

RELX - Interim Results 2022

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Transcript

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Erik Engstrom: Good morning, everybody. Thank you for taking the time to join us on our call today. As you may have seen from our press release this morning, we've delivered strong financial results in the first half of 2022, and we made further operational and strategic progress. At constant currencies, revenue growth was 13%, adjusted operating profit growth was 16%, adjusted earning per share growth was 14%, and we have declared an increase in the pound sterling interim dividend of 10%. All four business areas delivered good revenue growth, with underlying adjusted operating profit growth in line with, or ahead of revenue growth in the three largest business areas and return to profitability in exhibitions.

Erik Engstrom: So let's look at the results for each business area. In Risk, underlying revenue growth was 7%. Following particularly strong growth of 10% in the first half of last year. Underlying adjusted operating profit growth was in line with underlying revenue growth, with a slight increase in adjusted operating margin. Business Services, which represents around 45% of divisional revenue, delivered strong revenue growth. Within fraud and identity, our digital identity solutions grew very strongly with ThreatMetrix and Emailage growing around 20%.

Erik Engstrom: Our most recent acquisitions in financial crime compliance and behavioural biometrics have improved our customer value proposition and are performing well. In Insurance, representing just under 40% of divisional total, momentum improved in the first half. In US auto, some market factors improved from the beginning of the year, whilst others are only now starting to see an improvement over the prior year. Specialised Industry Data Services, which represent just over 10% of divisional revenue, saw strong growth overall with continued strength in petrochemicals and other segments, including aviation, continuing to improve. In Government, representing just over 5% of divisional revenue, strong growth was driven by the continued expansion and rollout of analytics and decision tools across both state and local and federal markets.

Erik Engstrom: Going forward, we expect strong underlying revenue growth in line with historical trends, with underlying adjusted operating profit growth broadly matching underlying revenue growth.

STM delivered underlying revenue growth of 4%, underlying adjusted operating profit growth was slightly ahead of revenue growth at 6%. In Primary Research, articles submitted and published continue to grow from last year's elevated levels, with around 40% growth in the number of open access articles published. The quality of our articles has continued to improve. The most recent third party metrics show that 79% of Elsevier's journals increased their impact, and The Lancet now ranked first among all medical journals, globally. Databases & Tools and Electronic Reference, now approaching 40% of divisional revenue. We saw continued strong growth across medical education, clinical solutions, research management, and corporate. Overall, renewals and new sales are going well.

Erik Engstrom: Going forward, we expect underlying revenue growth to remain above historical trends, with underlying adjusted operating profit growth slightly exceeding underlying revenue growth.

In Legal, underlying revenue growth improved further to 4% with underlying adjusted offering profit growth of 6%. Electronic revenue, representing almost 90% of the divisional total, has continued to grow well. Driven by strong growth in legal analytics and decision tools. Lexis Plus, our integrated analytics offering, has continued to see very strong uptake across customer segments. Renewals remain strong and new sales continue to see positive momentum.

Erik Engstrom: Going forward, we expect underlying revenue growth to remain above historical trends, with underlying adjusted operating profit growth continuing to exceed underlying revenue growth.

In Exhibitions, revenue growth was over 200%, driven by reopening of exhibition venues across most geographies. We continue to manage our

event scheduled flexibly, responding to changes in local government policies. We're making further progress with digital tools that supplement our physical events. The return to positive adjusted operating result reflects the increased activity levels and lower cost structure.

Erik Engstrom: Going forward, we expect the year of strong underlying revenue growth. The operating result will continue to benefit from the structurally lower cost base.

Our strategic direction remains unchanged, as we showed you in this slide in February. So far this year, we have made good progress on our growth objectives of sustaining the strong long term growth profiling risk, continuing on the improved growth trajectory in STM and Legal. Capturing the growth opportunity from reopening and digital in exhibitions. I will now hand over to Nick Luff, our CFO, who will talk you through our results in more detail. I will be back afterwards for a quick wrap up and our usual Q&A.

