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# EDITED TRANSCRIPT

REL.L - Half Year 2018 Relx PLC Earnings Presentation

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JULY 26, 2018 / 8:00AM, RELX - Half Year 2018 Relx PLC Earnings Presentation

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## PRESENTATION

**Anthony John Habgood** - *RELX PLC - Non-Executive Chairman*

Good day, and welcome to RELX' Interim Results for 2018. Thank you for coming. And for those of you on our webcast, thank you for joining us.

RELX continued its positive development in the first half of the year. Underlying sales and operating profit again grew satisfactorily across the board, and constant currency earnings per share were up 7%. This is reflected in the board's decision to increase both PLC and NV dividend by 6%. Although it is, as you all know, purely by chance that this year the formula produced the same growth rate for the dividends of each company.

We have also had a more active acquisition period since the beginning of the year, and Erik will describe the thinking behind our most recent highly targeted additions.

This is the last time that we will announce 2 separately calculated but linked dividends because the measures to remove complexity and increase the transparency of our corporate structure that we announced this February were overwhelmingly approved by RELX PLC and NV shareholders in late June, and they will become effective on September 8. From then, we will be one company, RELX PLC, with all the simplification that, that implies going forward.

From September 10, the new RELX PLC shares will be listed and traded in London in sterling, Amsterdam in euros and New York in dollars, with full weighting immediately in the FTSE 100 index. And we also expect full weighting in the AEX index by the end of the year.

So we've had another very busy and successful period. Thank you very much, and I will now hand over to Erik, and he and Nick will take you through the results presentation.

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**Erik Engstrom** - *RELX PLC - CEO & Executive Director*

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



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As you've probably seen from our press release this morning, our positive financial performance continued in the first half of 2018. We continued to make good progress on our strategic and operational priorities, and we received approval from our shareholders for the simplification of our corporate structure.

Our underlying revenue growth was 4%. Underlying adjusted operating profit growth was 6%. And earnings per share growth at constant currencies was 7%. All 4 business areas again delivered underlying revenue growth as well as underlying operating profit growth.

Our STM business grew 3%, slightly higher than prior year, with key business trends remaining positive. Overall, electronic revenue growth continued, and print declines moderated slightly.

In primary research, we continued to enhance customer value by building out broader content sets and more sophisticated analytics, and subscription renewal completions remained in line with prior year.

Databases and tools and electronic reference continued to drive good growth across market segments.

Print books, which represent less than 10% of divisional revenues in the first half, saw stable sales and return rates in line with historical levels. Print pharma promotion saw a slightly steeper decline than in recent years.

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

Risk & Business Analytics grew 8%, in line with prior year. In insurance, growth was driven by enhanced analytics, extension of data sets and by further expansion in adjacent verticals. The market environment remained in line with historical trends.

In Business Services, growth was driven by further development of analytics across financial and corporate sectors in a positive market environment. The government health care segment continued to develop sophisticated analytics, and Data Services continued to drive growth through organic development.

In addition to organic development, Risk & Business Analytics have announced 3 acquisitions so far in 2018: ThreatMetrix, SST and Safe Banking Systems. Going forward, the fundamental growth drivers of Risk & Business Analytics remain strong. We expect underlying operating profit growth to broadly match underlying revenue growth.

Legal revenue growth was 2%, in line with prior year. Underlying profit growth was strong. The margin increase reflects organic process improvements and decommissioning of systems, partly offset by portfolio effects. Overall, continued growth in online revenues was partially offset by further print declines.

The rollout of new platform releases continued across our U.S. and international markets with broader data sets and the continued expansion of early-stage legal analytics. Going forward, 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 underlying revenue growth was 5%, down slightly from 6% in the prior year. The higher underlying profit growth reflect cycling-in and timing effects. We launched 17 new events, completed 1 acquisition and piloted several data analytics opportunities.

Europe saw good revenue growth, and the U.S. continued to see differentiated growth rates by industry sector. Japan and China grew strongly, and most other markets continued to grow well.

Going forward, we expect underlying revenue growth trends to continue, and we expect cycling-in effects to increase the reported revenue growth rate by around 4 to 5 percentage points this year.



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Our strategic direction is unchanged. It is still to be a company that delivers improved outcomes to professional and business customers across industries, with our #1 priority being the organic development of increasingly sophisticated information-based analytics and decision tools that drive higher value for our customers.

After an unusually light year for acquisitions in 2017, we completed 5 acquisitions in the first half of 2018 for a total consideration of GBP 697 million. Our overall approach to acquisitions is unchanged. We continue to focus on targeted data sets, analytics and assets that support our organic growth strategies and are natural additions to our existing businesses.

Our aim is to further strengthen our strongest businesses and to gradually push out their boundaries into near adjacencies, both market verticals and geographies.

For example, in Risk & Business Analytics, we have made 3 acquisitions so far this year, the largest of which was ThreatMetrix. It has strengthened our leading position in fraud detection and prevention by supplementing our existing physical identity-based authentication solutions with device profiling. Although it is not included in underlying growth, ThreatMetrix is currently seeing annualized revenue growth in the 40% range, and we expect to leverage a larger sales force with a broader geographic footprint going forward.

In July, we acquired Safe Banking Systems, strengthening and expanding Accuity's position in anti-money laundering and know your customer. In STM, we acquired Via Oncology, which strengthened Elsevier's clinical solutions business by providing patient-specific decision support tools for the treatment of cancer. We also made small acquisitions in Legal and in Exhibitions in the first half.

