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EDITED TRANSCRIPT

Half Year 2019 Relx PLC Earnings Call

EVENT DATE/TIME: JULY 25, 2019 / 8:00AM GMT

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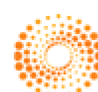

CORPORATE PARTICIPANTS

Anthony John Habgood *RELX PLC - Non-Executive Chairman*
Erik Engstrom *RELX PLC - CEO & Executive Director*
Nicholas Lawrence Luff *RELX PLC - CFO & Executive Director*

CONFERENCE CALL PARTICIPANTS

Adam Ian Berlin *UBS Investment Bank, Research Division - Director and Equity Research Analyst*
Giasone Ulisse Salati *Macquarie Research - Senior Media Analyst*
Katherine Tait *Goldman Sachs Group Inc., Research Division - Associate*
Matthew John Walker *Nomura Securities Co. Ltd., Research Division - Former Analyst*
Nicholas Michael Edward Dempsey *Barclays Bank PLC, Research Division - Research Analyst*
Patrick Thomas Wellington *Morgan Stanley, Research Division - MD and Head of the European Media Equity Research*
Sami Kassab *Exane BNP Paribas, Research Division - Media Research Director, Co-Head of the European Media Team & Analyst of Media*
Thomas A Singlehurst *Citigroup Inc, Research Division - Director and Head of European Media Research*

PRESENTATION

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

So good morning, everybody, and welcome to RELX 2019 Interim Presentation. Thank you for coming. And for those of you who are listening to the webcast, thank you for joining us. I'm pleased to be able to say that RELX is continuing it's positive overall development this year with good revenue and profit growth. This was also reflected during the period in our high cash flow conversion and our strong first half earnings growth. Adjusted cash flow conversion was 94%, a high level for the half year. And as you all have seen, adjusted earnings per share grew 12% in sterling and as I said, a strong 8% in constant currency. We've announced an increase in the interim dividend of 10% to 13.6p per share, and those shareholders on the Amsterdam Stock Exchange will receive an increase in the euro dividend of about 7%, depending, of course, on the precise exchange rate on the day.

Our overall strategy of focusing on organic development supplemented by selective acquisitions, of targeted data, analytics and Exhibitions assets is continuing to bear fruit across all 4 of our business areas. And as we enter the second half of 2019, key business trends for the year are in line with the full year of 2018.

Thank you. I'll now hand over to Erik, who -- with Nick, who'll take you through the first half results in some detail.

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. As you've probably seen from our press release this morning, our positive financial performance continued in the first half of 2019. With underlying revenue and adjusted operating profit growth across all 4 business areas. We also continued to make good progress on our strategic and operational priorities with our primary focus on the organic development of increasingly sophisticated analytics and decision tools and with recent acquisitions performing well.

Underlying revenue growth was 3 months -- 3% for the 6-month period. Underlying adjusted operating profit growth was 4%. Earnings per share growth at constant currencies was 8%. And the interim dividend is up 10%.

All 4 business areas again delivered underlying revenue growth as well as underlying operating profit growth. So let's look at the results for each business area. In STM, key business trends remained positive. Underlying revenue growth was 1% in the first half of 2019, following growth of 3% in the first half of the prior year and 2% in the full year 2018, as last year's favorable first half facing differences unwound in the second half. Good growth in electronic revenue was again partly offset by continued print declines. In primary research, we continued to enhance customer value by building out broader content sets, more sophisticated analytics and evolving our technology platforms. The number of article submissions and articles published in our subscription journals continued to grow strongly. The subscription renewal completion rate is in line with recent years. Although in the prior year, we had a small customer revenue stream in the first half that we didn't have in the second half.

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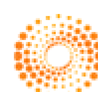

Our open access publishing program, which now includes over 270 dedicated open access journals, in addition to the sponsored article option almost all of our subscription journals. So its growth rate accelerate as we continue to gain market share. Databases and tools continued to drive growth across market segments.

Print book revenues were down in the first half of 2019 in a market environment that declined in line with historical trends. This is compared to an unusually favorable period of stable revenues in the first half of last year before a reversion to historical rates of decline in the second half of 2018. Going forward, our customer environment remains largely unchanged from recent years, and we expect another year of modest underlying revenue growth.

Risk & Business Analytics grew 7% with strong growth across all key segments. In Insurance, we continue to drive growth through the rollout of enhanced analytics, the extension of data sets and expansion in adjacent verticals. U.S. market conditions were not quite as positive as in the prior year's first half. The market growth contribution was more in line with the second half of 2018 and gradually improved through the period.

In Business Services, strong growth was driven by further development of fraud prevention and risk management analytics. The U.S. and international market environment was broadly in line with historical trends. After period of variability in transactional volumes, the growth rate returned to historical levels from the middle of the first half. Data Services was strong in all key verticals.

The integration of last year's acquisitions, including ThreatMetrix and Safe Banking Systems, progressed in line with expectations, and the businesses are performing well. Going forward, the fundamental growth drivers of Risk & Business Analytics remain strong, and we expect revenue growth trends for the full year to be in line with full year 2018.

Legal underlying revenue growth of 2% was in line with the prior year. Underlying profit growth was ahead of underlying revenue growth with a margin increase reflecting organic process improvement as we enter the later stages of systems decommissioning. The market environment remained stable in the first half of 2019, and we saw continued growth in online revenues, partly offset by further print declines.

