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REL.L - Half Year 2016 Relx PLC Earnings Call

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PRESENTATION

Anthony Habgood *- RELX plc - Chairman*

Well, good morning, ladies and gentlemen, and thank you all for coming to our 2016 interim results presentation. From what I know, for all of you, it's a very busy morning. And for those of you on our webcast, thank you for listening in.

I hope you agree with me that this is another good set of results, as the Group has continued to execute well and consistently on its strategic priorities.

This has resulted in a pleasing, if slight, improvement in our underlying overall revenue growth to 4%, with underlying adjusted operating profit growth at 6%.

Constant currency EPS is up 8%, reflecting a 6% increase in the euro EPS for NV, and a 13% increase in the sterling EPS for plc.

Once again, all the major businesses have contributed to this strong performance. And the development of the business overall, both organically and by acquisition, is very much on track.

You will have already seen that we've decided to increase the dividend per share by 6% in euros for NV and by 39% in sterling for plc. This decision is based on underlying trading and the formulaic result of the rapid movements in the sterling exchange rate, including those at the very end of the period, and on the change in the UK tax law with respect to dividend credits.

As Nick will explain to you, this midyear complexity does not signify any change in our full-year dividend policy.

So thank you very much. Erik and Nick will now take you through the results in detail. Erik?

Erik Engstrom *- RELX plc - CEO*

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

As you've probably seen from our press release this morning, our positive financial performance continued in the first half of 2016, with underlying revenue and profit growth across all four business areas.

We made further strategic and operational progress, with a slight increase in our revenue growth rate, reflecting the continued improvement in our business profile and the organic development of increasingly sophisticated analytics and decision tools.

Our overall financial performance trajectory strengthened slightly when compared to the prior year, with underlying revenue growth of 4%; underlying profit growth of 6%; and earnings per share growth at constant currencies of 8%.

All four business areas again delivered underlying revenue growth, as well as underlying operating profit growth. As you can see on the left, our underlying revenue growth rates range from 2% to 8%; and as you can see on the right, our underlying operating profit growth rates range from just below mid-single digits to double digits.

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 one-half of the division's revenues, saw continued strong growth in usage and in article submissions, and we continue to make good progress on journal quality.

We saw continued good growth in databases and tools, and in electronic reference across segments. Print book declines were in line with recent years, and print pharma promotion revenues were stable.

Underlying profit growth was again slightly ahead of underlying revenue growth, but the margin expansion before currency effect was offset by 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 improved slightly to 8%, with strong growth across all key segments.

Insurance, which represents just over one-third of the division's revenues, continued to achieve strong growth, driven by good take-up of new products and services, and expansion in adjacent verticals.

Business services, which represents about one-quarter of the division's revenues, saw strong growth in identity and fraud solutions.

The government and healthcare segments continued to develop strongly. Major data services maintained strong growth and remaining other brands and services were stable.

Underlying operating profit growth broadly matched underlying revenue growth.

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

Legal revenue growth improved slightly to 2%, with key trends essentially unchanged. Continued growth in online revenues was again largely offset by further print declines.

US and European markets remained stable but subdued, while revenue from other markets continued to grow well.

Roll out, adoption and usage on new platform releases and applications continued to progress well, both in the US and in international markets.

Underling profit growth was strong. The margin improvement of 30 basis points reflects organic process improvements and the ongoing decommissioning of systems, partly offset by an adverse impact of around 100 basis points from portfolio changes, or portfolio effects.

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

Exhibitions achieved underlying revenue growth of 6% in the first half, in line with the growth rate in the first half of 2015.

In the US, growth was in line with prior year; and growth in Europe was marginally ahead of prior year. Japan continued to grow strongly. China achieved good growth overall and Brazil remained weak. Most other markets continued to grow strongly but slightly below prior year.

We launched 14 new events; and completed three small acquisitions.

Underlying profit growth was 7% with a slight margin improvement largely due to exchange rate movements.