Alongside our full year results in February, we announced a set of measures that would further simplify our corporate structure, moving from a dual parent structure to a single parent company to remove complexity and increasing transparency. In June, these measures were approved by both RELX PLC and RELX NV shareholders with over 99.9% of votes cast in favor. The simplification will become effective on the 8th of September, with a single parent company listed in London, Amsterdam and New York.

RELX PLC shares will be included with the full weighting in the FTSE 100 index from the 10th of September, and we expect that it will be included in the AEX index with a full weighting before the end of the year.

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

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### **Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Thank you, Erik. Morning, everyone.

Let me start by reiterating and expanding on the financial highlights. Underlying revenue growth was 4% and underlying operating profit growth was 6%, resulting in an improvement in the adjusted operating margin to 31.5%. Constant currency growth and adjusted EPS was 7%. Cash conversion was ahead of the prior period at 93%. Leverage, including leases and pensions, was 2.5x, up from 2.2x at the 2017 year-end and from 2.4x a year ago. The interim dividends were up 6% for both PLC and NV. As the Chairman said following the approval of the corporate simplification, this is the last time that we would declare separate sterling and euro-denominated dividends. In the 2018 final dividend onwards, we would declare only the sterling dividend with conversion to euros for those option to receive euros at the time of payment.

In the first half, we deployed GBP 500 million on the share buybacks, leaving GBP 200 million to be completed in the second half.

Here's the income statement in sterling. Note the results are presented in corporate and the adoption of 3 new accounting standards: IFRS 9, IFRS 15 and IFRS 16. 2017 comparators have been restated to reflect this, albeit the impact on profit is pretty small.

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Reported revenue was GBP 3.7 billion, with underlying revenue growth of 4%. The combined impact of portfolio effects and Exhibitions cycling-in was net neutral overall. The revenue contribution of businesses acquired this year, including ThreatMetrix, was offset by a number of disposals, mostly in Risk and Legal, that took place during the course of 2017. Constant currency revenue growth was therefore also 4%.

First half to first half, the dollar was a fair bit weaker against sterling in 2018 versus 2017. That was a drag on sterling-reported revenue, which was down 1% in total.

Adjusted operating profit was GBP 1.15 billion, up 6% on an underlying basis. Dilution from disposals left constant currency growth at 4%, which is offset by sterling strength that leaves sterling-reported adjusted operating profits flat. Margins were up 50 basis points to 31.5%, driven by underlying profit growth being ahead of underlying revenue growth. The impact on group total margins of the low initial margin from newly acquired businesses was offset by net currency benefit.

The net interest charge now includes interest imputed on operating leases per IFRS 16. The first half charge of GBP 95 million was broadly in line with the prior period, with high average borrowings being offset by currency effects.

The effective tax rate declined slightly to 22.2%, helped by the lower federal rate in the U.S. This gave adjusted net profit of GBP 818 million, up 5% at constant currency and up 1% in sterling. Reported net profit was down 1% to GBP 678 million.

The average share count was down 2% due to the share buyback program, converting the 5% constant currency growth in net profit into 7% constant currency growth in adjusted earnings per share. The relative weakness of the dollar meant that adjusted earnings per share in sterling was up 3% to 41.1p, and the euro was up 1% to EUR 0.469.

Moving to the business areas. You can see how all 4 areas contributed to underlying revenue growth with Risk & Business Analytics again delivering particularly strong growth. The differences between constant currency and underlying growth rates are mainly as a result of portfolio changes. These were a net drag in R&BA and on Legal and net positive for STM and for Exhibitions. The effects include the transfer of small number of health care products to STM from RBA in late 2017, following the change in where those products are managed. The reported underlying revenue growth in both businesses are 3% and 8%, respectively, with the same including or excluding the revenue growth from the transferred products.

Cycling and timing effects added 3% to Exhibitions' overall growth rate. With the dollar weaker against sterling, all the business areas saw their revenue growth lower by between 3% and 7% when reported in sterling rather than constant currency.

All 4 business areas have generated underlying profit growth with the highest growth coming from Legal and from Exhibitions, both up 9%, the latter boosted by cycling. RBA saw underlying profit growth of 8%, with STM up 3%, both in line with their respective underlying growth -- revenue growth rate. Portfolio changes were a drag on profit growth, most notably for RBA and for Legal, which no longer has any profit contribution from the Martindale-Hubbell joint venture.

STM's profit was protected by the hedging program, resulting in sterling reported growth being higher than constant currency growth. For the other businesses, dollar weakness resulted in reported profit growth in sterling being lower than constant currency growth by between 4% and 8%.

Turning to margins. You can see that there was an improvement for STM, mainly due to currency effects, including a benefit from the hedging program. The Legal margin increased by 20 basis points with a significant underlying improvement offset by portfolio effects, including the reduction in joint venture profit contribution. Margins for RBA and Exhibitions were largely unchanged.

We continue to generate most of our revenues in U.S. dollars with substantial revenues also generated in euros and other currencies. We do hedge certain of our future cash flows to smooth the year-on-year variations in revenues and profits, primarily in STM subscription revenues, giving more stable euro and sterling-reported results. In the first half of 2018, that has reduced the impact of the weaker dollar on reported sterling revenues and profits.



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Compared to the prior period, sterling was 9% stronger against the dollar and 2% weaker against the euro. Combined with other currency movements, these resulted in a net drag of 4% to 5% on sterling-reported revenue growth versus revenue profit and earnings per share.