The new platform rollout is nearing completion across all markets, enabling the release of broader data sets and further rollout to market-leading Legal analytics. And last week, we announced the joint venture with Knowable, a leading contract analytics provider. Going forward, trends in our major customer markets are unchanged, and we expect another year of modest underlying revenue growth.

Exhibitions underlying revenue growth was 5%, in line with the first half of the prior year. The lower underlying profit growth reflects cycling-out effects. We continued to pursue organic growth opportunities, launching 25 new events and piloting and rolling out further data and analytics initiatives. Market conditions were good in Europe and the U.S. and remained strong in China. In Japan, local venue capacity constraints associated with the Tokyo Olympics started to have a negative impact in Q2, as previously communicated.

In the first half, we completed the acquisition of Mack Brooks, a leading organizer of over 30 highly complementary events, and integration is proceeding as planned. Going forward, temporary venue constraints and cycling effects aside, we expect underlying revenue growth trends to continue in line with the prior year.

In addition to our organic development-driven growth strategy, we continue to reshape our portfolio through selective acquisitions and disposals at a rate in line with recent years. In the first half of 2019, we completed 8 acquisitions for a total consideration of GBP 246 million and made a few minor disposals for GBP 45 million.

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

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

Thank you, Erik. Good morning, everyone. Let me start by giving a bit more detail on the financial highlights. As Erik said, we delivered underlying revenue growth of 3% in the first half. Growth in underlying adjusted operating profit was ahead of revenue growth at 4%,

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driving a 40 basis point margin improvement. Growth in earnings per share at constant currencies was 8%. Cash conversion was again strong at 94%. Leverage at the end of June was 2.6x, including leases and pensions, slightly higher than the year-end, which is usually the case given the first half waiting of the buyback and the dividend payments.

Interim dividend is up 10% to 13.6p. Shareholders can still receive dividends in euros if they wish with the exchange rate for the translation set about 2 weeks prior to the September payment date.

In the first half, we deployed GBP 400 million in share buybacks with the further GBP 200 million to be completed in the second half.

Turning to the income statement. You can see the underlying revenue growth of 3% with good growth in electronic and face-to-face revenues, partly offset by continued print revenue declines. Exhibition cycling and timing effects reduced revenue growth by 1% for the group. Our portfolio effects have a neutral overall impact, giving constant currency revenue growth of 2%. The dollar was stronger against sterling compared to the first half of last year, resulting in reported revenue growth of 6%.

Adjusted operating profit grew ahead of revenue growth at 4% on both on underlying and constant currency basis, reflecting the benefit of process innovation across the group and there being no portfolio drag in the first half of this year.

Currency effects had a similar impact on profits as they did on revenue, adding 4% to take the sterling reported revenue growth in adjusted operating profit to 8%. The operating margin improved to 31.9%, 40 basis points higher than in the prior period.

Our operating profits, a stable interest charge and a tax rate of 21.7%, in line with full year 2018 but lower than the first half of last year, delivered constant currency net profit up 6%. The ongoing share buyback program reduced the average share count by around 2%, converting the 6% net profit growth to 8% growth in adjusted earnings per share at constant currencies. Currency also boosted EPS, of course, with adjusted earnings per share in sterling up 12% to 45.9p. Reported earnings per share was 39.9p, up 17%.

Moving to the business areas. All 4 contributed to the overall underlying revenue growth performance with Risk & Business Analytics and Exhibitions again delivering strong underlying growth. ThreatMetrix acquired in February last year is included within underlying growth for R&BA from the anniversary of the acquisition. SBS, the other notable acquisition from 2018, also in R&BA, will not be an underlying until the second half of this year.

On a net basis, disposals in R&BA offset the revenue contributions from acquisitions prior to the 12-month anniversary, leaving constant currency growth the same as underlying growth. That was also true for STM. All portfolio effects were negative for Legal.

Exhibitions saw positive effect from acquisitions, notably Mack Brooks. And on the other way, cycling and timing effects reduced Exhibitions revenue growth by 6 percentage points. For the full year, we expect biannual event cycling to reduce Exhibitions revenue growth by around 5 percentage points. As we said previously, the new capacity constraints in Tokyo, which started to impact the second quarter, will potentially reduce total Exhibitions underlying revenue growth by around 1 percentage point this year and next.

With the weakness of the pound during the first half of the year, currency movements increased sterling reported revenues in all 4 business areas by between 2% and 6%.

Growth in underlying adjusted operating profit of 4% was driven by strong performances from R&BA and from Legal. STM and R&BA had underlying profit growth slightly ahead of revenue growth. Legal profit growth was again boosted by the benefits of system decommissioning. Exhibitions underlying profit growth of 1% reflects the negative impact of cycling and timing. Portfolio effects were a drag on profits for R&BA and for Legal. Acquisitions, mainly Mack Brooks, of course, gave a boost on Exhibitions profit.

For the sterling profit figures, currency was a positive for all 4 business areas, most notably in R&BA, which is an high proportion of dollar revenues. The hedging program acted to smooth the currency impact in STM.

Turning to margins. STM saw a slight increase, while R&BA's margin was unchanged. Legal's margin was up 30 basis points as profits

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grew faster than revenues. The higher Exhibitions margin reflects the portfolio changes and the effects of cycling and timing. At the group level, the adjusted operating margin of 31.9% was 40 basis points higher than the prior first half driven by underlying profit growth being ahead of underlying revenue growth.

