



RELX Group Q3 2018 Trading Update

Thursday, 25th October 2018

Operator's Introduction

Operator

Good day and welcome to the RELX Group trading update conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Nick Luff. Please go ahead, sir.

Q3 2018 Trading Update

Nick Luff

CFO, RELX Group

Thank you, Sharon, morning everybody. I'm Nick Luff, CFO of RELX and with me this morning is Colin Tennant, our Head of Investor Relations. I will make a brief introduction and then we will take your questions.

As you have seen from the statement this morning, the operating trends across our businesses are similar to those that we reported for the first half. For the Group as a whole, underlying revenue growth for the first nine months was 4% and the outlook for the full year is unchanged. We continue to transform our business, primarily through organic development supported by selected portfolio actions. So far, this year, we have completed seven acquisitions for a total consideration of £943 million, up from the £694 million that we reported for the first half. The majority of the incremental £249 million of spend relates to the acquisition of Safe Banking Systems, which we touched on in our interim results presentation in July. Safe Banking Systems is a high-quality, high-growth provider of compliance and screening solutions and directly complements our acuity businesses within risk and business analytics.

We've also completed £650 million of the previously-announced £700 million share buy-back, with the remainder to be deployed by the end of the year. Balance sheet remains strong, supported by the lower pension deficit and reducing lease liabilities.

Finally, on the overall corporate side – and as you all know, we have now completed the corporate certification, making RELX PLC the single parent company, with shares listed in London, Amsterdam and New York and inclusion in both the FTSE UK indices and the AEX Amsterdam index.

Turning to the business areas, for Scientific, Technical and Medical underlying revenue growth for the nine months was 2%, in line with the prior year but slightly below this year's first half. You will recall that in the first half, we reported stable print book sales. Although this continued into the first month of the main Q3 selling period, we saw double-digit declines in both August and September, before a return to more normal trends so far in October. Print books, although variable, do account for only about 10% of divisional sales. Revenue trends for the remaining 90% of the division were consistent with the first half.

Risk and Business Analytics grew revenue at 8% on any underlying basis, in line with the prior year and with the first half of this year, with strong growth across all key segments. We

are making good progress in integrating acquisitions made earlier in the year, including threat metrics, where we continue to see revenue growth rates in the 40% range.

The Legal underlying revenue growth was in line with the prior year and with the first half, at 2%. The rollout of new platform releases across our US and International markets has continued and the market environment has remained stable.

Exhibitions had an underlying revenue growth of 6%, slightly above the prior year and slightly above the first half of this year. Japan and China have continued to grow strongly and we also had good growth in Europe. The US continues to see differentiated growth rates by sector.

That's it for my introduction. Sharon, we will now open the call to questions.

Q&A

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone opportunity to signal for questions.

We will take our first question from Nick Dempsey from Barclays. Your line is open, please go ahead.

Nick Dempsey (Barclays Capital): Yeah, morning, Nick. I've got three questions, please. So, the first one; I noticed you've got a new CCO for the Health business at Elsevier who seems to have quite a strong background in healthcare analytics, coming from GE. You've also got a new AI centre opening in Amsterdam. Are you pushing a bit harder in the areas of STEM that are not journals and is there enough room for the databases and tools component to accelerate, or at least do very high single digit growth for a long time?

Second question; journal renewals. I guess we always ask you at this time of year how things are looking into next year. It's a little bit early, but how is the overall environment looking right now compared to last year for journal renewals?

And then the third question; ThreatMetrix. That's something you sound pretty excited on, doing about 40% growth, you said, this year. When you look at next year for ThreatMetrix, I guess it might slow off that amount, but do you have any kind of sense of how much that will slow?

Nick Luff: Okay, Nick, thanks for those. I mean the first question – I mean you're – I think your direction is absolutely right. The – what we're trying to do, of course, across the group is add analytical products, products that use more sophisticated analytics, use wider sources of data to help our customers really make decisions at the key points of their processes. And we have an extraordinary range of data and content on which we can run the analytics but we there, of course, need the skills in the group to be able to do that. So, we're most advanced, of course, within Risk and Business Analytics but we are bringing those same analytical skills and features into products in Elsevier, in Legal and even in Exhibitions.

So, you touched on a couple of examples but you're absolutely right, we have a big AI centre in Amsterdam, we have a big tech centre in London. A lot of our medical work around the databases is done in Philadelphia. So, we are recruiting around the world where we can find the right skills. And that's what, you know, the potential to keep adding value to customers and ultimately driving revenue for ourselves is very significant.

Your second question, on STEM renewals, as you say, I mean clearly at this time of year, it's – you know, we've got a lot of customers who will renew for next year. We've got customers on multi-year contracts. So, at any moment in time any year will have a proportion of them that we'll be renewing. A lot of them are on calendar year basis, so now is a key period. And at the moment we see nothing different in the overall environment and nature of those discussions.