Nick Luff: Thank you Erik. Good morning, everyone. Let me start by providing more detail on the group financials. As Erik said, revenue growth for the period was 13% at constant currencies, reflecting the strong performance of risk, STM and legal and the recovery in Exhibitions. The adjusted operating profit growth was 16% at constant currencies, was driven by all four business areas improving their results. The adjusted operating margin improved to 31.2%. The improved operating result was slightly offset by higher interest and tax charges, but still drove the increase in adjusted earnings per share of 14%, again, at constant currencies. Cash conversion was strong at 103% with leverage at 2.3 times, down from 2.4 time, at the end of last year. Given the strong overall performance, we've been able to increase the interim dividend by 10% to 15.7 pence per share. Acquisition spend was £342 million, and we resumed the buyback, spending £300 million in the first half.

Nick Luff: Turning to revenue, our three largest business areas each delivered good underlying growth, with risk at 7%, and STM and legal both at 4%. Exhibitions saw strong growth, more than tripling revenues from a low base,

as venues reopened and we were able to run a full program of events in most major geographies. At the half year stage underlying growth for exhibitions, and consequently for the group, is not meaningful given the differences in event scheduling this year compared to last. For the full year, we will be reporting underlying growth as normal for exhibitions and for RELX as a whole. As you know, around 60% of our revenues are generated in North America. We often bill in US dollars in other parts of the world too, that does expose our sterling revenue numbers to FX movements and the relative strength of the dollar in the first half of 2022 was a boost to sterling reported revenue growth rates of up to 6% in the business areas. Total group revenue was up 17% in sterling to almost £4 billion.

Nick Luff: The Risk adjusted operating profit growth was in line with revenue growth, while STM and Legal both delivered profit growth ahead of revenue growth. Exhibitions continue the recovery started in the second half of last year, with the adjusted operating profit of £59 million in these results. Overall, group adjusted operating profit was up to 16% of constant currencies. As with revenue, currency movements boosted profit growth with group adjusted operating profit in sterling up by [correction: up by 21%]. It's just over £1.2 billion.

Nick Luff: Margins improved in each of the three largest business areas with underlying improvement in both STM and legal and a boost from currency in risk. Continued process innovation and tight cost control more than offset the impact of inflation that we saw in some parts of the cost base, enabling us to keep cost growth below revenue growth. With Exhibitions profitable in the first half of 2022, adjusted operating margins for the group of a whole improved by 1.1% points to 31.2%.

Nick Luff: Returning to the group level financials, the adjusted income statement shows the constant currency growth is 13% in revenue and 16% in operating profit, which flowed through to growth in profit before tax of 17%. The higher interest expense reflected higher average interest rates and

currency translation effects. The effect of interest rate on gross debt was 2.3%. Tax charge was £255 million, giving an effective tax rate of 21.9%. You'll remember that the 2021 tax rate in both the half year and the full year was helped by non-recurring tax credits. Net profit was £909 million, up 13% at constant currency. With a small benefit from a lower share count, as we resumed the buyback, adjusted earnings per share was up 14% at constant currencies. Sterling was up 18% to 47.2 pence.

Nick Luff:

So into cash flow, EBITDA for the first half was close to £1.5 billion. Group CapEx was £192 million, equivalent to just under 5% of revenue. With a small working capital inflow, adjusted cash flow was just above adjusted operating profit. So cash conversion was over 100%. Cash interest paid with £76 million, in line with the interest expense. Cash tax of £278 million was higher than the income statement tax charge and higher than last year's first half, reflecting timing of tax payments. With the higher operating cash flow offset by higher tax payments, first half free cash flow was similar to the prior period, at £889 million.