While we report in sterling, our 2 main revenue earning currencies are the U.S. dollar and the euro. Most of our currency exposure is translational, but we do hedge some of the transactional exposure, most notably within STM and the subscription business, which delays and smooths the impact of exchange rate movements. The exchange rates will, of course, move from today's levels, but sterling is currently weaker against the dollar and to a lesser extent, against the euro compared to the averages for 2018. If current rates were sustained for the rest of the year, the currency benefit to sterling adjusted EPS growth for the full year compared to constant currencies will be a little bit less than we saw in the first half.

Turning to cash flow. You can see CapEx was GBP 171 million, equivalent to 4% of revenue. Total free cash flow increased to GBP 794 million, reflecting increased operating profit and the strong cash conversion of 94%.

And here's how we use that free cash flow, acquisition consideration totaled GBP 246 million, including most significantly Mack Brooks and Exhibitions, while disposals aggregated GBP 45 million. Dividend payments were GBP 578 million, and the share buyback was GBP 400 million. Overall, that took net debt to GBP 6.6 billion and leverage, which we calculate in U.S. dollars, to 2.6x, including leases and pensions; while the increase from 2.5x a year earlier entirely due to the increase in the pension deficit. As you can see, excluding leases and pensions, leverage was unchanged from a year earlier at 2.3x.

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

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

Thank you, Nick. So just to summarize what we have covered this morning. During the first half of 2019, our positive financial performance continued, and we made further strategic and operational progress. Going forward, the full year outlook is unchanged. As we enter the second half of 2019, key business trends for the full year are in line with the full year 2018. We remain confident that by continuing to execute on our strategy, we will deliver another year of underlying growth in revenue and in adjusted operating profit, together with growth in adjusted earnings per share on a constant currency basis in 2019.

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

Okay. So let's start over here.

QUESTIONS AND ANSWERS

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

Nick Dempsey from Barclays. I have got 3 please. So just on Business Services, I wonder if you can help us understand a bit more what the variability was in the first quarter. Just -- I mean, I understand what you said, but maybe give us a bit more detail to understand whether that might recur at any point in the year. Second question, Exhibition margins up decently in first half. Nick explained that. But I'm just wondering for the full year, will those timing effects and cycling effects all unwind? Or should we expect some margin improvement for Exhibitions for the full year? And last point, Legal, you talked about entering the latter stages of systems decommissioning and the benefits on the margin. So this is a 2% organic growth business where margin improvement is running out. Is it the sort of thing that we should rely on?

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

Okay. I'm going to let Nick handle the second question on margin in Exhibitions, but let me cover the first one, the question of ownership in Legal. Business Services in the risk division, for the risk division as a whole, you know that almost 2/3 of the business is transactional revenue streams, meaning they're often embedded inside customers or ongoing customers, but there's some variability in monthly billing. In Business Services, which include all the identity, fraud management, risk management, risk assessment services for most financial and corporate customers, it's pretty similar. There, you also have, in addition, some small batch sales here and there where

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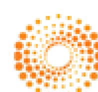

people need to clean up files and do things that keep coming throughout the year. So there is a transactional component to that. That can vary a bit and has varied a bit over the last several years, continues to vary a bit. We saw last year that just towards the end of the year, that period of variability started a bit. So if you look at it during the year, now in retrospect, we can see that during the last quarter last year, that variability started and had slightly lower contribution in the growth rates right at the end of last year in the fourth quarter. And that continued and started to recover a little bit in the first quarter, but after the first quarter here, in the middle of the first half, was back to what we consider the solid continued traditional growth rates in that segment. And at this point, they're running at a traditional rate, which, of course, then is, by definition, ahead of where they started the year and is also ahead over last year -- last year, second half last year ended, if you say also. So that's where we are right now on Business Services.

And you asked the question has that happened before? There's always variability on a week-to-week, month-to-month basis there. So in any 3-, 6-month period, it can vary a little bit. This happened to come over the end of the year, basically, and last a bit into the first quarter.

Maybe I'll ask Nick to cover the margin questions.

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

Yes. So the Exhibitions margin question, as I said in the count of the first half, it is all about the cycling. And as well as the different revenue profile year-to-year, the cycling shows also have a different margin profile. So if you look back in time, we tend to do better, actually, in the odd years on margin where in that particular set of shows, although overall revenue terms is cycling out here, we tend to be better on margin in odd years . We'll see when we get to the full year this year. But overall, for Exhibitions, as in all of our businesses, the objective is to keep cost growth below revenue growth, which all other things being equal, will drive some margin improvement over time that you do have to look through the cycling effects year-on-year to see that clearly in Exhibitions.

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

And back to Legal. As we enter the later stages of systems decommissioning, the gap between revenue growth and profit growth that has been sort of 2 to 10 for the last few years on an organic basis has come down now, as you can see, the first half, I think it was 2 and 5., our objective here as we continue to run Legal going forward is twofold. It is, number one, to accelerate the organic revenue growth in that business by adding more sophisticated analytics and higher value-add decision tools to the Legal industry, both the law firm service provider as well as corporate legal -- and government legal customer. And I think we have taken a lead in the industry in moving in that direction, in devising tools that help higher value-add decision-making. And our objective is to continue down that path and, by adding higher value to customers, have them want more of our tools and, therefore, increase and accelerate our revenue growth. And also don't forget there that we have a print drag still in Legal that right now is just below 15% to the business is print, but that is still a drag at this point in time, and that will gradually fade over time.