And your third question, on ThreatMetrix. I'm not going to start forecasting revenue growth for individual businesses. Clearly ThreatMetrix is a – something we are very excited about. I think we're very pleased to have brought that into the group. The – it complements our existing offering very well. It's a very good example of where we can push the envelope by bringing in new data sets that are related to things we already do, that are in close adjacencies to what we already do but we can just add that to our existing offering, enhance the value we can provide to our customers, broaden the offering, broaden the waterfront on which we can develop the business. And I think we're excited about what that can do. I'm not going to start forecasting individual segment growth rates, though.

Nick Dempsey: That's great. Thanks Nick.

Operator: Thank you. We'll now take our next question from the line of Giasone Salati of Macquarie. Your line is open, please go ahead.

Giasone Salati (Macquarie Securities Group): Hi, good morning. Giasone from Macquarie. A couple of questions, please. On the contribution to organic revenue growth from acquisitions. So, I appreciate you don't want to give guidance on individual businesses, but £1 billion in acquisitions, can you help us in understanding what benefit you expect in terms of organic revenue growth for RBA, or at group level and a timing? So, starting from, I guess, mid next year, you might have 100–200 basis points accretion on organic revenue growth from these acquisitions?

Nick Luff: Well, our policy – and it's actually on the – in today's statement – our policy is to include acquisitions after we've owned them for a full financial year. So, things don't – under that policy, things don't come into underlying for quite a while. If you bought them in the first part of one year, they don't come in for quite a period under that policy.

Giasone Salati: Yes, and can you help us estimate the impact starting from H2 next year, then?

Nick Luff: Well, as I say, we – under our policy, we don't actually bring something in until we've owned it a full financial year. So, they come – they all come in on 1st January each year. So, you wouldn't see an impact under that policy in the second half compared to the first half of –

Giasone Salati: Okay. Okay. And secondly, on – more generally in terms of the developments of STEM, again, I appreciate you don't want to comment on particular deals

separately, or institutions as part of Plan S[?] or else – but can you help us understanding where do we stand? Or how many of your clients are not renewing the contract?

Nick Luff: Well, as you say, I'm not going to comment on individual – especially – I think I partly answered that before, the – every year we have a proportion of the customer base that is renewing. Three-year contracts are typical, so you'll get a different set of customers every year who will be renewing for the next period and every year we'll have discussions with those customers. Some will want to take wider parts of our collection, some will want to take less and all those things vary from time to time. But as I said earlier, the – in an overall sense, there's nothing different in the current renewals and discussions that is any different to what we've seen in recent years.

Giasone Salati: Okay, thank you.

Operator: Thank you. We'll take our next question from Sami Kassab from Exane. Your line is open; please go ahead.

Sami Kassab (Exane): Good morning everyone –

Nick Luff: Morning, Sami.

Sami Kassab: – this is Sami at Exane. Good morning, Nick.

Nick Luff: Hi.

Sami Kassab: I have my three questions, please. May I start with Elsevier and ask whether you have any particular investment plans in launching new journals, for instance in disciplines where historically Elsevier was less active, such as social sciences, humanities, or whether there are no plans in launching new journals there?

Secondly, on exhibitions, we had an acceleration in Q3. Can you comment on Q4? Are there any particular calendar or other drivers that may move the performance in the Q4 quarter?

And lastly can you give a bit more breakdown on the Legal and Professional division, perhaps talking about organic revenue growth, either US or International or Legal Tech versus the more traditional revenue streams you have in Legal? Thank you, Nick.

Nick Luff: Okay. I mean I think your first question is about new journals. I mean we're always launching new journals. Very much we see the journals business very much as a sort of overall platform that we operate and we're looking to develop journals to serve the marketplace as we see it develop and new branches of science become more important, some other branches of science become less important. And you'll all – you might be – we launched something into the materials – applied materials or something like that, or new branches of medicine which may become more prominent. They tend to be adjacent to the offerings we already have but if you look in the last few years, for example, out of Cell Press, which is a very strong biology journal, we now have Chem, which is aimed at the chemistry segment; we have Joule, which is aimed at the physics segment. So those are examples of journals. We are more biased towards the hard sciences, physical sciences, but it's a constantly evolving area and we're always launching new journals to keep abreast of the market. And similarly, we'll be launching journals in different formats as well. So, we have a number of open access journals alongside our subscription journals and I think in total in the last year we've done about 40 new journals.

So, that's that. On – your second question was about Exhibitions and the growth. Look, I'm not going to give a forecast for Q4. I think last year you saw the pattern was a little bit different. Last year we were – did 6% at the half-year, then dipped down to 5% and then came back to 6%. This year has been sort of the opposite of that. We had first half at 5% and the Q3 point at 6% but that's just the normal variation of growth in the particular shows that fall into particular quarters. And I wouldn't read too much into a one percentage point change from one quarter to the next and I wouldn't point to anything unusual in the – that's coming up in the fourth quarter.

