabia in contract renewals or pricing terms there and whether we should think of 2016 suffering from that?

Secondly, you seem to have increased reorganization costs. If indeed, then where did you put more reorganization, restructuring charges than last year?

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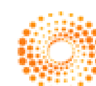

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And lastly, we are seeing a steady 3% organic revenue growth number for many years now. You're working on improving the mix. So it's a perennial question, when will we or when would you expect to see organic revenue growth picking up please?

Erik Engstrom - *Relx plc - CEO*

Okay. I'm going to ask Nick to explain a little more on the -- talk about reorganization costs, the middle question, but let me go through these just headline answers to each one here.

In the macroeconomic environment in STM, yes, we have talked in the past, as you're very familiar with, the fact that STM does get a little bit impacted by the general economic environment and the macroeconomic trends over time. But it tends to be muted and delayed and goes slowly. And, yes, built in our last year results and probably continuing a bit, is a little bit of a slowdown in some pockets of emerging markets that are natural-resource dependent. But again, as I've told you, that's offset by the slight stabilization and slight increase in the growth rates in developed markets, including in Europe.

So that's why when you add up all of STM, we are in a very similar place today to where we were six months ago or 12 months ago in terms of what has happened, and that's why the growth rate has not worsened. It has not worsened as we've gone through this year, even though of course there are some countries that have had a tough time.

I think it's important to point out that if you look at the true natural-resource dependent countries, some of the ones that you mentioned, you add them all up, they are in the low single digits percent of Elsevier's revenue. If you then add up the countries also that are somehow benefiting from those countries' economies, related supplying economies that are more developed and more industrial, you may come up more towards the mid to high single digit percentage of Elsevier's revenue. So you're not talking about a very large share.

The third question first here, you talked about the 3% and the mix, and that actually is a related topic, which is that, yes, if you can see our mix is having a significant positive impact on how we are serving most of our customers in the US and in Europe, if it's sort of macroeconomic neutral, we can see that progress coming through some of the things you already mentioned.

But if you then add to that the fact that 20% of our revenues are in the rest of the world, meaning outside North America, outside Europe and the growth rates there, overall, as I showed in my pie chart, over the last couple of years has dropped from being above mid single digits to below single digits. That's the offsetting factor, which is a macroeconomic cycle here and trend that offsets the improvements that you're talking about.

On the reorganization costs, the way we think of these in general is that we pace ourselves. We see it -- as you know, we don't do ongoing exceptionals or restructuring costs. That's not how we think of the business. We think that's part of transforming the business, to always keep managing the cost structure and managing our processes, move people between geographies and so on. That's what we do all the time.

And that means every year there's some costs of doing that. Sometimes when we do those things we actually have one-off costs as we improve our cost structure and sometimes when we improve our cost structure there are one-off accounting credits that come related to the changes and improvements in our operations.

And we try to pace ourselves so that in years when we have a little more coming through that actually might have a one-off accounting credit, that's when we accelerate a little bit our efforts in the areas that have one-off accounting costs. So that when we run the Company and so on we try to match those in timing a little bit, even though we constantly pursue both.

Now specifically on what happened in 2015.

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Nick Luff - *Relx plc - CFO*

So in 2015 I think you're referring to something that we did have, that Dutch pension transfer which has taken EUR800m of liabilities away from our balance sheet, which has been a very positive thing to do. And it's helped us to manage our costs from that scheme. That did produce an accounting credit.

But, as Erik described, we also have in any one year we've got some one-off debits as well as credits. And we are pacing ourselves in terms of reorganization such that we don't have take these big exceptional charges. And that's just enabled us to bring forward a few things that we would perhaps done in the course of time. And that will help us reduce the cost base and make us more efficient into 2016 and beyond.

Sami Kassab - *Exane BNP Paribas - Analyst*

You don't communicate where these measures have taken place?

Nick Luff - *Relx plc - CFO*

They're across the business, across the business. In all parts of the business at all times we are looking to improve efficiency.

Erik Engstrom - *Relx plc - CEO*

We see this as a never-ending process, relentless pursuit of process innovation to drive efficiencies across the whole Company all the time. And we see that as a core skill of the Company actually and to be able to drive this all the time throughout the Company, all areas, which means that we every single year probably have a hundred initiatives going on at any given point in time. And we might pace them and phase them slightly so that they fit within our organizational capacity, and also then we might time them specifically so that we sometimes match up the one-time costs with one-time credits.