When it comes then to the margin progression, the margin progression on an underlying basis, of course, would have been higher than the 30 bps or so you see coming through over the last few years if you just have the 2 and 10. But that's because we have portfolio drag and other changes. As the portfolio drag should fade over time, the margin improvement is something that we still expect to continue to have over the last few years but probably more in line with what you're seeing at this moment, right, than the kind of gaps you've seen in the past. So our objective is to continue to have a gap between underlying revenue growth and underlying profit growth going forward.

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

It's Sami from Exane. I have 2 questions, please. The first one, within Elsevier, can you comment on the organic revenue growth in the primary research part of the division? Was it consistent with previous years? Or has it slowed down or accelerated? And secondly, would you disclose the organic revenue growth rates of ThreatMetrix for the period, please?

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

Okay. Primary research so far, as you know, this is an annual business, and we're now also halfway through the year, and things are should be done on an annual basis. The way we look at it or the key metrics in primary research to indicate where you are year-to-date compared to prior year, so the few key metrics we look at, number one is contract renewal completion rate. The contract renewal

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completion rate this year is in line with the last 2 years average rate, right, on the last 2-year average. That small issue side with -- for second half last year side. Then the other thing that we look at is, of course, new sales. If you look at new subscription sales for research as a whole, this year, at the half year point, even though it's lumpy, it goes throughout the year, this year, we're slightly above the average over the last 2 years in new sales, right? There's a bit of fluctuation there because they're one-off, but we're ahead of -- just marginally ahead of where we were on average over the last 2 years. The other metrics that we look at during the years, of course, submission growth to our subscription journals, which continued to grow strongly. The articles published in some subscription journals where we're growing well and growing ahead of market growth in subscription journals. And then, of course, on open access, both in terms of sponsored articles and in terms of author pays stand-alone dedicated journals, we have seen, again, submission growth grow strongly and actually accelerate already well into double digit but accelerated in the first half of this year, and therefore, the number of articles we published accelerated also in the double digits in -- well into double digits in the first half, which means that we continue to gain share both in subscription volumes as well as all in author pays volume. So you look at -- those are the metrics that during the year we look at, renewals of subscriptions, new sales, submissions. So if you look at it that way, the metrics that you'd look at this year versus last couple of years is very much in line and on the same progress as the last couple of years.

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

You said that completion rates are in value terms, right, or in volume terms?

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

Value terms.

Second question, organic growth rates in ThreatMetrix. Well, ThreatMetrix, as you know, we bought during the first half last year and then integrated and started to slightly adjust the way we account for revenue versus cash accounting as on the incorporation. But if you look at it right now, if you look at it right now today, the run rate in revenues today compared to a year ago is roughly 30% ahead of where it was a year ago, which I think is the right clean way to look at it, right? So -- and you might recall that last year, we said that when we took it over, when they were a smaller company, at that time, the growth rate was about 40%, right, on a like-for-like basis we accounted for. And this is exactly what we have planned for and expected and what we built into our expectations as it gets bigger.

So let's -- yes, so why don't we go over here then?

Adam Ian Berlin ***UBS Investment Bank, Research Division - Director and Equity Research Analyst***

It's Adam Berlin from UBS. I've got 3 questions. The first thing is you've guided for revenue trends for the full year to be in line with 2018. So if the first half was 3% for the growth, that would imply the second half would be 5%. Can you just talk through the things that are going to drive the acceleration in the second half? Second question is on STM. You just made the point that value of renewals are the same, in line with historical trends. Have you have to be more flexible in your approach to negotiations to deliver that outcome? And the third question I had was you talked about how articles being published is growing very strongly, and yet we're still seeing margin improvement is STM despite the slowdown in revenue growth. What costs are you taking out the business? Or are you going to be able to take out the business to keep STM margins where they are if that revenue growth continues to slow?

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

Okay. So let's see. First question, revenue growth. If you look at the first half revenue growth as disclosed, which you can see, and you look at the divisions, I know you all do this when -- either before or after you've been here, you can calculate that this -- what the range of outcomes would be, and you can see that we're clearly above 3% but not ramping to 4%. That's a mathematical thing, so that's not a new sighting. If you look at first half versus second half, you can see there are 2 largest divisions. In the first half, we're 1 point lower on a full basis, and you've seen inside those divisions what the reasons for that were. And if you look at those, you can see that inside STM, the big swing factor compared to last year was the very unusually strong print book market and print book revenues in the first half that didn't exist in the last, in the second half. You can see that the growth rate differential in print books in STM in the second half last year was more than 10 percentage points worse than it was in the first half. So if you take that approach, you can see that the comp that was very strong and challenging in the first half is not at all that challenging going forward. Again, I don't know how to predict print book revenue streams 4 to 5 months out. We haven't figured out how to do that, so we don't know what will happen this coming

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November-December selling season, but I'm just explaining what happened last year versus where we are today if you look at the run rates in STM.

And in risk, as you could see that we have the unusual situation of the slow-moving cycle in Insurance market contribution, which tends to go in slower, moving over several months based on how different carriers do price differentials and how shopping and switching behavior changes between the carriers that tends to move in slow waves. That wave started to head down in the third quarter last year slowly and then bottomed out at the end of the year and then gradually throughout the first 6 months, have come back up again. So the market contribution run rate at this point is exactly where it was on average last year. But last year had a very strong first half, right, and then came down.