Currently, sterling is around the same level against both the dollar and the euro as it was in the second half of last year. So if exchange rates were to stay at current levels, sterling EPS growth would be roughly in line with constant currency EPS growth for the second half. The full year differential between sterling and constant currency growth would therefore be about half the differential we've seen in H1.

Turning to cash flow. CapEx as a percentage of sales was slightly lower than the first half of last year, rounding to 4% rather than 5%. Cash flow conversion of 93% was up slightly compared to the first half of last year, benefiting from the timing of customer receipts. Cash interest was down on the prior year, where cash tax paid was higher, mainly due to the timing of payments. Overall free cash flow was up 1% at GBP 724 million, with currency impacting sterling-reported revenue cash flow in a similar way as it did profits.

And here's how we use the free cash flow that we generated. Spend in acquisitions was GBP 694 million in the first half including more significantly ThreatMetrix. The final dividend typically accounts around 70% of the full year total and is paid in May. Growth in dividend per share and the impact of currency translation offset slightly by the lower share count, so the spend on dividends increased by 5%. As usual, we have the share buyback through the first half, spending GBP 500 million out of the total of GBP 700 million planned for the year, the same as last year.

After currency movements, the net cash outflow left net debt at GBP 6.2 billion, including net lease liabilities by IFRS 16 of around GBP 300 million. However, with a lower net pension obligation due primarily to higher interest rates and continued growth in EBITDA, leverage did not increase in line with the increase in net debt. Including leases and pensions, the net debt-to-EBITDA ratio came in at 2.5x.

Finally, this slide sets up the maturity and currency profile of our bank and bond borrowings. You can see that our debt portfolio consists predominantly of dollar and euro debt, reflecting the currency of our cash flows.

Our debt maturity profile is well spaced with no large amounts coming due in any 1 year and no large gaps between maturities. We have successfully termed out the debt we took on to fund the acquisitions in the first half. In March, we issued 2 bonds, a \$700 million denominated bond with a coupon of 3.5% and a maturity of 5 years and a EUR 500 million denominated bond with a coupon of 1.5% and a maturity of 9 years.

Maintaining a balanced debt maturity profile across multiple currencies limits the year-on-year fluctuations in interest expense. The effect of interest rate on gross debt in the first half excluding leases was 3.2%, down from 3.4% in the first half of last year and in line with the average for the 2017 full year.

With that, I will hand you back to Erik.

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**Erik Engstrom** - RELX PLC - CEO & Executive Director

Thank you, Nick.

So just to summarize what we covered this morning, during the first half of 2018, our positive financial performance continued. We made further strategic and operational progress, and the simplification of our corporate structure was approved by our shareholders and will be implemented in September.

As we enter the second half of 2018, key business trends are unchanged, and we're confident that by continuing to execute on our strategy, we will deliver another year of underlying growth in revenue and adjusted operating profit, together with growth in adjusted earnings per share on a constant currency basis.

With that, I think we're ready to go to questions.

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## QUESTIONS AND ANSWERS

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay, why don't we start over here today?

**Matthew John Walker** - *Crédit Suisse AG, Research Division - Research Analyst*

It's Matthew from Crédit Suisse. Two questions, please. First, on science, and the other one's on CapEx. So on the STM business, how have you managed to absorb the hit from 1 or 2 cancellations? You know the ones I'm talking about. You haven't really called out -- I mean, databases are still growing, but you haven't called out a significant improvement there. Obviously, books has improved. But how have you managed to absorb that hit? And can you confirm that all the people who've joined that consortium are, in fact, not contributing revenue? The second question's on CapEx. So CapEx went slightly down. Is that just a timing effect? Is CapEx in Legal finally coming down after a number of years? How do you feel about CapEx for this year, next year?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. Well, I'm going to hand over the second one to Nick in a second, but let me just cover the first one here, talked about STM growth. Well, as I think I said, our overall electronic growth continued, pretty much in line with history, and we had a slight improvement in the print declines due to the fact that print book sales were basically stable in the first half. As you know, print books is smaller in the first half than the second half, but it's just a bit less than 10% of our revenues overall for the full year and probably a couple of points below that for the first half. But that was stable, so that's the difference. When you're asking how do we manage to absorb whatever changes you're talking about, as you know, I don't talk about any individual customer, any customer negotiations at any point in time, and I'm not going to start that today. But what I can do in general is to say that we have, as you probably know, a very, very large and global customer base. As a matter of fact, for our electronic research products, which we're talking about now, we probably have around 12,000 customers around the world. And every year, many of those renewed, many of those are extended. I told you earlier in the year that our renewal completion rate this year was the same as before, and that's still the case at the half year. So renewal completions are in the same rate. And I think I also mentioned earlier in the year that our new sales for the year were doing well. So you add it all up, there are many different ways to use and pay for our products, and that's the way we look -- tend to look at the business as a whole. Again, I can't comment on anybody in or out, but I can tell you that we only recognize revenue for signed contracts. So okay? Nick, on the second one?

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Yes. So the CapEx question, Matthew, the biggest change in first half of '17 to first half '18 is currency because a lot of CapEx [crosses] in dollars. So -- but if you take it as a percentage of sales, it's dropped a little bit in 4.7% to 4.4%, but I wouldn't read anything into that. I mean, just the normal variation of timing of projects. It is true that legal spend has come -- as a percentage of revenue has come down a little bit after it's gone through that -- the big migration, it's come down a little bit. But generally, I wouldn't expect anything different than these that are averaging around 5% that we've been doing.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Thanks. Want to keep going in the front row here and then...