Going forward, we expect underlying revenue growth trends to continue to be in line with the prior year. For the full year, we expect cycling in effects to increase the reported revenue growth rate by around 3 percentage points.

Our strategic direction is unchanged. It's still to evolve into a Company that delivers improved outcomes to professional customers or professional and business customers across industries. And to get there primarily through organic development.

Now as you can see at the bottom of this page, we continue to believe that by systematically evolving our business, we're driving an improvement in our business profile and in the structural quality of our earnings. And as you know from previous discussions, by that we mean more predictable revenues, a higher growth profile, and improving returns.

And let me cover each one of those three.

First, more predictable revenues. This slide compares our current first half 2016 business profile to 2007, just prior to the last major economic downturn. As you can see, advertising, the green section, was 15% of our revenues in 2007. This is now below 2%. In addition, within the orange, marketing services and pre-employment screening represented 4% in 2007 and they're now completely gone.

Within the rest of the transactional revenues, the rest of the orange, print books have gone from 13% in 2007 to 6% in the first half of 2016. But seasonally adjusted, it's probably more like 7% on a full-year basis.

Exhibitions have gone from 14% to 17%, but adjusting for the cycling effect in that time period, it's really gone from 15% to 16% on a like-for-like basis, so not that big a change. But most importantly, transactional revenues in our risk division have gone from 4% to 17% of our total revenues and now represent the largest portion of the orange section. These revenue streams, as you know, are often part of multi-year agreements, even though they're subject primarily to transactional pricing.

But taken together, we believe that these business profile changes are leading to more predictable revenues for the business as a whole.

Second, a higher growth profile. We've always said that our underlying revenue growth rate in any one six or 12-month period will primarily be a reflection of the global macroeconomic environment at that time and its impact on our customer markets in the geographies in which we operate.

However, we continue to believe that the evolution of our business profile is positioning us for structurally higher growth capacity, on average, throughout economic or market cycles.

With print now down to 12% of our revenues, our print to electronic migration is largely complete and while the print drag is still a factor, it is becoming less significant.

Now with our face-to-face revenues continuing to grow, our number one priority is now to continue to transition from electronic reference to electronic decision tools, to drive higher customer value and as a consequence, of course, higher revenue growth.

Now we do this primarily through the organic development of increasingly sophisticated information-based analytics and decision tools, which as you know, was the main focus of our investor seminar last November.

And third, improving returns. With a strong balance sheet and an inherently cash generative business, the strategic priority order for using our cash is unchanged.

We believe that we're generating improving returns by maintaining our primary focus on the organic transformation of our business, only supported by selective acquisitions when they are natural additions to our existing organic growth strategies and to our migration towards higher value decision tools.

I will now hand over to Nick Luff, our CFO, who will talk you through our first-half results in more detail, and I will be back afterwards for a quick wrap-up and our usual Q&A.

Nick Luff - *RELX plc - CFO*

Erik gave you the financial highlights for the first half, which were 4% underlying revenue growth; 6% underlying operating profit growth; and 8% growth in constant currency adjusted earnings per share.

Cash conversion was slightly ahead of the prior period at 89%. Leverage adjusted for pensions and leases was 2.4 times, a little lower than at this time last year, but up from the year-end, reflecting the bias of share buybacks and dividend payments to the first half.

As the Chairman said, the interim dividends are up 39% for the plc and 6% for the NV and I'll come back to explain that differential later.

We deployed just over GBP500 million on the share buyback, leaving us around GBP200 million to deploy on the second half, the same amount as in the second half of each of the two previous years.

Here's the income statement in sterling. Starting at the top, you can see that reported revenue was just over GBP3.25 billion. The 4% underlying revenue growth was added to by a small positive portfolio effect and cycling benefits, to give 5% growth at constant currencies.

With the dollar and the euro both averaging around 6% stronger against the pound, sterling reported revenue was up 10% in total.

Adjusted operating profit came in at just over GBP1 billion. Lower profits from businesses we are selling, or have already sold, meant that constant currency profit growth was 5%, a little behind the underlying growth. The sterling figure was then boosted by currency, resulting in 10% growth overall. Margins were up slightly to 30.8%.