Nick Luff:

Here's how we deployed that free cash flow. We completed six acquisitions during the first half, a total consideration of £342 million. Most notable with BehavioSec, a leader in behavioural biometrics, Flyreel, a self inspection app for insurance, both of which joined the Risk business, and Interfolio, a provider of faculty information systems, which joined STM. Dividend payments were £682 million, being last year's final dividend. As I mentioned, we resumed the share buyback program, spending £300 million in the first half out of the £500 million plan for the full year. Our debt is split fairly evenly between dollars and euros. Dollar strength in the first half, resulted in the £445 million FX movement, taking net debt to £6.9 billion. But with EBITDA improving and benefiting from currency movements, leverage came down to 2.3 times. With that, I will hand you back to Erik.

Erik Engstrom:

Thank you, Nick. Just to summarise what we have covered this morning. In the first half of 2022, we've delivered strong financial results and we made

further operational and strategic progress. As we entered the second half, momentum remains strong across the group, and we continue to expect full year underlying growth rates in revenue and adjusted operating profit, as well as constant currency growth in adjusted earnings per share, to remain above historical trends. And with that, I think we're ready to go to questions.

Call Operator: Thank you. As a reminder, ladies and gentlemen, to ask a question, press star one. We will take our first question from Nick Dempsey from Barclays. Please go ahead.

Nick Dempsey: Yeah, good morning, guys. I've got three. The first one. The 4% organic revenue growth that you've seen with both STM and Legal in the first half. A little better I think than most people were expecting. You aren't working too hard from what I've heard to flag timing benefits or any one-offs in the first half, which would dissuade us from expecting 4% for the full year. You'd clearly hate the division to dip lower on organic growth in a subsequent year as well. So could this be the new normal for those two divisions?

Nick Dempsey: Second question on risk. 60% of revenues from transactional models. You've talked about the internal cycle in insurance of claims, shopping events, et cetera, and how those are improving this year. But thinking about the rest of those transactional revenues, I'm sure you've been stress testing this, how much of that is exposed to volumes that would be negatively impacted in a US recession? And so what might the overall risk be directionally to that division from a US recession?

Nick Dempsey: And third question. Is there a contribution to inflation in the improvement to 4% STM and Legal? So it's fair to say that for more than a decade you've been growing by adding more stuff to your product, getting more people to use it, but not really price. In this more inflationary environment, are you able to squeeze in one point of price into those renewals on top of the other factors?

Erik Engstrom: Yeah. Let me take those questions in order here. The 4% growth in STM and Legal, as you may have heard before, heard me say before, that our strategic objective in those divisions is to continue on the improved growth trajectory that we've been heading towards for the last few years. And as I've told you before, we were heading in that direction before COVID struck, and then we had a little bit of a disruption. Now we are back on that improving trajectory.

Erik Engstrom: Exactly when they tick up to a higher growth rate and when that rounds for a half year or a full year, of course, it's hard for us to predict. But what's underneath this today, the first half growth rate in Legal is a true improvement in the value of our products, our legal analytics product and our integrated research and analytics offering. Which is very well received by our customers, that is driving increased uptake and increased usage because of its increased value. So there's nothing in the first half that's unusual or timing related, Legal is exactly right on an improving trajectory.

Erik Engstrom: STM is also very similar, the story is the same. The main driver is the increased share of the division of databases and tools. That's now approaching 40% of the divisional revenue. And that segment has traditionally grown. So the mid single digits are mid to high single digits in a typical year.

Erik Engstrom: And as we continue to launch new functionality, new features, new products, and roll them out across the world, that becomes the larger and larger part of the division. And therefore the average growth rate is likely to come up over time.

Erik Engstrom: In the STM division in the first half, you had continued print declines, but slightly more moderate than we would've had on average over the last five to 10 years. That's starting to become less and less of an impact. But in the first half, we didn't have the full print decline ratio that we would normally have, but probably half of it. So that was STM and Legal.