In Business Services, we talked about the difference between sort of slower at the end of last quarter beginning of this quarter. So if you'd look at that in total, at this point in time, the current run rate in risk right now is higher than last year's second half total run rate. So that's why I'm saying that I'm not sure why you would interpret it as acceleration. It's more a question of what happened to the comps. But that's a question of semantics, and you can model it how you'd like. We haven't come up with a way to forecast the variability of transactional volumes in Business Services a few months out. In Insurance, there are trends and waves and new product pipeline. Those are very strong. So what we control in risk, the product pipeline, the product rollout, those have continued very strongly, and you can see that in these charts that we put in the back and that we normally present every half year. So that's where we are today.

Second question, renewals. In Primary Research and in science in general, we think of ourselves as a service provider. We want to provide a full range of products and services to our customers. And we want those products and services to be of higher quality than other major providers with better technology tools and be provided to them at an effective price to the customer that is better to them, lower to them than other major providers. That's our objective in all our customer interactions.

What we do when we work with them is we don't talk about them in public, as you know. I don't comment on them in public, we engage directly with all these customers directly, indirectly, individually, or in group and we work with the combination of products and services that they request that they would like to have for us. Then we tried to figure out a way to make sure that they get those in a way that's better for them but at a lower price. Sometimes that's relatively straightforward to achieve, sometimes, it's more complicated. Each customer is very different from the other in the individual countries and more importantly, individual institutions have different research intensity, different usage, different subject areas and so on and we have to work with them to make sure that as we offer a broader and broader range of tools and more sophisticated analytical tools as well as broader and different content sets and different ways to publish that is fully understood, we work through all scenarios and therefore come up with something that worked well for them.

As we now have a new CEO of the STM division that started in February and is off to a very good start, she is of course engaging deeply with the customer, really already been out with many of the large ones. And she is very eager to take what she's learned from working with technology, analytics decision tools in the other divisions as well as different content sets. And to take that knowledge to bring a sort of higher level of innovation and creativity to working with our customers. And do I believe that this will continue to evolve over the next 2 years just like it has evolved over the last 10 to 20 years? Absolutely, I think will continue to evolve. And I think she's in a very good position to do that.

Margin improvement in STM. The way we again think about our customer offer, if we're going to do what I just said, meaning higher quality, better technology, lower price, we need to continue to innovate, both in terms of how we put together content sets, how we operate our processes, the technologies we use and the efficiency of those processes in order to deliver that. We have continued to that for many years already by leveraging technology, and we will continue to do so. The way we think about applying modern analytics, artificial intelligence, technology decision tools to our customers is this is to help them better. We also apply exactly that same thinking innovation approach to our own professionals to make sure that we can do more to get more value for a lower price than other people can get. And because we have larger scale in STM than any other provider, and larger scale and technology and information than anybody else given that we operate across our 4 operating divisions, we believe that we can continue to lead the industry in process innovation and applying technology to the process. So we should be able to continue to drive down the effective total unit cost of doing STM publishing for several more years going forward, just like we have literally over the last 20 years every single year. So we have great confidence that we should be able to continue to innovate and drive those unit costs down. I think that was that.

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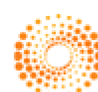

Matthew John Walker ***Nomura Securities Co. Ltd., Research Division - Former Analyst***

It's Matthew from Crédit Suisse. Couple of questions. The first thing is you've got a new CEO and Elsevier. If you look at what's happened, I'm not going to ask you to comment on individual contracts. But if you look at what happened, there has been some win backs of previous situations. I won't enumerate all of them, but there's been some win backs. So it does look like there's more definite change in attitude, what is that related to? Is that related to the new CEO at Elsevier ? Or is that a decision that you have taken? And does that mean that we will be seeing from those people who've gone away, does that mean that they will embrace the new found flexibility too over the next sort of few months?

The second question is, could you just be a bit more precise on the Insurance points? You talked about market conditions in your U.S. Insurance being a bit softer, for I guess for the older products. Can you just be a bit more precise about what is actually happening? Is it less appetite by U.S. auto insurers? Is it less policy churn for some reason? It looks like U.S. auto insurance prices have come down, is it related to the that? So if you could just be a little bit more precise about what's actually happened and then how it's changing and getting better that will be helpful.

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

Yes. Okay. Our approach to working with our customers in Elsevier and in STM has not changed. That is consistent what I said before. We think of ourselves as a service provider and offer a full range of products and services. Our objective is to work with each customer individually and in-depth to make sure that we offer products and content sets of higher quality at lower effective prices and to do that in a way that's sustainable and attractive to our customers over several years.

Of course, when you have a changeover in leadership, there is always a little bit of a transition period, which we've gone through. But the new CEO, as I said, has come into this full of energy, full of enthusiasm and interest in engaging directly with our customers and to innovate and use the knowledge she has from other divisions and technology and from other content sets to try to figure out how to continue to evolve the industry in a positive way both for the customers and for our STM division. And of course, when I say that we want to be a provider that provides content, technology services at higher quality and lower price to our customers, we would ideally like to add to all research institutions in the world. We're here to help advance science and we would like to add all of them. So if that means that there are some that have done less with us over the last couple of years or perhaps we've done less or shifted away, of course, she is going to try to work with them going forward, to try to gain to -- to trying to gain them back or to try to provide broader services with them in a way that's attractive to them. That's of course her objective, and that's what she is going to continue to try to do.