The interest charge rose to GBP83 million, due to higher average borrowings and currency movements. The effective tax rate was very similar to last year at just over 23%. That left us with adjusted net profit of just over GBP700 million, up 6% at constant currency, and up 11% overall.

The average share count was down around 2% due to the share buyback. As a result of constant currency, the 6% net profit growth converted to 8% growth in adjusted earnings per share.

The relative weakness of the pound meant that adjusted earnings per share in sterling was up 13% to 34p. In euros, it was 6% to EUR0.435.

Following the elimination of tax credits on UK dividends, reported earnings per share is now the same for both plc and NV, albeit expressed in different currencies, which impacts the relative growth rate.

That elimination of UK tax credits on dividends means that dividends per share are also now the same for both RELX plc and RELX NV. You will recall how that impacted last year's final dividend, and you can see here how it's impacting this year's interim dividend. Dividends are paid in different currencies, of course, with the exchange rate set just before the relevant results are announced.

With the euro some 18% stronger against the pound compared with this time last year, and the 10% differential due to the removal of the tax credit adjustment, there is a substantial difference in the growth rates of the two dividends.

We are increasing the RELX NV euro interim dividend by 6%, in line with the growth in euro earnings by share. And equalizing the RELX plc sterling interim dividend to that, giving growth of 39%.

As the Chairman said, for the full year, our dividend policy remains unchanged. We will continue to grow the dividend broadly in line with adjusted earnings per share, subject to exchange rate considerations, while maintaining cover of at least 2 times in the longer term.

Turning to the business areas, as Erik described, you can see how all four contributed to underlying revenue growth, with risk and business analytics being particularly strong. M&A was a slight drag for risk and business analytics, but helped both legal and exhibitions. Cycling and timing added 3 percentage points to exhibitions' revenue growth.

With the pound weaker against both the dollar and the euro, all business areas saw their sterling reported revenues boosted by between 4% and 6%.

All four business areas generated underlying profit growth ahead of revenue growth, with the highest growth coming from legal, up 12%; and from risk and business analytics, up 9%. Exhibitions' profit growth of 7% benefited from cycling and timing effect.

As I mentioned earlier, disposals were a drag on profit growth, particularly for risk and business analytics, and for legal. However, for the sterling figures, currency movements were a significant boost for all four areas.

Margins were maintained or improved for all four businesses. STM's margin was unchanged, with an underlying improvement offset by currency effects. Risk and business analytics margins were up 10 basis points, while legal was able to drive a 30 basis point improvement as we continued to achieve underlying cost reductions, offset by portfolio effect. Exhibitions also showed a 10 basis point improvement.

As you know, we are most 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.

As I've mentioned, sterling was an average 6% weaker against major currencies in the first half. That converted to a 5% benefit to reported growth of revenue profit and earnings per share in sterling terms.

The pound has, of course, weakened further from the first-half average rate, and if it were to stay at current levels for the remainder of the year, then it would average between 10% and 11% weaker against both the dollar and the euro for the year as a whole. If those rates were to apply, we would expect an 8% to 9% benefit to sterling reported growth rates for the full year.

Turning to cash flow. CapEx was stable as a percentage of sales at 5%, while depreciation increased slightly. With a lower working capital movement compared to the prior year, cash flow conversion was 89%, up from 85% in H1 2015.

Cash interest was in line with the prior year, but was well below the reported interest figure, as we have two term debt issues which pay interest annually in the second half. Cash tax paid was higher in the first half due to the phasing of payments. Overall, free cash flow rose 16% to GBP587 million.

Here's how we used that free cash flow. There were limited completions of M&A deals in the first half, with cash spend of only GBP33 million. Although taking into account deals nearing completion since the half-year, we are pretty close to our recent annualized run rate for acquisition spend.

We have biased the share buyback to the first half, spending just over GBP500 million of the GBP700 million planned for the year. With most of our debt denominated in euros or dollars, reflecting our cash flows, the weaker pound increased the sterling value of the debt, hence the GBP331 million currency impact you see in the reconciliation.