Erik Engstrom: Risk. Yes, as you said, 60% of our revenue is driven by volumetric billing or invoicing, often inside long term contracts. But as you said also, Insurance, we have seen an improvement coming through the insurance industry gradually in our growth rate over the last six to nine months. Insurance volumes and trends tend to move more slowly and tend to change gradually. But we are seeing a gradually improvement now in the Insurance side.

Erik Engstrom: And you asked a question about US recession. During the last significant economic downturn also, we did not see a slow down in our revenue growth in Insurance. If I just cover that one off first. Because there are several other drivers that impact how people look at signing up for insurance and switching insurance during recessionary environments.

Erik Engstrom: The other part of risk where we have transactional revenue, of course the largest one is Business Services. Business Services is continuing to grow very strongly. Continues to grow very strongly now, grew very strongly before. But in the first half last year, there were a few months where some unusual activities in the US that created a bit of extra growth for a few months that boosted a little bit the first half.

Erik Engstrom: And then during the second half last year, the growth rates were more normalised. Very strong growth in Business Services. And that's what's continued in the first half this year, even after we were lacking that last year almost one-off extra boost in the first half.

Erik Engstrom: If you then look at what could happen during a US recession, if the industries that we serve are slowing down significantly for a long period of time, I think it's likely that our ability to grow with them at the same level might slow down a little bit as well. Typically though that impact has been muted and it has been a bit delayed.

Erik Engstrom: But at the same time, the solutions that we offer are offering significant new value. They offer value per transaction, it's not a pure cost per transaction. So that when our customers use our Risk solutions products, they are better

off when they use them economically than when they don't use them. So we don't see that there would be a significant downward trend on the spend on our product. But if the industries we serve are growing slightly less, that could have an impact, even though muted and delayed.

Erik Engstrom: If you look at the impact when the last big US recession happened, there were some segments of Risk that saw a decline, in particular relating to those that were driven by advertising, marketing spend or directories or pre-employment screening in particular.

Erik Engstrom: We are now out of all those segments almost entirely. So, the ones that were significantly recession impacted last time are basically not a material part of the Risk division at this point. And also we're completely out of print in Risk, which is what also saw an accelerated decline last time.

Erik Engstrom: Your last question was on inflation and pricing. Is there any pricing impact in the first half growth rate this time? The answer to that is no.

Nick Dempsey: Very helpful. Thank you.

Call Operator: We will now take our next question from Adam Berlin from UBS. Please go ahead.

Adam Berlin: Hi, good morning, everyone. Adam Berlin from UBS. Just two questions from me. Just following up on risk, Erik. If then there is no US recession or not a particularly deep recession in the second half. Does that mean we should expect an acceleration in the risk growth rate in H2, given the easier comp? Just to clarify if that's what you're saying.

Adam Berlin: Second question is on STM. Can you tell us what the open access revenue growth was in H1 or the article growth if you can't give us the revenue number? Thanks very much.

Erik Engstrom: On the first question here in Risk. The way we look at it is that the risk industry is something where we have a very good position, very high value

add products. We continue to launch products and roll them out. And we continue to see strong growth.

Erik Engstrom: Because of the transactional part of that business, we sometimes see the growth a little higher and a little lower. We don't see any reason to believe that the forward looking growth rate at this point, we have no indication that the actual true like for like growth rate is any different from a normal growth rate.

Erik Engstrom: The only thing that you have to take into consideration when you look at the comparison and growth to last year is that we had a period of a few months in the first half last year when you almost had an unusual one off revenue boost from some exceptional activity in a couple of US financial services segments that we didn't have before. And we didn't have in the second half last year. And we don't have this year.

Erik Engstrom: So you can almost look at it and say that your question is, are we up against a slightly easier comp in the second half? Yes, we are because we didn't have that one off boost in the second half.