**Katherine Tait** - *Goldman Sachs Group Inc., Research Division - Associate*

It's Katherine Tait from Goldman Sachs. Two questions from me. Firstly, on ThreatMetrix, can you just give us a little bit more color on who the main customers are for that product and how that compares to the existing customer base you have within risk and how much of that is new customers? And then I suppose linked to that, I mean, growth in the 40s is obviously quite an impressive place to be. I think when you acquired the company,



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you said not to expect too much in terms of accretion to earnings from that acquisition. Does that statement still stand? And how should we think about the contribution it's going to make going forwards?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. I think I'm going to ask Nick to cover both those because he's just spent some time with these guys over the last week or 2.

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Yes. So ThreatMetrix customers are primarily banks and other financial institutions, but also expanding into anyone that does transactions online. So online retailers, the gaming -- gambling companies, the -- any airlines, a whole range of different customers. Anyone who needs to be able to verify quickly, whether someone interacting with them online through a particular device, is that coming from a trusted device or not? And those -- and the scope to do that is wide and broadening, and that's why we see the opportunity that we see in the business. There is quite a lot of overlap with the customers that we serve already, particularly for some of the fraud and identity products in the financial services sector in the U.S. But ThreatMetrix has a very international footprint, so it's a totally international product. So it gives us scope to cross-sell into our existing customer base but also to expand the offering outside of what's traditionally been U.S. based. In terms of your -- the impact on earnings, I think we're just making the point that it's -- it was cash positive. It's not contributing a lot of profit in the year of acquisition. So that's why we weren't saying for the current year, we're not expecting any announcement. Clearly, over time, we expect to be able to run the business in a way that means it's profitable once we've integrated it. So over time, it will contribute.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

I'll have next row back here.

**Ian Richard Whittaker** - Liberum Capital Limited, Research Division - Head of European Media Research

It's Ian Whittaker from Liberum. Three questions. First of all, just in terms of -- apologies if I missed, if you made any comments on this earlier. Should we see the 3% organic revenue growth rate for STM as new base case sort of moving forwards? You talked about print declines moderating and so forth and getting a smaller part of the group. Second of all, just in terms of piracy when it comes to academic journals, can you tell us what steps you're actually taking to ensure your materials are not being pirated? Because it did seem as though sort of most of your materials are available on pirated sites. And the third thing is just in terms of RBA. Obviously, the U.S. economy is going very well at the moment. Could you just give us sort of a couple of thoughts on how we should think a strengthening U.S. economy would help you in terms of the various aspects of that division?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay, okay. Let me go through these in order. So you asked about the growth rate in STM going forward. Well, I think -- I mean, you will have to make your own projections about what you think will happen. But at this point, I'll explain where we are today and what is happening so you can be informed about what we know, which is that the growth rate in -- well, as you know, the print declines, the print book declines, well, print declines overall, which is largely now print books even though there are some other print components as well, they do not stay in a very predictable straight line. They sometimes drop a little faster, and sometimes, it moderates in the first half this year. The overall print decline was moderated, right? So the print decline continued but it was a lower rate of decline because print books sales were essentially stable so far this year. We don't know what will happen to those even going forward. I mean, so far in July, it's the same as it has been, but that's 2 weeks into the second half, so I can't draw any conclusions from that. But as you know, this can go at different rates at different times even during the year. So I don't know what that will do going forward. But on the electronics side, what has happened looks very similar to what you've seen over the last couple of years. So that's where we are today. So on the second question, on piracy, I think we have addressed this in the past. We see different types of piracy in all parts of our business, just like all intellectually property-based companies do, whether that relates to original sort of published text or content sets, whether it applies to datasets or analytical algorithms or software tools and so on, you will always see that intellectual property industries and that





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will always continue. We approach it the way we have in the past and the way other industries do it as well, which is that whenever we identify it or somebody else in the industry identifies it, they bring it to the attention of the industry association and the related service organizations that work with intellectual property industries, and they then approach the individual corporation or the website and try to explain to them what's going on. Most of the time, that is -- that's normally what is required to come up with a solution. That complies with what for us in our -- the question you're asking about the science industry, are very generous and very flexible of sharing policies so they can work on this. In most situations, that's resolved relatively quickly. In other situations, it takes longer and it's more complicated. And it needs to be worked through specialist advisory firms and so on that are related to the industry associations. But -- and some of them take longer. But this is exactly the same process that I've seen in other intellectual property industries I've been involved in over the last 30 years. And ultimately, I think that large institutions or large organizations ultimately do not want to systematically break the law on an ongoing basis. That's not the intent. So I think we're moving down the same path as we have before. The last question, Risk & Business Analytics, the U.S. economy, we have seen in the past that when the economic cycle moves around in the U.S., we have seen that some of our business segments, of course, are impacted by it, to some extent. We talked about all our different business segments. You're familiar with Legal and science and so on, but you're specifically talking about risk. The largest individual piece of risk is, of course, the insurance segment. During the last major economic downturn, which are now approaching 10 years and the follow-on to that, the organic revenue growth inside the insurance business for us did not slow down. And we are not sure exactly why that is. We can, of course, in retrospect, try to justify why in terms of insurance switching or shopping or pricing. But the fact is that at that time, it did not slow down. We had some other risk segments then, including preemployment screening and other things that were cyclical and cycled with those -- with the U.S. economy. The largest one of those was, of course, the employee screening business, which we sold a few years ago. So that's no longer a part of what we do, but there are other things that relate to mortgage origination or lending that are smaller pieces of our business and most others with their information-based businesses. But I think you would assume that some of them would have some impact from the cycle, but I can't tell you how much or what that would be.