That left net debt of GBP4.6 billion as at June 30, with a leverage at 1.9 times calculated in US dollars as we always do. Lower bond yields in the UK, and currency translation in relation to the US scheme, pushed up the pension deficit to GBP600 million. Taking that into account, when you adjust for pensions and leases, leverage was 2.4 times.

With that, I'll hand you back to Erik.

Erik Engstrom - *RELX plc - CEO*

Well, thank you, Nick.

So just to summarize what we have covered this morning. During the first-half, our positive financial performance continued and we made further strategic and operational progress.

Going forward, as we enter the second half of 2016, key trends across our business are unchanged 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.

With that, I think we're ready to go to questions. Why don't we start over here on the front row, this side?

QUESTIONS AND ANSWERS

Sami Kassab - *Exane BNP Paribas - Analyst*

Sami Kassab, Exane. Two questions please.

First, can you comment on the international initiatives within the risk and [BI] division; what products are you taking abroad, what markets are you targeting? I think we've heard of India for the first time, or I heard of India for the first time today. Can you elaborate on that, and how big it is and how big it could get?

Secondly, within the exhibitions, your organic revenue growth will be in line with last year's 5%. We had 6% in H1. Do we have to really slow down into the second half of the year in the exhibition organic revenue growth profile? Thank you.

Erik Engstrom - *RELX plc - CEO*

I think I'll handle both those. Risk international; we've talked about this now for a while that we're starting to map the opportunities outside the US with the traditional risk side of the business.

Of course, the side that came from the old business information that's mixed in there always started with a very international profile in many different places, including the Accuity business that it looks a lot like risk but came from the old type. When we talk about our new international initiatives, we really focus on the ones that used to be solely US-based historically.

What we have talked about, and probably the first we launched internationally was the UK business, or UK and Ireland, which we launched a few years ago, which has now added a fair amount to products and services organically and also added a few small acquisitions. And it's going very well.

The second one, I think we've talked about, and that is the Chinese business in the auto insurance base that we set up a while ago. And we announced where we own a large part of a local data and analytics provider that's here to help the Chinese insurance industry with deregulation and the risk assessment and profiling over time. Early stages and small, but it's going very well.

Then we also have, of course, our global risk-related due diligence, risk profiling businesses that we do across countries but they're not local efforts. And that's continuing to grow well.

We also have small local efforts. We've set up a small startup business in Brazil to help set up risk profiling beyond traditional credit risk. So we're building a dataset there and a platform to help in Brazil.

And we have set up a platform for insurance in India. That's also very, very early, and is not really an up and running commercially scalable business at this point. But we have that platform in India today.

If you take these together, it's not material in the sense of the overall division at this point. But it's becoming something that we think is a real relevant business that's going well. And it's growing well into double digits. Therefore, we think that you'll look at this in several years down the road, you'll be very happy that we started to do this when we started a few years ago. That's the risk international profile.

Sami Kassab - *Exane BNP Paribas - Analyst*

Care to comment on big is international within the risk division?

Erik Engstrom - *RELX plc - CEO*

Well I of these data streams, I think we said -- I think it's now a year and a half or so ago that I said order of magnitude $50 million at that time. And since then, it's continued to grow double digit for a couple of years and we added a couple of small add-ons. We haven't disclosed the number but it's bigger than it was two years ago, but probably not quite double at this point. But we're probably getting there soon.

Exhibitions you said. Yes, I think you started it correctly that this year growth rate in exhibitions, if you take it globally for us, it is following a pattern that is very similar to a year ago. Very, very similar. The way global growth, global economic growth is positioned today, it seems very similar to a year ago.

What we saw last year is that the geographies that are slightly heavily weighted in the first-half have slightly higher growth than the geographies that have the exhibitions that are more heavily weighted in the second half.