Erik Engstrom: On the open access. The open access article growth for us in the first half was roughly 40%. And when it comes to the question of revenue, there's a slight interpretation question of how you count when you put some of that volume inside an agreement that covers both certain subscription and some other analytical tools and some volume open access articles. So it's a slightly more difficult question to define exactly how you look at the revenue growth relative to that. But the article growth continues to be around 40%.

Adam Berlin: Great. That's really helpful. Thanks very much.

Call Operator: We will now take our next question from Sami Kassab, with BNP Paribas. Please go ahead.

Sami Kassab: Thank you. And good morning everyone. I have a few questions as well. So Nick asked around any price impact on the revenue growth in H1. And you suggested that there had been none. Can you comment on your pricing policy going into 2023, will you be passing some of the inflation that you have seen in your cost base through perhaps selected higher price increases than historically going into '23?

Sami Kassab: Second question. You have referred to some factors in the insurance division improving of late. Can you elaborate please on what are these factors in the insurance market that you see improving in recent weeks and months? And lastly, can you update us on your thoughts with regards to Chinese exhibitions in H2? Do you think you will be able to run your Chinese shows in H2 or would you think that most of the shows given the situation in the country will have to be postponed to 23? Thank you.

Erik Engstrom: Yeah, I'll take the first two here and then I'll ask Nick to cover the third one. The way we look at our pricing is that we price to value that we have new tools, we have improved tools that are rolled out, and we try to look at the value that they provide to our customers and then we price those new tools to that value. And then over time, our objective is to make sure that every single year that our value improves so that the effective price to the customer on a per unit basis, as value improves, customers use it more, volume goes up but the effective price per unit to the customer actually goes down over time that we have a declining trajectory. That's our strategy, that's what we're trying to do on effective pricing per unit. It is very possible that in a higher inflation environment, that the value that then provided the customers over time improves at a different rate because of their relative inflation and cost avoidance or value improvement in their business so that the slope of that effective price decline to the customer might actually be less steep in an inflation environment than it would be in a deflationary environment or in a stable price environment.

Erik Engstrom: So it's quite possible that that trajectory changes slightly. Do we believe that we're going to switch policy and all of a sudden say we're going to drive price increases across our product visions? No, but I do think there's a possibility that in different inflation environment, the trajectory of that per unit improvement changes slightly, depending on the rate of inflation. When you come to the question of the cost base, of course, if you have a continued high rate of inflation, we will see some impact on that, on our cost base, like everybody else, but we're likely to see significantly less of it than most other companies. Number one, because we don't really have a cost of product, we don't really have a direct cost of manufacturing or logistics or supply chain. And secondly, our cost base operates separately from the revenue stream and the value stream we get from our customers by selling the products, they're not directly driven by the volume.

Erik Engstrom: So we will continue on our strategy of driving value to customers which drives revenue growth, and then to manage our cost base through process, innovation, technology, tools so that the cost grows slightly less than the revenue growth. That has been our strategy, that continues to be the strategy and if you look at the margin, incremental, slight margin expansion and the profit growth in the first half, you can see that we continue to operate on that track in the first half of this year. Insurance, insurance volume was the second question. We could see some factors that relate to the insurance market starting to grow and improve throughout the first half, already from the beginning of the year, you could see that driving patterns were higher than the prior year, claims volumes were higher than the prior year, so you could see that those were already high at the beginning of the first half.

Erik Engstrom: Now, very recently, you can also see that shopping activity has started to come up from having been slightly behind, and that's started to come up very recently. And you can also see that last year's first half had extremely high, new auto sales in the US, which then slowed down as you started on the second half and were particularly low in the middle of the second half

last year. So we're lapping there, we did lap in the first half extremely strong, and we're now up to lapping something that's one of the lowest second halves of new auto sales in America in many years. So those are the couple of factors I could point to. China exhibitions Nick?

Nick Luff: Yeah. Sami, as you know, historically China's been a mid to high single digit percentage of the overall revenue and exhibitions going back in time. I can tell you, we have been running exhibitions in China, we ran one in Shenzhen in June, but clearly there's uncertainty and it does vary city by city. So we're staying flexible and we'll run the events whenever we can and we'll see what happens.