Okay. Should we come back or come over here? Go this way on this side.

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**Sami Kassab** - *Exane BNP Paribas, Research Division - Media Research Director, Co-Head of the European Media Team & Analyst of Media*

It's Sami Kassab at Exane. I have 2 questions, please. I understand you cannot comment on the outlook for the books at Elsevier in H2, but would you be able to comment on the size of the frontlist and whether there is any particular movement in the frontlist up or down that may indicate any performance in Q3? And secondly, in the release, you referred to adjacencies that you are addressing in the Data Services segment. Can you explain a little bit on that, please?

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**Erik Engstrom** - *RELX PLC - CEO & Executive Director*

Yes, I'm going to hand the acquisitions and adjacencies over to Nick because he spent a fair amount of time on that recently. Let me first address the question around books in STM. The book list at this point, what I know and what I've seen, is that both the first half this year and the second half look fairly typical, that there's no major -- there was no major timing thing or strength in the first half, and there's no major strength in the second half. It looks to me at this point, of course, the first half is a historical fact, that it wasn't particularly unusual. The second half is, of course, a guess on what the list is looking like. We know which title, but how are they going to do. And to me, again, they look like fairly typical years to me when you look at the frontlist, broadly speaking. But the fluctuations that you do see in the, in particular, in the U.S. distribution and retail segment into academic environments on the book side, there's a bit of a fluctuation. But when they order, how much they order, how much they've taken inventory, when they flush it back and that's what we've seen over the last 3 years. As you probably know, we had a time when there was a pretty bad year and then it sort of stabilized again. So we don't know what's going to happen in the second half of that, and also, of course, there are market impacts and market factors that impact how big a frontlist will be, even on the new side. Of course, it impacts the back -- sort of the backlist in those sense but also the frontlist a little bit. So -- but at this point, we haven't seen any major fluctuation kick in yet but we're 2 weeks into the second half, as you know.



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**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

So Sami, on the adjacencies, I think we referred to that both under insurance and on the Business Services. So on insurance, it's things like if we already do auto insurance moving into commercial and life and so on, it's moving into different parts of the insurance continuum. So we're very strong in underwriting but moved into other parts of the insurance process, whether it's quoting or claims, et cetera. And also includes moving into new geographic markets. And if you look at risk services in the whole, though, the acquisitions are good examples of adjacent market. So ThreatMetrix, where we've been very strong in identity in the Business Services segment for prevention, et cetera, but particularly using physical attributes, where ThreatMetrix introduced digital identity and device identity. So that's an example of adjacency there. SST, which is in the agricultural segment, again, that's using some of our datasets to help in the agricultural sector. And Safe Banking Systems is another good example where that was -- Safe Banking Systems is an existing partner of ours. They built a good piece of analytics that sits on top of the micro -- the focus of filter. So our focus of our filter, we're throwing out exceptions that Safe Banking Systems were then putting through their analytics to reduce false positives. So it's a very natural fit for us and a natural adjacent market for us to push into.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. So I keep going back on this side here. Thank you.

**Nicholas Michael Edward Dempsey** - Barclays Bank PLC, Research Division - Research Analyst

It's Nick Dempsey from Barclays. So 2 questions, please. So Westlaw Edge, they put that out a few weeks ago, they're making some claims about the enhancements they've made to search through AI for that. Last time, Westlaw put out a big improvement to their platform you spent a lot of money catching up. I guess, we're not quite in that situation now, but what difference does that make to the competitive dynamic between the 2 of you? And second question, trade wars in the news, quite a lot at the moment. To what extent are you comfortable that, that won't have any impact on your Exhibitions business over a bit of time?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. Again, I'll answer the first, but I'll let Nick talk about the second one on trade. Yes, Westlaw Edge, well, in the Legal business, as you know, we have -- we are in a market where, of our large market segments that we operate in, this is one where there actually is a competitor that competes in a similar market and slightly larger than we are in the U.S. market. And we take all our competitors seriously and pay attention to what they do, of course, but we're no expert on what they've actually done at the moment. We take what Thomson knows very seriously, but I'm not an expert on Westlaw Edge. What I do know is that if you listen to other people who cover the legal industry or you listen to customers or people speaking on behalf of customers, they have said over the last couple of years often that it looks like LexisNexis has taken a lead in legal analytics, both organic development and in terms of the small acquisitions that we made. And we believe that we also have the technology base and the technology analytical tools that we share with the other divisions and what we've learned from the risk side that are very strong and very powerful. So we believe that we can continue to build on what we've done so far and deliver a lot of value to our customers by continued deployment of legal analytics. It's not a surprise to me that in our markets, in the large markets, including Legal, that other players, large competitors, would also try to pursue that avenue over time. Because if they see that our customers are driving additional value from what we are doing, why should they not try to do something similar? But I think we're in a very different position from when you referred back to prior replatforming when we are in the process of designing a strategy for replatforming. At this point, I think we're at the tail end of a modernized modular replatforming that's based on very module -- modern technology, very flexible and very data and analytics-driven inherently in its design. So I think we're in a different position. But I think you have to ask them more details about what they're really doing. Okay, keep going here.

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

There's another question on the...



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**Erik Engstrom** - RELX PLC - CEO & Executive Director

Oh, sorry.