Sami Kassab - *Exane BNP Paribas - Analyst*

Thank you.

Erik Engstrom - *Relx plc - CEO*

Okay. Let's go over here then.

Ian Whittaker - *Liberum - Analyst*

It's Ian Whittaker from Liberum. Just three questions. First of all, just to check on the increase in the share buyback program to GBP700m. Just give us a little bit of an explanation as to why. Is it just the case, as you said, you're growing the EBITDA base or is there anything else we should read into that, particularly on the amount of acquisitions that you may do this year?

The second thing is just in terms of Elsevier. There's been some trade press reporting about the growth of piracy sites with regards to academic journals. I wonder if you have some thoughts on that and sort of what measures you're taking there.

The third question is more a wider strategic question. It's you are more focused on North America and Europe, but is there anything that you're seeing in terms of what's going on in the emerging markets, the rest of the world etc. that is maybe changing your thinking on the longer term strategic direction of the Group? For example, that acquisitions moving forwards perhaps should be more weighted towards your established markets and that your share of the emerging markets is about right and you wouldn't necessarily want to expand it.

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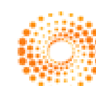

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Erik Engstrom - *Relx plc - CEO*

So let me ask Nick to cover the first one then I'll come back to the other one.

Nick Luff - *Relx plc - CFO*

So on the buyback and, as you know, we've been averaging around GBP600m in the buyback over the last few years. If you look at, think of that use of cash that we talked through, actually the biggest variable from year to year is actually the M&A spend. And we're very consistent in the generation of cash. The internal CapEx is typically the same. The dividend of course is growing steadily.

So what we tend to do is set the buyback obviously looking at the current position of the Group, but also by reference to what the previous year's M&A spend has been. So in 2014 we had particularly high M&A spend so we just trimmed the buyback for 2015. And in 2015 itself the M&A spend came down. You shouldn't read anything into that. It's just a question of timing on when these things happened before. But that's just given us the scope to increase the buyback a little above the average for 2016.

Erik Engstrom - *Relx plc - CEO*

Okay. Piracy. Well, you asked about Elsevier but also across all our business. Of course because we leverage intellectual property whether that is content, data sets, algorithms, software or whatever it is, of course the intellectual property that we create has value and we will always try to make sure that it's used properly. And I think we have very flexible and generous ways to use our content and out tools. And if somebody is not complying with that of course we will remind them and probably work with sometimes with industry associations that have similar problems to try to resolve those situations.

And that has been the case for a very long time even since we started to post some of our content online, which is now over 20 years ago. So I think that's our approach to it.

You said geographically. We see emerging markets, if you want to define them that way, as markets that have higher long-term economic growth rates, meaning that they will be larger economies in 25 years than they are today. It might not be a straight line and it might not always be easy to handle as there will be economic cycles in there. But we believe that in the long run they'll be larger economies. And because those, many of those countries are also increasing their professional industries that we serve, therefore that means that they will be larger customer markets for our industry in the future.

We look at those as markets where we need to position ourselves properly and strategically for the long run, no matter what happens in the short-term economic cycles. So when you have lower growth rates, maybe we will grow less in some of those markets over the next few years, but strategically ? since that's what you're asking -- over time, do we think they're more or less important? The strategic importance over the next decade or two has not changed, but you might adjust your near-term expected growth rates in revenues from them.

Chris Collett - *Deutsche Bank - Analyst*

Thank you. It's Chris Collett from Deutsche. I've just got a few questions on legal. First, can you just tell us where you are in the client adoption of Lexis Advance?

And related to that, have you seen any change in your Lexis retention rates?

And thirdly, on the buy versus build discussion with legal, your competitor who bought plc is now integrating those sorts of capabilities into Westlaw. You've gone down the build path. I wonder if you could say where you are in the rollout of those types of capabilities and do you feel that you're getting there quickly enough.

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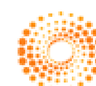

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Erik Engstrom - *Relx plc - CEO*

Yes. So first on Lexis Advance rollout, I think we stopped giving you regular update on the exact rollout or the number of customers who have activated once we passed the 80% mark. And I think we're quite a bit past that now in terms of number of US customers that have signed up and launched Lexis Advance. Of course that's the people who have started to use it, so we're nearing a 100% of people who've started to use it.