Sami Kassab: Thank you very much, gentlemen.

Call Operator: And we will take our next question from Lisa Yang with Goldman Sachs, please go ahead.

Lisa Yang: Good morning Gentlemen, thanks for taking my question just to follow up please. On Exhibitions, understanding each one, it was not necessarily comparable versus last year, but could you maybe talk about, still the health of the underlying business? Given the trends so far in H1, have things structurally changed in your view for the industry and what does that imply? What implication in terms of how exhibitions fit within your portfolio? That's the first question. The second one is on capital location in H1 you stepped up the level of M&A, I think buyback has also been quite aggressive. How do you think about capital allocation in H2 and do you see further M&A with the market weakness? Do you see more interesting opportunities as new evaluations in the space? And also scope to maybe increase the fact that buyback, given you have already done three fifty already. And the third question just really quickly, I think the tax rate is a bit high in H1 so could you give us any indications on the full year and similarly on the net interest costs? I think you have some denominated debt and some floating interest

as well, so what should we expect for the full year basis on the interest cost?
Thank you.

Erik Engstrom: Okay. I'm going to actually ask Nick here to cover all three of those if that's okay.

Nick Luff: Okay. On the exhibitions and the structural change, I think we've seen good demand. People have wanted to come back to face-to-face events, and clearly we still have to be very flexible and international travel's been affected and lead times have been shorter often and rescheduling, but we've seen good demand. And when we look at it strategically, we see a significant opportunity for the reopening of venues around the world and the digital opportunity in exhibitions and that's what we're focusing on. I think on your capital allocation question on M&A, we've done six acquisitions as we said, spent 340 million. It's looking like a pretty normal year in terms of acquisition, spend, nothing... It's nothing unusual. Clearly it all depends on exactly which opportunities come up in the second half, but as I sit here today, I think we've described it as a normal, average year in the context of what we've been doing the last few years.

Nick Luff: We continue to be primarily focused on organic development and the acquisitions are there to enhance and accelerate what we're already doing and we'll take the opportunities if they come up, we haven't changed our approach and just focused on things that can... Where we're the natural owner and can add value for us. On the share buyback, our normal practice is to decide the share buyback for the year and announce it with the results in February. So we set out what we're going to do for 2022 and we'll tell you in February what our plans are for 2023. On the tax rate, yeah, obviously the tax rate's been a little bit lower over the last couple of years because we've had some one off credits. The way you do the accounting, the half the tax rate tends to be set based on your prediction for the full year.

Nick Luff: So I think the 21.9% we have in the first half is a good starting point if you are trying to look forward, clearly we have had some credits in the past and you can get credits and debits as things get... Historically things get settled, so that could change. But as a normalised rate, what you saw in the first half is... Nothing was distorting it so it's a reasonable starting point. And your last question was on interest costs, clearly interest rates are rising and you saw some of that in the first half, but you will see if interest rates stay where they are, including the statement yesterday, then that rolls through into our debt, particularly our floating rate debt. We have about just over 40% of the debt base is on floating rates, so if you apply the math to that and the increase in interest rates, you can see there will be an increase in interest cost, but obviously it takes a while to flow into the full year effect.

Lisa Yang: Okay, thank you very much.

Call Operator: We will now take our next question from Tom Singlehurst with Citi please go ahead.

Tom Singlehurst: Oh, good morning, it's Tom here from Citi, thanks for taking the question, and it is just one question actually. On exhibitions, this is probably our problem, not yours, but it feels like consensus is more conservative on the rebound relative to 2019 levels for RELX than it is for peers. To put some numbers to that, I think all your expectation is about 65% recovered. Whereas for others, I think its 75 or 80%, and for some of the other B2B events businesses a bit more optimistic still. I was just wondering whether there are any reason why you think that is reasonable, that RELX should recover less than some of your peers. And maybe you could give some numbers on, for example, the proportion of shows that are running or running in their normal slot to give us some sense of whether that's a reasonable expectation.