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Yes, on the trade wars, which I thought the EU and the U.S. sorted out last night, but perhaps not. The -- I mean, clearly, there are some parts of the Exhibitions business which could be impacted by all sorts of economic factors, including anything around trade. Equally, we have a very diverse portfolio, 500-plus shows across a whole range of sectors, some of which were very unlikely to be impacted by trade wars. So there are all sorts of things affecting all of our exhibitions all the time. And part of what we have to do is manage that, react to that, and we do have a strategy that's based around launching into fast-growing sectors and moving out of slower-growing sectors and we'll keep adjusting. So clearly, there could be an impact as there could be of many things. But we do have the diversity, which provides a measure of protection.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay, over here?

**Christopher Anton Giles Collett** - Deutsche Bank AG, Research Division - Research Analyst

It's Chris Collett from Deutsche. Also, I just had a couple of quick questions about Legal. One is when you think about your market shares within the Legal business, do you view any growth within a legal department in the business development area as being part of your market share? Because the reason I ask is that it looks like that's an area where Bloomberg has been growing within law firms. So just wondering, do you view that as a market share gain or do you sort of ignore that because it's not classic legal research? And second question gets back to what you're saying about the growth of legal analytics. What do you see in terms of the customer demand and adoption of legal analytics? Are we getting to a point where it is becoming more widely viewed as a legal tool for broader adoption within law firms?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. I'm not sure I understand what you meant by the question, but you mean business development functions inside law firms or business development functions in corporations?

**Christopher Anton Giles Collett** - Deutsche Bank AG, Research Division - Research Analyst

Business development functions within law firms.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Within law firms, yes. I mean, we look at us, as our primary objective, to help improve legal decision-making, the value of legal decisions, right, and not primarily help the administrative functions of running a law firm or things that are around marketing a law firm, if you look at it that way. There are, historically, you have had -- doing the legal work is one block of what you do, meaning what do you actually do in terms of analyzing a case, deciding on a case, the economics of a case and the outcomes of the case. You then have the process of several business systems or software solutions for companies to run a law firm, the business of law, as some people call it, and some people put in that business also the separate category of marketing tools for law firms to generate revenue. We have, over the last several years, deemphasized strategically the segment of helping law firms run their offices and their firms, right? And we've also deemphasized the segment of marketing services for law firms and focused on the economics of legal decision-making, legal cases, contracts, economics, et cetera. That's where we are focusing our time strategically. So that's our main emphasis in that market. Other people do different things and there are several other providers of the other types of services there. Second question, legal analytics. It is something that where our customers see it and pay attention to it, they see significant value, get very excited and the



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growth rates for those tool, the growth rates are very high. But they're very small at that time, the separate revenue for them. So we have some analytical tools that are sold separately and you have to understand and sell and work your way through. The people who get involved then will get excited and they buy a lot more, so they're growing very rapidly in separate revenue. We also have some analytical tools you put on the broader platform that you embed in the whole platform, analytical functionality, so to speak, that we also see increased use of. But as you know, the legal industry is one where most people involved in it are spending their time on the substance of the legal cases, and adoption of new tools and so on is not as fast as you would see it in the consumer market or a consumer device market where things can change very quickly. This is a very sticky marketplace and people see these as tools that are needed for them to do their jobs, which is a good thing in many ways. But when you have new and high value-added tools, they tend to roll out perhaps more slowly than you would think in a sort of consumer type of media environment. Okay? Okay, so go ahead.

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**Richard Eary** - UBS Investment Bank, Research Division - Executive Director and Head of European Media Team

It's Richard Eary from UBS. Just 3 questions. Firstly, just going back to the print books stabilization in the first half, just I don't know whether, Erik, you can provide a little bit more color in terms of why they actually physically happen. Was it better volumes, better pricing, better segments? The second question, just in terms of the impacts on the M&A in the first half, which is obviously inflated through ThreatMetrix, it looked as though there wasn't any significant increase in revenues out of those acquisitions. So just wonder whether you can give us some color in terms of the revenue impact going forward. And lastly, just on M&A, how do we actually think about that as we go through the course of the rest of the year? It's obviously inflated this year. How do we think about that?

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**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. I'll cover the first and the third here. I'll ask Nick to cover the second. Is that okay, Nick?

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**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Yes.

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**Erik Engstrom** - RELX PLC - CEO & Executive Director

So the first one, print books in the first half, my impression, and this may not be right because as you can hear, this is under 10% of one of our 4 divisions, so we're probably not the experts on print but I'll tell you my impression, is that in the first half, that this was actually a general market environment and it's that the units were -- that the unit volumes in the market were actually relatively stable. So I don't think it was that we had unique titles or unique pricing or anything else. I actually do think that the market stabilized a bit in the first 6 months. But as you probably know, for our types of books and for many books, the first half is smaller and lighter. So I wouldn't draw too many conclusions to that about the whole industry, but my impression is that this was a market stabilization for a 6-month period. I'll let Nick do the M&A later, but I'll comment on the overall M&A approach. Our approach to acquisitions has not changed. Our approach is the same, as we talked about, targeted datasets and analytical tools that -- where we are the natural owner. In terms of the volume so far this year, if you put ThreatMetrix to the side just for a second, all right, just ThreatMetrix over here, I'll get back to it, the rest of what we've done in the first half and what's in the pipeline right now and for the second half, to me, looks like a very typical year for us as a company. If you compare over the last 5 to 10 years, what is the normal rhythm? Of course, it sometimes stacks up a little bit and sometimes it spreads out, but the rhythm of what we have seen, what we have looked at and what we seem to come to conclusion on this year looks very similar to any other year, right -- any average year, I should say, or typical year. ThreatMetrix is the exception because that was slightly larger than what we've done on average, even though it's not particularly large, slightly larger than what we've done on average. And we've worked on it late last year, slipped into early this year, all right? So if we had closed that last year, last year would have just looked just a little bit above average and this year would be an average year. So I think that's how you have to think of it. It's more of a question of time shifting and so the pacing of this, as opposed to there's no change in strategies, no change in approach, we haven't seen a decreased deal for an increased deal flow. I mean, as you might have noticed last year, it was an unusually low number for us. Our net spend last year was virtually 0. So you could argue that that's just because a couple of things slipped into this year.