So I don't know exactly what will happen in the second half. But because we haven't seen any differences anywhere, it's just the weighting that's slightly different, we assume the base case is that if the first half grew like first half last year, we would assume that, overall, things might change. But at this point, we don't see any changes from the overall picture from last year.

Nick Dempsey - *Barclays - Analyst*

Nick Dempsey, Barclays. Two questions, please. First of all, if you separated the 71% of your business that's electronic into decision tools and electronic reference, can you give us a rough idea of what that split would be? And also the kind of difference in terms of growth and margin of those revenue streams?

The second question. I understand that you're pretty focused on avoiding large acquisitions, and you make a good point on the attractive returns that you achieve. But if you hadn't bought ChoicePoint and Seisint back in the day, I guess you'd be growing about 2.5% [or 4%] given that that's a chunk of most of your risk business.

Will there come a time when you need another sizeable deal to push your growth up into the next level?

Erik Engstrom - *RELX plc - CEO*

Let me start with the question around decision tools versus more reference. Unfortunately, this is not like a print to electronic migration, where there's a physical product you sell in one and another product [that's] structured differently and priced separately, the way when you shift format. It's not that way.

As we highlighted in our December, sorry, November investor seminar, this is a gradual migration towards more sophisticated decision tools. You're gradually adding broader datasets. You're adding more sophisticated analytics. You're leveraging more powerful technology, to push it from an information look-up to a look-up with analytics to look-up supporting a decision to actually making a decision. That's a very gradual evolution.

We have not come up with any defined cut-off to say it's this or it is that. We tried to illustrate in that seminar how we tried to put them in some buckets. And because the products don't necessarily have a product cost or a product value, a platform cost, sorry, it's very hard to try to break them out. So we're not even trying to do that internally. We haven't even attempted that.

The way I would describe it is that we've clearly gone very far down this path in our risk and business analytics division, where the majority of our revenues are what we would think of as decision tools, decision support tools. We're in the early stages (inaudible) in that direction in legal and in science. Some of our products, you would argue, are like that. Or some of the decisions they're used for are use cases like that is probably another way to describe it. But we're in the very early stages of legal and science.

In exhibitions, we're just piloting them in a few exhibitions here and there. So I would put it very far down in one division, early stages in two, and piloting in the fourth. That's the best I can do.

In terms of organic versus acquisition, well the one thing I would disagree with you on is that if we had not done this acquisition, we would have been like this. That assumes that there's no organic transformation of your core business.

If you look at some of the businesses where we have not made acquisitions, and we've done a successful organic transformation, there are several of those inside the risk and business analytics division. They have exactly the same organic growth as the business that we bought 10 years ago and have continuously transformed and are growing today.

So they successfully transformed old RBI businesses inside risk and business analytics, when you manage to transform them organically, they have the same growth rates as the ones that we bought 10 years and has continued to evolve.

If you buy something and you don't continue to evolve it, it's going to slow down. If you own something forever and you don't evolve it, it's going to slow down. But if you keep evolving it and driving it in this direction, you can get higher organic growth.

Of course, the growth rate in any one segment, at any one point in time, depends on the market you're serving and the customer market and how fast they're growing in the economic environment they're in. Both in the near term, any six or 12-month period, is driven by the market you're selling into. And over time, of course, if you're selling into a market that is growing, it's easier.

Adam Berlin - *UBS - Analyst*

Adam Berlin, UBS. To keep up the theme, I've also got two questions. Firstly, can you say a bit more about why there's been a step up in growth rates within RBA and within legal?

And secondly, can you think why you've been able to stay in the 2% growth rate in STM, where we've some of the competitors' numbers start to drop?

Erik Engstrom - *RELX plc - CEO*

You said, first, why there is an increase in the growth rate in risk and business analytics. I'll take one at a time.

If you just look at risk and business analytics, that is the best example of how we have managed to do this gradual business profile evolution. And within that group, you have a combination of the two things I mentioned before; the fastest evolving business because it's probably the one who changed the least 10 years ago; the old Reed business information magazine policy that we're moving quickly into a faster growing decision tool.