Erik Engstrom: I'll ask Nick to cover this as well.

Nick Luff: Yeah. It's very hard for us to comment on how we compare to other people, They have completely different portfolios, different geographies, different sectors so all we can do is comment on what we're seeing. Clearly we are seeing a reopening and the typical event is still some way below where it was pre-pandemic, but we are running more of them and that is on an improving trend. Don't forget this historically has been a first half biased business, so just be careful of that as you are looking forward, but we are having to stay flexible and run events where and when we can. We've been pleased to see the strong demand to get back to face-to-face events, and that allows us to go after that opportunity that there is from the reopening. And alongside that, focusing on what we can do around the digital and the data, and that's adding value. So I think that's probably all we can say. Clearly there's uncertainty, but we'll capture as much of the opportunity as we can.

Tom Singlehurst: Yeah. And that point about first half weighting I suppose is significant, on 23, you'll see a bit more of a full throated return to 2019 levels.

Nick Luff: Yeah. Well, we will see. Yeah.

Tom Singlehurst: Perfect. Trying to get you to commit to it, that's great. Thank you very much.

Call Operator: Once again, as a reminder to ask a question, press star one. We will now take a next question from Matthew Walker with Credit Suisse. Please go ahead.

Matthew Walker: Thanks a lot. Can you hear me guys?

Nick Luff: Yep. Hi Matthew.

Mathew Walker: Yeah. Hi, it's Matthew from CS.

Nick Luff: Go ahead.

Matthew Walker: I guess just a couple of questions. Yeah, just a couple of questions. The first one is going back to Risk. We've seen eCommerce transactions in the market start to slow, and we've seen slower ad growth on Google and Facebook. Can you just give us a sense of how exposed the Risk business is, the transaction business is, to eCommerce and how concerned we should be around that trend?

Matthew Walker: And then Erik, I think you were asked the question earlier about what your potential growth rate in the second half was in Risk. And you sounded like you didn't really want to commit to faster growth because of slower comps. Can you just expand on that please? And then for Nick again, I think you were asked the question on interest charges. It probably should be relatively easy to calculate, at least at current interest rates, what your adjust on that interest was going to be for this year and next year, if things stay the same as they are. So can you be a bit more precise on net interest for '22, '23?

Erik Engstrom: Yeah. So on the Risk question, we are serving, in many ways, the higher end of identity and fraud related type of complex questions from our customers across financial services, across of course government and other areas as well. And some eCommerce. We are not particularly large in advertising driven eCommerce retail from across the broad range there. We do some, but we're probably less involved in that segment than many who do what we consider mid-market, transactional, straightforward identity. We are more complex, higher value add solutions mostly. So our exposure there is small, even though it's not zero.

Erik Engstrom: When it comes to advertising related, virtually none. Your question around growth. The way we see it right now is that our run rate in growth right now, second half last year, first half this year, if you just see that we were lacking that one-off boost for a few months inside Business Services last year, which created this slightly higher growth last year in the first half. And therefore on top of that then slightly lower relative growth this year, we don't see any reason right now to think that the what we consider normalised growth rates

that we've seen historically in Risk, that we've then been seeing with this little one off external revenue side, that we've seen now in the first half, we see that right now and we don't see any reason why that should be any different going forward.

Erik Engstrom: But there is a transactional volume component to this. And as every year when we get this question in July, it's not easy for us to predict exactly what the volume growth is going to be in October, November, December in the year. As you know, last year, the second half didn't have any of those exceptional boosts. And the second half didn't have any surge in the second half. So we are coming up against a less challenging comp in the second half than the first half. So you can do the math on that. And Nick?