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**Richard Eary** - UBS Investment Bank, Research Division - Executive Director and Head of European Media Team

Erik, just one thing to note, does that mean that this year, we're thinking about 800, 900 as a total for the year if we add in what the historical run rate has been plus ThreatMetrix?

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Well, I can't comment on what will happen because when we work on things that haven't happened yet, they have a tendency to sometimes take longer or sometimes go very quickly. And we're not always 100% in control of transactions that involve another party there. So I don't want to look forward. But I can tell you what has happened in the first half, both in terms of what we have closed and what we have worked on, looks like a typical year excluding the ThreatMetrix part. So that's -- it's a different way of trying to help you answer your question, but I'm going to let Nick talk about the second one.

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Yes. So Richard, on the revenue, as you identify, the constant currency growth actually slightly below underlying growth even though there's a slight boost from cycling in, but that's because of the disposals that we made, quite a lot of disposals during the last year, particularly around the middle of the year. So as you're going first half to first half, things like the SAS probably serves the joint venture, new scientists, that we sell the things that were in the first half of 2017, but nothing in the first half of 2018, the acquisitions we made, of course, ThreatMetrix is the big one, but there's only 4 months of that in this first half we just reported. So if you look forward, based on what we've done so far, obviously, you'll see those acquisitions we made this year will contribute a full 6 months in the second half under disposals year-on-year. Won't be quite as significant because we could actually sell them by midpoint last year. So you will see it shift a bit during the second half and then into next year, depending on what else we do.

**Richard Eary** - UBS Investment Bank, Research Division - Executive Director and Head of European Media Team

Can you give some more color in terms of the numbers around that 6-month impact from the second half?

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Well, we wouldn't disclose exactly the financial metrics of each one, but you can -- I think people have speculated as to what the revenue run rate of ThreatMetrix might be. It gets into triple digits in terms of dollars million. So that will give you a sense of its -- how big that particular acquisition is.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay, I have one over here, last one.

**Thomas A Singlehurst** - Citigroup Inc, Research Division - Director and Head of European Media Research

It's Tom here from Citigroup. Two questions. First one on academic, obviously, whether it say the 3% for the full year, as you've mentioned, it's probably down to what happens in sort of print books, but just wanted to -- if we just think about the sort of broader pot of money available for this sort of core, sort of electronic piece, if you will, are we seeing sort of RELX maintain share of budget? Is it -- are you gaining share of budget? Can you talk as well about some of the newer products? I don't suppose we could describe SciVal as a new product anymore, but is that having a disproportionately positive impact within the mix? Just understanding some of the sort of market dynamics behind that 2% or 3% top line for STM. And then very simply, financial leverage, 2.5x, is that as high as you're willing to go or you're happy to go higher?



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**Erik Engstrom** - RELX PLC - CEO & Executive Director

Okay. Well, let me answer the first one, will hand the second one over to Nick again. In STM, yes, as you said, we covered, I think, the books side enough. If you look at the rest of electronic, you look at all of STM now, all the different product sets and tools that we're selling, you can, of course, if you want to, look at all of them on a continuum where we started originally, if you go back almost 200 years in some other parts of that business, as a publisher of content sets, original published content sets. And then over time, over the last 20 years, we've gone from print reference to sort of electronic research and reference available as information sources. And then we built databases on top of those, sort of primary original data sources, first billing databases on top, and then we built some tools and fast-moving analytical tools on top and even keep introducing some newer decision tools on top, that you have people make decisions with real sophisticated analytics. And of course, we're migrating the whole division out of print reference into electronic, out of electronic information to more sophisticated analytical, higher value-add decision tools. And if you look at this, today, the growth rates, of course, not maybe in the first 6 months but the growth rates over several years, have been that the print segments continue to decline in a sort of an average decline rate, which of course, can be volatile in a 6-month period but it continues to decline and become a smaller and smaller piece. The electronic sort of reference and research information platforms, right, and all the different segments across the whole division, they are growing, but they're growing moderately because there's continued growth in content set, continued growth in users, continued growth in users, continued use in demand. You asked a question about are we getting any share? In total, what we know in these areas that we have higher-quality content sets and more sophisticated platforms than others and we offer these at lower prices than other large, large major providers, so if you add that up, we actually do think that we can continue to gain in many of these, but we'll do it carefully and slowly one little piece at a time. Then many of these broad-based information sets are then transitioning to databases. And these databases have been built over the last, primarily, over the last 10 to 15 years and they're growing slightly faster, right, slightly faster but they're slightly newer. They're databases that lay on top of underlying contents, that they're growing slightly faster. And the tools you put on top then, some of them grow even higher in about mid to high single digits or the fastest-growing newest tools grow into double digits. So that's how we look at our environment. And we don't focus so much on share as we focus on increased value add to the customers. Because we believe that in the science, research and health world, just like in the legal world or in the risk world, that if we add more value to the customer, demonstrably higher value, in a way that they can see, measure, quantify and see the impact, if we add more value, our customers will want more of it. And if they want more of it, we will ultimately also capture some of the increased value we're giving to our customers. And we believe in these segments that we should -- we are the leader, we should be the leader, both in terms of quantity and quality and innovation. And we should continue to innovate and push new tools that we can launch that add more value. And if that over time means that we are gaining share, so to speak, in a defined market, that's okay, but it's not our primary objective. The primary objective is to keep adding more value and leading the industry and adding value to the customer so that we have sustained the growth rates and high value add to our customers. And if we do that, we believe that it'll be a good financial model, too. That's how we think of the science and research market over time. Okay? Okay, one more over -- sorry, Nick.