So I don't think it's a change in philosophy or strategy, but each individual has a different approach and when you start, when you start to do something from multiyear -- for a few years, and you are going to approach this with full of energy and desire to innovate and serve your customers and I'm sure she will do that.

Insurance, just want to first repeat the way I talked about the market growth contribution, which is the way we think of the growth contribution from market activity for products older than 5 years. Meaning it's not about the rollout and the timing of rollout of new products in the pipeline out into market, and that's a definition that we use internally. We track all these metrics that combine to get sort of an activity measure for us a value activity measure. It's not a number, right. So that's how we do it. And it has to do with all these different issues about, which carriers offer what price differentials in which state. And how do consumers react to those different price differentials and how do consumers shop and how many consumers switch when they shop relative to those price differential, so that creates an overall measure that we use, right. That is what has happened historically. And historically that measure then keeps going in waves, is probably more the right description, and they fluctuate -- than volatility. It goes in slow waves.

Last year, we had a good first half there, a traditional on average in line with a good performance we had over the last years from the market contribution item. That thing gradually started a slow downward trend in the third quarter last year. And that then bottomed out at the beginning of this year, at the end of last year, beginning of this year, and then has gradually worked its way back up. So the market growth contribution at this point, right now, we just had a conversation in here a couple of days ago, the current run rate is at the average contribution for the full year last year. But full year last year had a strong beginning and a weaker second half, right. So we are right now at the blended average run rate for last year.

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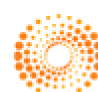

So that's why I want to make sure that when you ask, why is it falling, I'm now back to a point where it's identical to last year. So I'm not sure I really want to try to explain why it was falling, but there are these kind of fluctuations we've seen in the past. They continue to happen, the market growth contribution if you look over the last 5 to 10 years, they've gone in these waves up and down and so on. What I think is unusual this time around is that for the risk division as a whole is that when right when Insurance was going through one of these slower waves at the end of last year, we had the temporary volatility in business service transaction volume at exactly the same time we kicked into the first quarter of this year. These are unrelated events, separate industries, different service and so on. But it's visible in terms of the overall growth rate because they happen to coincide, normally unrelated waves going at different times they wouldn't normally have a high probability of doing that very often. But this kind of volatility or fluctuation that we saw in Insurance, last time we saw that was probably -- I can't remember if it was 2 or 3 years ago, maybe for a half-year period we had something very similar. So that's what we are on the Insurance group.

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

It's Katherine Tait from Goldman Sachs, 3 questions from me as well, please. First one on STM, you talked about gaining share within open access. I wonder if you could quantify that a little bit more, give us a sense of where your market share in open access is today and how that compares to your market share in subscription and journals? And then I suppose linked to that, can you give us a sense of where your average APC is, with of course your OA journals and yes perhaps any sort of color around growth rates there? Second question on Legal, you talked about the new platform rollout and can you give us a bit more color about specifically about what does that enable you to do once that's rolled out versus perhaps your legacy platform? And maybe any update on new product rollouts that you've got coming through on that platform? And then finally, just on Risk business analytics, I think I'm right in saying that historically you've talked about that business very much being driven by volume growth. Can you give an update in terms of whether or not that's still the case and whether or not you would consider easing pricing as a lever to going forward?

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

Yes. Okay. I'll try to cover most of those. I'm going to give Nick the one about Legal platform in the middle there when we get there, but let me cover the others. So open access growth, when it comes to the exact definition of share because in open access articles, there is such a full range from a high-quality index, high citation down to what we might see in that sort of typical average subscription journal quality down 2 things that are almost never cited and some people even criticize as predatory publishing. The exact definition of how big the overall market is in your share, it's a little less precise I think and many people have different opinions of what should count as an open access article. So that's why we try not to articulate through a clear definition of what our share is, but we can tell you the growth rates that we have relative to do growth rates that are in the market the way we think about it.

And again by different definitions, you can come up with growth rates in the marketplace that are probably just a bit into double digits at this point, that's sort of what most people seem to say even though again different definitions and different estimates. We are well into double digits, growing significantly faster than that. And that's how I know that therefore by definition we're gaining significant share if our growth rate is significantly faster at least double what the most of the measures are on the industry side. That's why I know that we're gaining share no matter which number you actually pick on share. And the same thing when we talked about subscription before you can see the subscription article growth in the industry and you can see that we're above that and that's been the case for last several years.

When it comes to APCs as you described here, there are such a big mix difference here, depending on which journals you launch and so we're now up to over 270 dedicated open access journals and they're launched at different times at different quality tiers, and we launched them into the open windows in the market and the open windows in our offering, which means that given the size of this right now, and the incredible growth activity we've had over the last 18 months, to try to pick an ad blended average between those is very difficult to make it meaningful. It's much easier to do it in the established segment like subscription where you actually know our total revenue, the total number of articles published, total number of citations, total article download and is established and growing a few percentage points a year. So I would not -- what we do is we price every journal in each segment to market with our objective being again that medium term everything we do should be higher quality, lower price on a like-for-like basis. But we haven't even attempted to try to calculate some kind of average because the launch rate is so high and the blended is not very meaningful to us. Legal platform, Nick.