And in the old risk business, the analytics group, and insurance and so on, we're also continuing to move down that continuum. We're adding significantly broader data sets. We're constantly evolving the analytical models, the mathematical models there. They're becoming better and better all the time.

And we're leveraging more powerful technology. We can do things now we couldn't do three years ago or five years ago. The technology continues to evolve and becomes significantly faster, less expensive and, therefore, more valuable.

So what we're doing here is when you make your decision tool slightly more valuable to the customer and it's embedded, they can actually see what they do, how they do with our tool compared without the tool. And they can see how much more money they make, how much better off they are. And when they can see that, it's quantified, it's a real improvement, they want more of it, they use more of it.

So it's no surprise to me that over the last few years, number one, that this is our fastest-growing division. And it's no surprise to me that this division, where revenue growth has gone from 6% to 7% to 8% over the last three years. Because when you add more value to a customer, they see more value, they will use it more, they will want more and our revenue growth goes up. So it's that simple. It's actually a reflection of this transition.

When you ask in legal, we often talk about the fact that in the legal industry, the biggest driver in the near term, even in the medium term, is actually the health and the growth rate of the legal services industry. Because we have such a big business that is subscription-based and driven by the traditional research subscriptions. And, therefore, we go with the market fundamentally at the base there.

Even in legal, we're trying to move towards more sophisticated analytics, better decision tools. We're adding new features and functions onto our platforms. We're rolling out new applications. And some of that is coming through, but fundamentally in the legal market, we really don't see any difference from a year ago or two years ago in the overall broader legal market is probably the main driver of that in the near term.

But it is a little bit of improvement in the product sets and the tools that we've been providing. But it's not as significant as what you've seen in risk, where we've gone from 6% to 7% to 8% over the last three years, or over a longer time period in the old business information.

In STM, I'm not sure I know exactly what you're referring to. I can tell you what's going on in our STM business, which is that the metrics that we see so far this year are very, very similar to the metrics of a year ago, two years ago, which is that we continue to see the strong underlying volume growth in the [world] markets.

The number of research is growing, demand for research conducted. The number of submissions to us of articles, the amount of usage of our information tool, those growth trends are very strong and they continue very much in line to a year ago/two years ago.

Of course, as we say there, there is always a little bit of ongoing softness in the print environment. The print declines have continued over the last two years. And sometimes they're a couple of points higher, a couple of points lower. But that we put down to the lumpiness in the rate of decline in the print area.

There's no fundamental trends that are any different now from a year or two ago. So I'm not sure exactly what you're comparing to or referring to. But we haven't seen any material trend changes, very similar to the growth trends would be.

Unidentified Audience Member

(inaudible), Liberum. My question is actually how much of the UK academic budget is funded by the EU? And how much of that is dedicated to hard sciences versus soft sciences?

Erik Engstrom - *RELX plc - CEO*

I'm actually not sure I have those numbers with me right now. We can probably get you something that's a good approximation of that later. Colin can help you get that. I don't have those exact numbers with me right now.

But I think it's important to point out, to be honest, in our total geographic profile, as a Company, overall as a Company, 8% of our revenues are in the UK. And that was at the old exchange rate last year. But 8% of our global revenue's in the UK. We have customers in 180 countries.

And if you look specifically at the STM division, probably close to 40% of our business is in North America, less than one-third is in all of Europe and the UK is, of course, a small portion of that. And then rest of world is more than one-third outside the US and Europe. So that's a broad picture that we see for us in that.

So any one change in funding is always material to us, always material, and how it is we help our customers and help add value to our customers but as these shifts take place, we try to align and adjust to them and we also try to help the different communities figure it out.

As a matter of fact, we were recently involved -- our Elsevier division was recently involved in a panel to decide how do we track the evolution and the potential changes to UK research with a UK research group here, probably about 10 days ago. So we are very involved in trying to map out how it might change but I can't tell you the exact numbers right now.