But then of course it's about shifting the usage levels over and we didn't want to shift usage levels over immediately in all practice areas and for all firms until we had all the tools up and running. So as we're finishing off launching and rolling out the different modules and the different tools, we then want to have the usage growth follow. And the usage growth has been very steady and it continues to grow very well in the US. But for competitive reasons we're not going to give you precise percentages or breaking it down by segment.

When you talk about retention rate, we think that if you look at the US legal market, which is primarily what you're talking about with Lexis Advance at this point, if you look at the market growth rates, the retention rate, the revenue growth for the providers into that markets, over the last now 5 to ten years, when you look at what people have provided, what new services and new platforms have been rolled out in a different way from the two largest competitors and in different sequence, you'd be -- it's very hard to find any material impact in that whole sequence on what I think is the regular natural patterns for the law firms and other legal service providers.

So I think that this is an industry where we have strength that we keep building on and adjusting and then building on top, and is slightly different from what other people are doing. And therefore over time I have not seen material differences either from us over time or between us and others from what we can see over time.

The second question was buy versus build. Yes, again I think that's an appropriate way to ask the question which is that we think that we have a lot of very strong assets that we can continue to build out organically and over time make them more sophisticated, higher value add, in particular by adding more data sets and analytics, as well as what you're referring to, practical guidance tools.

And we think that if you build them organically and you integrate them with the other data sets, analytical tools and predictive tools we're building, then over time they will be more valuable and you create higher value in the process. But it takes longer of course compared to just buying something at an external transaction price.

So we think we're making good progress and, just like with other tools, we're in this for the long run. And we think we're making good progress and we will continue to integrate and ultimately end up with a very integrated set of solutions there. In the markets where we have started to do that we are progressing very well.

Bruce Duguid - *Hermes - Analyst*

Bruce Duguid from Hermes. Your results seem in line with expectation and looking back over the last five years there's a very steady pattern. What do you see as the key risks to the business and forward results over the next, say, five years?

Erik Engstrom - *Relx plc - CEO*

Well, if you look at it overall, what we are focusing 100% of our time on, the transformation of the business itself and the services we provide to our customers. That's what we are focusing our time on. That's working very well.

We're very pleased with how the business profile has changed over the last five years or whatever time period you want to look at. So if you look over the last five years, you can see the business profile has changed materially and we think that the value we add to our customer has changed significantly. It's a very different business profile now from what we did then and we've seen very steady continued good progress on profitability and on returns on invested capital and so on over that time period.

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Going forward, we plan to continue to go down that path, meaning continued evolution of our business profile if you look at the proportions that we have in different segments, and also continue to increase in value that we deliver to our customers and continue to do that with high returns for shareholders. That's what we're trying to do.

If you say what are the risks to that, the strategic risk is, the primary strategic risk is of course that there's something that we are not quite getting fully right when we're adding value to the customer. And that's where the whole thing starts. Are we adding value in our solution sets to our customers and are we adding increasing value?

Well, in the places where we've continued -- where we have done the drive towards analytics for the longest time period, where we've come the furthest down that path, it's working very well. And you can see that in risk, where we did at first. You can see it in the business analytics side of risk, which we have done much later, but we've done it very successfully segment by segment and the growth rates are very similar to those in the risk business. Therefore we believe that we can continue to do it. But the biggest risk is that we can't continue to do that as well. But that's what we're trying to do. That's the risk of not getting (inaudible).

If you look at the near-term results, you'd say the other biggest risk you could argue is that that we are focused on our customers so if there is something happening to macroeconomic environment which is what we don't control, macro, political environments and so on that we don't control and we're not going to try to control or try to predict. I'm not spending much time on that because our value into customers is a separate initiative so to speak. So we don't know what's going to happen with the macroeconomic environment.

Tom Singlehurst - *Citigroup - Analyst*

Hi. It's Tom here from Citigroup. I had three questions if possible. First one, back when we were all very excited about economic growth, I think you made the point that your business because of the portfolio changes would be literally the last company to see any benefit from that recovery. Now obviously we're in a different environment and that sort of delay is obviously going to stand you in good stead. But can you just recap on what bits would see signs of economic pressure first, just so we have a sense of what we should be watching out for?

The second question was on risk. Back at the investor day you broke out the 7% and sort of split out what was the underlying growth and then the contribution from new products. Can you just recap again on what that is for the full year? And is there any visibility on what the split between new products and underlying growth will be in 2016?