**Nicholas Lawrence Luff** - RELX PLC - CFO & Executive Director

Question about leverage. So Tom, I mean, as you know, we've been in a range 2.1 to 2.5x leverage over the last few years. Clearly, this particular June midyear point, which midyear is often higher than year-end, we're at the high end of that range. But it is a consciously conservative range. And we have set it knowing there are variables like currency and pension deficits that you are not in complete control of, so those can put you over it. But it's a conservative so you've got room for maneuver. And also to give us flexibility should something come along, an opportunity that means we wanted to pursue. So in normal circumstances, that's the sort of range we aim for. But it's not -- we wouldn't -- it's very conservative so it wouldn't be a problem if we're outside it for a period of time.

**Erik Engstrom** - RELX PLC - CEO & Executive Director

One more over there.



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**Giasone Ulisse Salati** - *Macquarie Research - Senior Media Analyst*

Giasone Salati from Macquarie. Three questions, please. First, can you give us an update on the STM breakdown by geography? Clearly, I'm primarily interested in how big is Germany for STM. I think that's a fair question. And secondly, one for Nick. I think you mentioned the currency benefit on margins in H1. If rates stay where they are right now, do you expect the same benefit in H2 or is there a reversal? I know that is a very complex calculation you only can do. And the third one, more broadly, this -- at this point in the cycle, it's typically prime time for professional publishers. Wolters Kluwer achieved a 4% gain first time in 10 years, experienced a [24.8%] organic at this point. RELX is again 4% as it's been for the last 5, nearly 10 years now. Are you -- Erik, are you happy with 4% organic right now or you think you could do more, you want to do more, you want to push for further growth at this point?

**Erik Engstrom** - *RELX PLC - CEO & Executive Director*

Okay. Well, I'll handle the first and the third, and I'll let Nick handle the second in the end. So you're saying geographic breakdown of STM, you're not saying the whole division, right? Yes. I think we've said before, if I'm remembering right, we have said that Europe as a whole represents about 25% of STM, and that we have also said in different conversation in fact, that the U.K. is a fairly large part of that. And we said it's roughly mid-single digits of that or slightly higher, which means that Continental Europe is slightly below 20% of all of STM, if we just look at all our product sets on a geographic basis, right? And of course, that's our definition or the geographic definition of everything that's geographically in Europe as opposed to EU definition. Let me see, the second question, I might not be recalling the underlying growth rate history as well as you do, but I actually think we've had 4% underlying revenue growth the last 2 years and the first half of this year. I think that's what I remember, but that can be easily verified. And the way we look at our growth rate going forward is that we can never predict what the actual growth rate would be in any 12- or 18-month period in any point in time because we think that our actual growth rate is impacted by 2 main categories or factors. One is what we do, what we control or have control over and what we do with our customers and so on, and the second one is what happened in the world around us, where economic cycles and customer industry growth rates, inflation, all these different things, right? We don't tend to spend much time on the second. We spent all our time on the first, meaning what can we do to make sure that we increase the value that we deliver to our professional and business customers in the industries that we serve? How do we make sure that the decisions they make, when they use our information, our tools, that we help them make -- get more value from those decisions, that we improve the quality of the decision and the economics of those decisions? And if we do that all the time, we can see revenue growth that can, first of all, we can see revenue growth that accelerates because the customers see something that adds more value. They will want to use it more. If they want to use it more, our revenue goes up. And if you look at where I talked before about the STM, we're trying to migrate the market. Our whole business profile out of print declines to electronic reference, lookup tools, but also from electronic lookup tools to more sophisticated higher value-add decision tools and analytics, which is what we do across all our businesses. If we are successful at doing that and adding more value to our customers, you should see a gradual improvement of the value add to our customers, and therefore, a gradual improvement in the quality of our business, meaning it should become more predictable, it should become higher growth and we should have higher returns because we're focusing on it primarily organically. I think that's what you've seen if you go back 5 or 10 years. I don't think you will have seen a flat growth rate or flat returns over the 10 years now, I think you signaled there. I think you'd see a gradual improvement if you do a 10-year history. And of course, our objective is to continue to improve. But what exactly that is in any one single year depends on many factors outside our control, okay?

**Nicholas Lawrence Luff** - *RELX PLC - CFO & Executive Director*

Hedging? So just on the hedging question, we give you a breakdown in the appendix between of how the hedging for STM affects the numbers and how the other currencies affect the numbers. And you see it's a bit less than half of the currency benefit is the hedging and the other half is just the other currency movements. The hedging, you might expect to continue the benefit from that into the second half, but the other piece is very hard to predict. And FX rates already quite different today than they were -- than the average for the first half. So you certainly shouldn't assume that piece would continue into the second half.

**Erik Engstrom** - *RELX PLC - CEO & Executive Director*

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



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