Katherine Tait - *Goldman Sachs - Analyst*

Katherine Tait, Goldman Sachs. Two questions from me. Firstly, on your legal business, you talked about the 30 basis points of margin expansion after adverse portfolio effects. I just wonder if you could touch on that. Are you just saving up (inaudible) lack of profitable products or is there something else going on in the mix there?

And then, secondly, probably one for Nick, but thank you very much for the very clear currency overview you gave. I wonder if there's anything for us to consider from a cost perspective, whether any of your costs in any of the divisions are more aligned to the UK versus other markets? Anything we should consider there? Thank you.

Erik Engstrom - *RELX plc - CEO*

Well, I'm actually going to ask Nick to talk about both of those.

Nick Luff - *RELX plc - CFO*

Yes. So on the legal portfolio effect, the biggest single item in there is actually the joint venture, the Martindale-Hubbell joint venture that we formed a few years ago. So we moved the business into a joint venture where you don't stop counting the revenue but you count the profit for that which, if you like, boost the revenues. That was always intended to fade out over time. So that's gradually fading out.

So that's the most significant impact in the portfolio. They did buy some businesses last year and first year don't tend to have the profit necessarily right up there, so that would have some effect as well. So those are the big things.

And on the currency question, yes, so obviously the Group as a whole, after we've done a bit of hedging, broadly the sterling revenues and costs are about the same proportion as a whole, after hedging, though. So before any hedging, though, we'll actually -- costs are proportionately higher in the UK than our revenues because we obviously -- as you can see, it's one of our home countries.

So if you look through what's happened with currencies and what's likely to happen if rates stayed roughly where they are, you can see that the sterling effect will be similar to what you're seeing in the first half and go a bit further, but for the Group as a whole, it didn't actually affect margins very much at all and it hurt STM but it helped exhibitions and it helped risk and business analytics.

So the Group as a whole, if you're looking at margins, it's actually reasonably neutral, if you're just looking at sterling moving against the other currencies.

Chris Collett - *Deutsche Bank Research - Analyst*

Chris Collett, Deutsche. I've just got two questions related to the legal business. One was just on -- late last year, the acquisition of Lex Machina, I think they're rolling out some new legal analytical products.

I think you mentioned earlier that some of those decision tools and analytics aren't a particularly big factor in legal but should we expect them to become more meaningful, or is the marker just in the near term still being driven rather by your -- is your growth in the near term really still being driven by the overall market?

And, second, Bloomberg Law recently said that they were growing deep into double digits, obviously off a small base, but are you seeing them being more active than not?

Erik Engstrom - *RELX plc - CEO*

If you look at -- well, you specifically mentioned one of our acquisitions last year, Lex Machina. The organic developments like that and the small plug-ins that we put in from the outside, they are helping us move along that continuum that I talked about before, from traditional electronic reference to electronic decision tools. And this is one small additional component of that, but if you look at the current revenue growth or the near-term impact growth, it is not related to Lex Machina or any of the other acquisitions from last year.

They don't even count at this point, and they're small enough, but even if they were included, they wouldn't have a material impact right at the beginning.

Over time -- so, let's answer your question. In the near-term, which is what you asked, the market environment, the customer environment will be the main influence on our growth rate in the near term.

We, of course, continue to believe that over time, what we are doing to add more value to our solutions that will, in the medium to long term have an impact and drive increased value to the customer, therefore increased demand and increased growth rates on average throughout an economic cycle. And we're following the model that we've done in other parts of our business.

So we believe and we continue to believe that in the medium to long term and in the near term it's more around how we're operating; how the markets are doing and how we operate in the markets.

Let's see. What was the other question? Bloomberg, yes, sorry. We have not seen any change to the market dynamics or the competitive dynamics in the legal business over the last, I would even say, couple of years or even in the last six months. So I'm again unaware of the specifics that you're mentioning. But we have not seen any change in the dynamics with our customers, or what we see as the competitive environment.

Patrick Wellington - *Morgan Stanley - Analyst*

Patrick Wellington, Morgan Stanley. It seems a remarkable reluctance to celebrate the doubling of the growth rate in your larger, single business, which has 25% of Group revenues and which has grown at 1% since time began, it seems, but at least six years. (laughter).