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

Yes, so we're well through the rollout of the new Legal platform, and we're now into that stage of decommissioning the older systems. I mean that obviously is much more light weight, much more modular, you can use the cloud, and that is you can see the benefit of that in terms of the operating cost particularly as we go through the decommissioning and still a couple of years are left as you go through all these existing systems and turn them off. But more importantly, it actually also puts you in a better position for the new product rollout. So it's much quicker and easier to add new analytical tools onto the existing platform and the customers are much easily adopt them and adapt to them because we're going to build them onto that new platform. So that's where we're seeing that benefit in terms of rollout of new product.

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

And the last question you had was risk. Risk has historically been driven by volume growth as you said, and that's still the case. Overall, risk in the traditional risk businesses, risk segments in the Insurance business, Services are 2 large ones. It has always been driven by volume not price, it continues to be driven by volume not price. We have no intention of trying to make that a price-driven industry. Again, we are trying to do what we're doing in our other segments, which we talked about before which is higher value-add, more sophisticated, higher value add decision tools and analytics and lower price. And therefore, over time, the same question we had before on cost we're applying to risk, which you said, we should always strive to do everything we do internally better, faster, cheaper every single year. And that's the philosophy, which means that if you operate yourself better, faster, cheaper, you should not have any need to switch our approach to pricing. That's not on the card. Of course, we have different industry subsegments inside our data services group and so on where it's not clear how you define volume, they're not volume-driven, there are different types of subsegments, where it's a slightly different way to think about what volume is. And we're providing software tools or complete database access and other things they operate slightly differently.

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

Tom here from Citi. I have 2 questions, both I'm afraid on Elsevier. The first one just to be specific, Matt sort of maybe alluded to it but to be specific with the Norwegian deal, which you successfully concluded. One of the people within the unit consulting was quoted, I think in the Times Higher Education sort of the newspaper saying that they were surprised how quickly you come back to the negotiating table, there was a dispute and then it was a resolved very, very quickly. So I was just wondering can you just talk about the sort of general characteristics of that deal that meant it could be resolved quickly, relative to some of the more drawn out disputes like California, like Germany, that was the first question.

Second question was just once again around sort of some of these consortium disputes. I recognize there is a lot of consortium, there is a very long list of clients, and so we're possibly in danger of over extrapolating the impacts of them. But within a lot of these scientific communities, the Elsevier brand is associated with being sort of intransigent, not willing to adapt, certainly relative to your competitors like Wiley and even Springer. So can you just talk about your approach to how Elsevier is perceived within the broader academic community. Are you just going to sort of brazen it out and hopefully in 2 years' time they'll recognize that actually you were right all along or it's that remedial work need to be done in order to make sure that you're perceived well in the community?

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

Okay. That was it. Yes, the way we see it is again, I'm not going to comment on the individual customers as you know, but I can tell you in terms of approach. We have, as I said before, a new CEO of STM, who is coming in full of energy and ready to engage with customers. Eager to innovate, eager to come up with new solutions and eager to serve our customers with high-quality, lower prices.

Sometimes when you take that approach, and you going into a customer, it's relatively straightforward to then figure out what value is and how to resolve it. In other places it's much more complex, much more complicated, many more participants, many more subunits, many more subsegments or contents or tools and other things you're looking at. So it can take longer. We have to be patient, and we will continue to be patient. I mean we have been part of our STM business have been operating for close to 200 years now. And if we have the long-term desire to be a high-value, high-quality service partner for our customers, we need to earn that by working our way through each customer one at a time. And that's exactly what the new CEO is ready to do and wants to do over the next few years.

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And of course, if we have as you say, a challenging or difficult reputation or perception in certain segments with certain customers, that's of course not something we will be happy with or want to continue. So as a new leader of that market segment for us that's of course going to be one of the things she will continue to work on. So I think that answers your question. Yes.

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

It's Giasone Salati from Macquarie. Just a couple of questions please. First on open access gaining share, that should be a great concern for Elsevier because if you claim you are actually gaining share with a higher quality articles, those articles are coming out of subscription that are currently paid for. Right now, you are double billing on subscription, which contracts-- those contracts typically last for 2, 3 years and APC on other side. Corporate is a good example that was a 14% price decline on the contract over 4 years, which is in the press, you don't need to comment on that. I mean you clearly trending towards that kind of negotiations over time, if you are yourself gaining share in a higher quality articles with the open access? And the second one, I'm puzzled, you say you haven't even attempted to calculate the APC across your open access articles. I think that is a pretty simple business the way I see it, it's volume time prices. So you are not in a position right now that use what is the new world of open access in terms of economics, because you don't know what pricing you are realizing in a very competitive and clearly quite transformational move in the market?

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

Okay. Very happy to answer those. First of all, open access gain of share, I also mentioned that we're gaining subscription market share. So we are not switching our articles that we have already published into open access. We're publishing an increasing share on the subscription market at the same quality we have before if you read the public disclosures of quality, and that's our objective. We have not captured fully the opportunity in open access over the last few years. And we have technical -- we will continue to do that going forward.