And your final question was about Legal and the revenue mix. I mean it's certainly true that the new analytical products, things like Lex Machina, Intelligize, the Practical Guidance products, things – particularly things like that are growing well and getting good traction in the marketplace. They start from a relatively small base, of course, but they're doing well. The more traditional reference would be the more stable business, with the growth coming from those new analytical products.

Sami Kassab: Thank you very much, Nick.

Nick Luff: Thanks, Sami.

Operator: Next we'll take our next question from the line of Patrick Wellington from Morgan Stanley. Your line is open, please go ahead.

Patrick Wellington (Morgan Stanley): Yeah, good morning Nick.

Nick Luff: Morning, Patrick.

Patrick Wellington: Morning, Nick. On Elsevier a couple of questions. Firstly, the print books trend. Can you remind us what is normal for a print books trend? You talk about a return to normal growth levels but I'm lost as to what normal is these days. Secondly, on Elsevier, just for the reassurance of many people, if you do 3% growth at the half year and then 2% growth at the nine months, one could read that as zero growth in Q3. I'm sure that's not the case and that you're probably 2.6% down to 2.4% but can you comment that that is indeed – the latter is the sort of decline that you've seen, rather than the former?

And thirdly, can you say anything more broadly about any sort of changes in the environment of Elsevier and its customers – Plan S, open access? Are these things causing you, if you like, heightened curiosity – I won't call it concern – or is just, as far as Elsevier is concerned, very much business as usual?

Nick Luff: Okay. Yeah, so print books – what's normal – as you say, they are – it is the most variable part of the division, of course, which is why we end up having to give a fair amount of commentary on it each time, even though it's only 10% of the revenue. The normal, if you look over the last few years and average it out, high-single-digit declines is the average. And so, when we are commenting against normal trends, we are commenting relative to that.

In your second question, I am not going to get into decimal points of exactly where growth rates are. We are clearly pointing to the print book sales change being the difference between the first half and the Q3 year-to-date growth rates. We mentioned that it – Q3 is the main selling season. So, Q3 is a bigger quarter for print books; it's almost as big as the first two quarters added together. But if you do some maths on that and the – going back to

normal trends, you can work out that that's a sort of 30–40 basis point impact on the growth rate of the overall division and I'll let you draw your own conclusions from that.

I think on your third question about the overall environment for Elsevier and I think in particular you were focused on the journals business, yeah, I would say that the key operating metrics for that business remain very strong. Our volume of submissions that we're getting continues to rise well, the number of articles published on the back of that – even though our rejection rate is going up all the time, the number of articles published is increasing, usage statistics are very strong; the new sales that we mentioned earlier in the year remain ahead of prior year, author-pays volumes are good. So, the overall metrics we see are positive and, clearly, I think that gives us confidence that a lot of people see value in being published in our journals, both subscription journals and open access journals and a lot of people see value in having subscriptions to the subscription journals so they can read the material. So, I think that's our main assessment of the overall environment for STEM.

Patrick Wellington: And just following up, without commenting on the customer, we're presuming that the German DEAL consortium hasn't been part of the revenue of Elsevier in 2018 and therefore any headwinds that that has caused on growth in 2018 would go away in 2019. Is that, mechanically, a correct assumption?

Nick Luff: Well, I'm – as you rightly identify, I'm not going to start getting into the individual customers or groups of customers and you'll have to draw your own conclusions.

Patrick Wellington: Okay, that's great. Thank you.

Operator: We'll take our next questions from Guido Nunes from Kepler Cheuvreux. Your line is open. Please go ahead.

Guido Nunes (Kepler Cheuvreux): Thank you. Yeah, it's Guido at Kepler Cheuvreux, thanks for taking the questions. Three questions, if I may. Firstly, on the competitive environment in legal; are you noticing a big change in the environment from the stance of your competitors?

Secondly, on Elsevier, are you noticing from the customer side a change in usage, change in approach towards your products? And lastly, maybe a broader question if I may, what do you see as the trigger for RELX to grow to a 5% or 6% organic growth level in the medium term?

Nick Luff: Yeah, okay. I mean the competitive environment in Legal – I don't think we see anything different. It's a competitive market, there are different companies with different offerings out there. It's a very active space, companies are launching new products and have marketing campaigns around those, as we do, of course. But in an overall sense, we've not seen anything that is impacting our business any differently to what we've seen in recent years.