Nick Luff: Yeah, Matthew, I mean, as you said, the math is reasonably straightforward, but let me help you with it. I mean, we've got 7 billion of debt, there's about 40% floating. So that's just under 3 billion. If US dollar interest rates are up, just over 2%, [at] floating rates. So apply the 2% to the 3 billion, it's 60 million a year. Obviously that happens over a period of time. So it doesn't all come in in 2022, but if interest rates stayed where they are, that's the differentiator you're looking at. And don't forget that most of our interest of course is in dollars. So there's also a currency translation effect. The benefit in our operating profit is way more than the impact and interest from currency. But don't forget you are trying to get the Sterling interest figure, don't forget to take that into account as well.

Matthew Walker: Yeah. So it sounds like '23 interest could be up more than 60 million because you've got that dollar component.

Nick Luff: If you're looking at the Sterling number, then obviously it is what you think is going to happen. But yes, I mean, you have to take both the rate and the currency into effect and the fixed rates do reset of course as well, so don't forget that factor.

Matthew Walker: Was there a particular reason why you chose to have 40% floating?

Nick Luff: If you look over a period of time, then staying reasonably floating is a much cheaper option. I mean, interest rate curves slope upwards, most of the time, and we couldn't have locked in a higher interest charge, but you'd already been locked into it. So it doesn't necessarily mean just because it's obviously a bit more variable when if you've got some floating rate exposure, but typically on average, it's lower.

Matthew Walker: Okay. All right. Thanks a lot. Thank you guys.

Call Operator: And again, as a reminder to ask a question, press star one. We will now take our next question from Matti Littunen with Bernstein. Please go ahead.

Matti Littunen: Hello. Good morning. A question on the cost side in Risk. Now you're guiding still that the growth in the adjusted operating profit will match underlying revenue growth. So just want to get an update on where the cost growth is coming from between things like growth OPEX in new product areas versus general staff cost inflation, or if there's any other material factors there? Thank you.

Erik Engstrom: I think the way you should look at our cost growth in Risk and in the other divisions is that the cost base is really not directly tied to the revenue growth automatically, but we have made a decision that the way we manage our cost base is through constant process innovation, constant looking at alternative ways to use machine learning, AI technology, and other types of tools to keep evolving our cost base as well as we possibly can so that we free up as much of our cost growth to focus on higher value add for our customers.

Erik Engstrom: And this year is no different and next year will be no different. We will continue to manage it that way. And some components sometimes grow faster in cost and sometimes less fast. And we see that as a continuous, ongoing, long term management strategy, driven by process innovation and letting our cost base grow as much, up to our revenue growth is the way we think about it. And in any one six month period, it might be slightly different.

We focus more in slightly different areas, so slightly different product initiative, but there is no overall trend or shift from our strategy.

Matti Littunen: Okay, thanks. So we should think about it as investment now to enable more operating leverage potentially in the future.

Erik Engstrom: Well, our objective is not in the risk division to create what you refer to as operating leverage in the end, because we are allowing our new product innovation, our investments, our spend, our adjacent growth strategies to have a cost growth that gets all the way up to, close to or up to, the revenue growth. Because we believe that the real value creation in Risk, when you have a business that's been growing on average 7 to 9% for many years organically, and you have very close to 40% operating margins and 100% cash conversion, very high return on capital, that the objective for us is to add more value to our customers so that we can sustain our long term organic growth in this range, in the high single digits, for many years to come. And if we do that with margins at this level, at 100% cash conversion, that's significant value add not just to our customers, but also to our shareholders.

Erik Engstrom: We're not pushing to try to create operating leverage and a significant increase in the margin. Even if you could, in theory, come up with operating leverage for a period of time to create that, that's actually not our objective and I would not build that in.

Matti Littunen: All clear. Many thanks.

Erik Engstrom: Okay. I think that's it. Then if you have no further question, I'd like to thank you all for joining us today and I'll look forward to talking to you again soon.