So why are you so reluctant to celebrate that? Is the market actually improving, because (inaudible) monitor it suggests that maybe there's a little bit of an uptick. Indeed at this very meeting last year, I think you almost leant towards an underlying improvement in the legal market. And then you seemed to edge away again.

And then going back to Katherine's question, you're also putting on 130 basis points of underlying margin growth in this business, except for the fact that Martindale-Hubbell seems to be making -- Martindale-Hubbell (inaudible) over, should we also be looking to your larger single business which has doubled its growth rate, to be pushing up its margins by more than 100 basis points? Which would be quite a good story in Reed (inaudible). So what do you think?

Erik Engstrom - *RELX plc - CEO*

Well, the way we look at is that we have signaled for a while that we're working on the structural growth capacity of this business, and the inherent structural quality of the business. And we showed you some of that on the charts today. And we've said for many years that if we do that right, you will continue to see more predictable revenues, a higher growth profile, and improving returns in the business.

And we've seen it come through here and there, in different parts of the business, and some of those measures come through. And we don't think it should be a big surprise that we're gradually improving a little bit in one area, one year, and a little bit in another area another year.

If the environment around us is roughly similar to what it was, and this year it happens to be that we continued the improvement trajectory and risk in business analytics. And we got a little bit of a step up in legal.

I guess I'm still a little bit of the old school when I say that you don't really celebrate 2% organic revenue growth, even though it is an improvement, and as you say, a doubling. So that's the issue on the legal side.

On the question of market indicators in legal, the PMI, as you mentioned, is one of the indicators of the market, it's one that everybody watches, one that we watch. If you look at that, over the last one, three or five years, it always tends to go up a little bit in one quarter, and then it tends to go down one or two quarters later.

And if you look at where we are today, on those measures, the last one what I looked at would indicate that we continue that volatility, but pretty much along a flat trend line.

So I try not to get excited or upset when it fluctuates up a little bit, or down a little bit. And I think that's basically where we are today, that I can't judge if there is a trend in the legal market starting or not. To me it looks very similar to six months ago, or 12 months ago.

Now I forget, what was the last question? Margins, I'll let Nick cover the margins.

Nick Luff - *RELX plc - CFO*

So in legal, of course, we are going through quite a big transition with the new Lexis platform rollout. And there's some double overhead costs, double infrastructure costs that go with that. And we're now eliminating some of those costs, which is why we're able to keep bringing the costs down quite quickly.

I think you shouldn't read too much into one single half-year. In any half-year, there's a few million dollars of cost to move from one half to another half, and you can see a bigger variations in the margin.

I think we stick by the 50 to 70 basis points, what we've indicated as a steady improvement we can achieve in the legal business looking forward to the next few years. And that's a good guide. We've done a bit better than that in the first half of this year. But I wouldn't read too much into just one half's numbers.

Patrick Wellington - *Morgan Stanley - Analyst*

On a different subject, the (inaudible). Are we saying that under the equalization process, in the dividend (inaudible) around the sterling dividend, would never be allowed to fall, assuming that the underlying business is growing [externally]? But you always arrange the dividend so that you don't get a (inaudible).

Nick Luff - *RELX plc - CFO*

We would never be categoric about exactly -- we don't know what exchange rate movements you may be dealing with. But you've seen what we've been able to do in this first half.

We are talking interim dividends which are only between 25% and 30% of the total. So we have a bit of room for maneuver in terms of what the interim is relative to the final.

So we've been able to accommodate what was quite a significant exchange rate movement, we've been able to accommodate that, and still increase the euro dividend in line with earnings per share. As you said that does mechanically then, drive the plc dividend to what is quite high growth. But we've been able to manage that within the overall dynamics of the numbers.

Erik Engstrom - *RELX plc - CEO*

Okay, well I think that brings us to the end of our question and answer session. So thank you again very much for coming, and look forward to seeing you again soon.