You made one completely incorrect statement, which I need to correct, and that's the double billing comment. We have a complete nonnegotiable, no double dipping policy that we have on our website that was several years. We only price our subscription journals based on subscription quality and subscription volume. We only price our open access content based on our open access content and price individually and by article and by journal. We do not double bill, it's very clear. When you talk about -- sorry, you then talked about let me just make sure I'm looking at it, yes you made a comment here on price decline. Again, I'm not going to talk about any individual customer, but you also have to be aware that the number of participants in and outside of one deal changes. Most of the time when we renew in any one country or any one institution or sets of institutions often it changes, but very large numbers. And also the types of content sets that are included are not included in the deal. Normally it changes and the number of tools and others services also changes. So I think you probably shouldn't take headline commentaries and say these are like-for-like in most of our situations, right.

Having said that, as I've said before, our objective is to offer higher quality content, higher volume, better tools at lower prices, and we're driving down our unit prices all the time. And our objective is to continue in that direction for a longer period of time. So we hope that our customers should be able to see a relative value improvement in however they measure price per article, price per citation, price per something over time, that's our strategy.

Let me address the last question obviously. We know exactly the APC chart for every single article, every single journal, every single community subsegment. We are scientists, we are researchers, we're mathematicians, we're analysts, right. But when we're launching so many in the last 6 months be it over 25 new journals, right, and we're continuing at that rate to try to blend the average with some of the introductory offer, some of them discount, some of them have a starting point to try to blend them all and say that average has any meaning I think is pushing it into an incredibly simplistic level that we don't really engage in.

We compete segment-by-segment and journal-by-journal sort of author-by-author. And we tried to price correctly in each one of those subsegments. We have 2,500 journals in total, over 2,000 of those are subscription and now over 270 are dedicated open access journals. And it's a competitive market, but the competition is not on some kind of global average or transition, the competition is segment-by-segment, journal-by-journal, author-by-author. And that's where we want to compete and offer higher quality and lower effective price. Down here.

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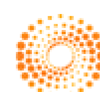

Patrick Thomas Wellington ***Morgan Stanley, Research Division - MD and Head of the European Media Equity Research***

It's Patrick Wellington, Morgan Stanley. So Eric, if I were to characterize the shift in 2% growth, the 1% growth in STM in the first half is 80% books; 20% journals as the reason. Would that be -- would that be a fair representation? That's my first question. Second question, Plan S, whatever happened to that, will it ever happen? Where do we stand in it? And maybe in a kind of related way, you've got a couple of customers who are quite large and you don't deal with at the moment, Germany, California whatever. But again, not mentioning specific customers, can you tell us how researchers are getting on in those sort of institutions, institutions who don't have a direct access to the Elsevier stuff, some of these people have been without for a year now. So what's happening with these people? And then the third one, a bit like the first question. By the end of the year, you're trying to -- your outlook statements suggest to me, because it's pretty much the same as it was at the start of the year, that normal service will be resumed at the end of the year. 2% growth In SGM, 4% growth for the group organically. Would you say that's a fair representation of your remarks?

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

Okay. Let me make sure, you said H1 growth rate differentials. I think I've been pretty clear on what the main drivers are and how you calculate your percentages and so on. I'll leave to you to figure that out. But i feel like I've been pretty clear on the main item, which is the print book market differential first half versus second half of last year and so on.

The Plan S, it's one of several initiatives that we have seen over the last 10, maybe even 15 years at this point, in different parts of the world and trying to advance a slight change in how to collect and disseminate scientific information. And it has many different components to it. It's one of many. We continue to engage with all of them. And to work with them to make sure that we can support our customers and provide services to that industry, whichever way it evolves. We don't have an opinion on how it should evolve. We have an opinion that we should continue to serve the industry really well at higher quality and lower prices, no matter how it evolves. And that's the way we deal with finance and many other initiatives that might be in a similar direction.

How are researchers getting on in places where they don't have the full benefit of all the services they had before? Again, every situation is different depending on what they had before and what they have now, and how they operate with others and which content set they were owning versus having temporary viewing license on. So I should not comment on how they are getting on. I know that some of these -- in some of these locations and in some of these they have done their own surveys. And some of those they made public and some of them they just comment on in public. And I just think that there is no question for advancing science, people are better off when they have access, immediate and easy access to the full range of the high-quality content sets and a full range of high-quality tools that are available. Now exactly how and what the differences is you'd would have to ask the individual customers. But of course, our objective is to try to continue to serve them all well and to serve them with all the products and services they would like to have from us. And over time in a way that they see that value, but then also we can also design something that gives them good value, so that we will continue to serve them for long term of time. That's our objective.

Forecast for end of year. I think I've told you where we are right now compared to where we were a year ago. I've told you the differences between the first half last year the first this year and the differences. I think I've also told you that at -- where we are at this point in terms of all the metrics that drive our business segments. And I told you in risk, we're currently running at a revenue run rate that are already ahead of last year's second half average run rate. And also then we have acquisitions that are coming in as a larger piece in the second half.

I don't know how to predict a few months out the transactional volumes in business services. I don't know how to predict the exact trends in the print book market in the November, December selling season this year. So I'm not going to try to make a forecast for how those will work in the future, but I can tell you that the current run rate would indicate that at this point, where we are is a run rate that is significantly better for the company than the first half run rate would indicate because of the difficult comps that we had in the first half in print books in STM and in the growth -- market growth contributions from prior year in Insurance versus this and the dip in Business Services. Okay. Okay, thank you very much for coming and for taking the time to be here today.

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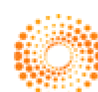

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