And then the very final question is on the dividend. It looks like you've skewed up the plc dividend, which is very welcome, in order to make sure that the NV dividend doesn't go down. I'm just wondering whether you're explicitly committing to making sure that those dividends never go down as part of your dividend policy.

Erik Engstrom - *Relx plc - CEO*

Okay. Well, I'm going to ask Nick to follow up on the dividend question, but let me take the first two. Yes, in terms of economic cyclicality, we are probably now a significantly less cyclical business through the general economic cycle than we were a few years ago, 5 years ago and 10 years ago. If you take an even longer perspective, there was a time here when I first met with somebody from the Company, a quarter of the whole Company was advertising. Now it's under 2%. And of course when you also have more economically-sensitive businesses that we had in the magazine business and so on, they can fall much faster. They go week on week.

As you see now, we have a significantly higher level of long-term subscription businesses, which have longer visibility and longer contracts. And the transactional business that we hold today is to a large extent the business that [looks like] risk, meaning it's businesses where you have locked in by 10-year contracts, but the pricing is transactional in the near term. And you know, just like your customers know, that every time they use your products for a transaction, it's beneficial to them.

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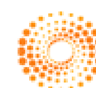

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So you're not only in businesses where the transaction is a cost; you're also in businesses where the transaction is a demonstrable benefit. Every time you use one, you make more money when you use our tool than when you don't on that specific transaction.

And if you look at it historically, I'm not saying this will happen again, but historically there has not been much cyclicality with the economic cycle. There hasn't been much correlation with the economic cycle in some of our insurance-related-risk businesses for example. Why that is, we have theories but we can't tell you why it is. But in the last economic downturn the transaction volume in insurance did not fall as the economic cycle fell, for example.

So if you say where are we likely to see most, well, I would argue that even though it's with some delay now, the exhibition business by industry, by industry and by geography, will follow the cycle of the industry that they serve in the geography that they operate.

But because we have over 500 exhibitions that operate in over 30 countries, you look at that overall I think you're likely to see that our exhibition business is less cyclical than it used to be and probably one of, if not the, least cyclical exhibition businesses that exist in that industry. But that's the one you'd see it first. You won't see it week on week, as you did with advertising. You'll see it on year on year because of exhibition cycles.

The second question, you said risk. Well, you commented on new products for the year. We have shown that chart several times in the past when we have our meetings on how it is we drive growth in risk.

As you might also recall though, the definition of a new product here when you talk about product installed in a customer's system and then rolled out, new product is something that will come for several years. It typically takes up to five years to fully roll out a completely new installed sophisticated decision tool inside the insurance pricing engine of an insurance company. It sometimes can go faster, but it could sometimes take several years.

So when we define new products, I actually internally use the word recently-launched products. And therefore that percentage is not going to change much from one year to the next. It moves slowly. And as you saw there, a very large amount of what we did last year was related to recently-released products or service sets, and that number is not going to change materially in any 12-month period. It won't. It'll change over time. If you're more innovative it'll build over a few years, but the number for last year should be very similar to the number this year.

Nick Luff - *Relx plc - CFO*

So on the dividend, Tom, as you know, we are primarily focused on the average between the NV and the plc. And then when it comes to down to the individual ones for each company, then you've absolutely got the euro/sterling exchange rate moving around which we just have to balance that.

As you rightly pointed out, this year we've just got this added complication of the 10% tax credit going away for the sterling dividend. But, as you can see from the numbers, we've been able to accommodate that. Looking forward, it's not impossible I guess there'll be some huge swing in the euro/sterling exchange rate that might make it difficult. But that aside, if we continue to grow as we've been growing I don't think the issue of any one of them having to go down would ever become an issue.

Erik Engstrom - *Relx plc - CEO*

The way we tend to think about the dividend is that the average of the two dividends increases. It's the one that in local currency -- that's the average of the two is what we tend to compare to our earnings per share growth at constant currencies. And we also try to look at it for earnings per share growth average between the two. So if you look at that and you compare where we have had earnings per share continuity over the last couple of years and where now this average comes this year, it's pretty much in the same range as what we're trying to do.

Okay. One over here.