The second question, on Elsevier and the use of products, again, there's no fundamental change in how people are using the products. The – I mean I think if you get into the databases and tools, clearly those are growing nicely and we're getting higher penetration of those analytical products, be they in healthcare or be they into the research segment. And so, as we enhance those products and we're continuing to see take up of usage, in the more – in the journals business, as I said earlier, the usage volumes, actually, are quite strong and

we continue to see good demand for accessing the material that we publish but no fundamental shift in the nature of how people are using them.

And your third question, about the overall group growth rate, look, I think the that I would characterise it is that we are constantly working on the growth capacity of the business and seeking to give – to create a business that's got more predictable revenues, more – higher growth of the revenue streams and in particular looking to bring the greater use of analytics and decision tools into Legal and Elsevier STEM in the same way we have been doing with the Risk business, looking to increase that overall growth capacity of the Group. At the same time some of the anchors like the print drag, which is print is getting gradually smaller – we talked about print books a bit today but there is still some across the group as a whole, around 10% print, which is typically declining. That is, of course, getting smaller and smaller and we occasionally slice off parts of it where we can see the opportunity to dispose of segments.

So, we're working on the overall growth capacity of the Group. Of course, having said that, our end market customer environments we don't control and therefore we can't predict exactly what the revenue growth rate will be and how it might change over time but what we are – what we can control is the growth potential of the group, the growth capacity of the group and that's what we're working on.

Guido Nunes: Very elaborate. Thank you.

Operator: Once again, if you would like to ask a question please press star one.

Nick Luff: Okay. It sounds like everyone has had a chance to ask their questions, Operator. So –

Operator: Mr Nick, we do have two questions right now.

Nick Luff: Okay, keep going.

Operator: Alright, we do have Rajesh Kumar from HSBC. Your line is open. Please go ahead.

Rajesh Kumar (HSBC): Hi. Good morning Nick. Thanks for taking the question.

Nick Luff: Morning.

Rajesh Kumar: On ThreatMetrix, the 40% growth you referred to earlier, how does that split between winning new customers versus selling into existing customers? So, are you selling more products and services into existing contracts or are you winning new contracts which is driving that sort of growth?

Or – a follow up on the – the second question is a follow up on the organic growth acceleration potential, which you kindly elaborated just now. When you look at the shifting mix of the business, do you – how does that margin profile look for analytics versus print? And as the mix shifts more towards analytics, what should one expect for the margins?

Nick Luff: Okay. I mean I think on ThreatMetrix it is a combination of both new customers in new segments – originally very focused on the financial services sectors, banks in particular, but increasingly broadening the customer base to include a range of companies, including anyone doing online retail, anyone engaging with customers online and even government segments and the like but also includes having started with a customer and proved the

effectiveness of the product, expanding that and expanding the capability of the offering and expanding into new parts of what each of the existing customers does.

Of course, part of the rationale for our acquiring ThreatMetrix is the ability to combine it with our own organisational strength. The people who will benefit from using the ThreatMetrix products are the same people who have traditionally bought our products that help them with identification and fraud prevention and the like and therefore the same sales force that we have can use – and already do, in fact – it's one of the first things we'll be doing on the integration is to get the sales force selling both our own historic products and the ThreatMetrix products. And that's one of the key synergies that we're driving which gives us the potential to expand the customer base for ThreatMetrix.

Your second question on margin and the shift of the business. We haven't found that there's an inherently different margin between print and digital products. Print can be reasonably high margin and analytics, although clearly some costs that you have with print go away, there is an expectation from customers that you would be much more up to date and frequently updating your information. So, you have extra costs as well. And I would say that, really, now almost all our effort is in – focused on the digital product and we will still provide a printed product if that format is what a particular customer wants but we would focus the energy and effort of the organisation on the digital product, so the print is almost a sort of by-product of that. So, the – we don't run printing presses and – etc. any longer, so there isn't some sort of great cost structure to go away as we move away and less and less print. It's pretty much all outsourced. And I think, as you've seen from the history of the way we've run the company, margins are very controllable. We have a choice in any one year how much we spend on new market development, new product development and getting in the new adjacent verticals, etc. And we have very consciously and continue to very consciously manage each of our businesses to ensure that the cost growth stays below the revenue growth. And doing that, you get incremental improvements in margin and that's what we seek to do every year.

Rajesh Kumar: Thank you.

Operator: Thank you. We'll now take our next questions from Harry Redd[?] from Liberum. Your line is open, please go ahead.

Nick Luff: Hello?

Operator: Your line is open, Harry. Please go ahead.

Nick Luff: It sounds like he's dropped off, Operator.

Operator: Yes, he just dropped off. Once again, if you would like to ask a question please press star one.

It appears there are no further questions. At this time, I would like to turn the conference back to Mr Nick Luff for any additional or closing remarks.

Nick Luff: Okay, Sharon. Well, thank you for – everyone for joining us this morning. And if you have any further follow-up, then please do call Colin. Thank you. Bye.

[END OF TRANSCRIPT]