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Patrick Wellington - *Morgan Stanley - Analyst*

Morning. It's Patrick Wellington at Morgan Stanley. Three questions. Can you just run us through the economic sensitivity in risk outside the insurance business, so areas like government and business services and what are the drivers there? That's the first one.

Secondly, the LexisNexis miracle, we always knew it was a good business, growing at 7% in profit terms. How long can that carry on? You're almost back to almost LexisNexis margins so how long can this process of 1% on the top line and 7% EBITA continue?

And thirdly, I think one of the phrases people use about the Group as a whole about the Group organic revenue growth is when rather than if you move to 4%. Are we still on when rather than if?

Erik Engstrom - *Relx plc - CEO*

Okay. Well, first, economic sensitivity. We don't spend that much time trying to figure out how to manage the economic cycle or to predict it or to define what might happen because we believe that the primary strategy that we try to pursue is to add increasing value to the customer to a transaction or to use our service regardless of the economic cycle. And, as you said and as I mentioned before, we've gotten pretty far down that path in insurance where we know that we add value to the transaction regardless of the economic cycle. And in many other parts of risk we do that as well.

Having said that, in some segments though you can't grow into a segment, if that segment is shrinking materially as a whole industry, if the industry itself goes through. But now you're talking about economic cycles and sensitivities. And you asked about government, for example, which I'm not sure is directly an economic cycle. Maybe more a political cycle. And US government funding historically over the last few years has been partly of course related to the economic cycle but also partly related to political decision and political processes in terms of how the government budget has been set and approved and so on.

So we don't try to predict that, but we believe that some of those segments for us will be slightly more correlated to cycles in those target markets than for example, the insurance business. But we don't think they are directly driven and correlated the way advertising would be almost week on week, or our pre-employment screening business we had before that was directly related to the number of new hires in the US, for example. Those were directly correlated to economic factors. And you asked about drivers. We could explain those in some of our old businesses. Right now I think it's not so direct or so straightforward.

The second question, LexisNexis Legal. Yes, at this point, as you might have seen, the market environment and all the legal industry analysts are saying that the legal industry in the US continues to be just about flat and I think many international markets, European markets are fairly similar to that. Of course there are different variations by segment and by legal segment and so on in each country. For example, last year it was higher transaction levels in the US on M&A and real estate, but it seems to be a little lower towards the end of the year on litigation and so on. So it adds up to just about flat.

We believe that we can continue for a few more years at least to drive an underlying operating profit growth that is above the underlying revenue growth even if the underlying revenue growth continues to stay low. And that is of course, number one, because of our continued ongoing relentless pursuit of efficiencies across all businesses. But also in legal because we are working on the gradual elimination of duplicate systems. And we're talking about 100s of systems that are gradually taken offline and the related costs organizationally around those. That should slightly more than offset the increased depreciation from our new systems coming through.

So exactly what the percentage is on the organic profit growth, we don't know and specifically not in any one year. But we do believe that we should continue to be able to tweak up the margin a little bit every year. Of course there will then also be portfolio impacts on that and currency impacts and so on, which we don't try to predict in advance. But the organic like-for-like underlying profit growth that you talked about, can we keep it higher than organic revenue growth, the answer is we think we can do that for several more years.

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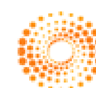

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Last question, when/if on the overall organic revenue growth rate for the Company. If we go back a bit to where we started before, which is that we believe that we have done many things to the business profile of the Company and the services it provides, the customers we serve, that actually have made it inherently a better business by now, a higher quality business, a higher returns business, higher value add to our customers business.

But at the same time, the other half probably of the impact on our business is what's happening in the general economy and in our customer markets. And when you take the kind of slowdown that you have seen across the rest of the world, and back to my 20% of our business is in rest of the world and our overall growth rates in those markets have reduced a bit over the last couple of years.

We don't think that has anything to do with our business profile or specifically our tools or business evolution, but the general economic growth rate slowdown in those markets that's probably affecting us the same as others or probably slightly less if you compare to some cyclical industries. The fact that our growth rates is just down to a little bit below mid single digits in those markets.

So again I don't want to predict when, but I think that it's very clear where our profile is going over time and therefore what I think will happen to our fundamental value creation over time, meaning that we're going to have even more predictable revenues over time. We will have a higher growth profile and we will continue to have improving returns on invested capital in the business.

Okay. Well, thank you very much for taking the time and look forward to seeing you again soon.

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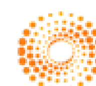

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