Nine Month Trading Update

Thursday, 21st October 2021

Operator: Good day, and thank you for standing by. Welcome to the RELX Nine Months Trading Update Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during this session, you will need to press star one on your telephone. Please be advised today's conference is being recorded.

I'd now like to hand the conference over to your speaker today, Nick Luff. Please go ahead.

Overview

Nick Luff

CFO, RELX

Thank you, operator, and good morning, everybody. Thank you for joining us today. As you might've seen from our press release, in the first nine months of 2021, RELX delivered underlying revenue growth of 6%. Based on the improved performance across the company, we now expect full year underlying growth rates in revenue and in adjusted operating profit, as well as constant currency growth in adjusted earnings per share to be above historical trends.

Turning to the performance of each business area. In Risk, underlying revenue growth was 10%. In Business Services, which represents nearly 45% of the divisional total, double-digit revenue growth was driven by strong demand across all market segments. In Fraud and Identity, our leading digital identity solutions performed particularly well with both ThreatMetrix and Emailage continuing to see growth of around 30%.

In Insurance, representing nearly 40% of the divisional total, we have seen strong growth in new sales for the last few months. In Data Services, which represents just over 10% of the divisional revenue, we have recently seen a return to strong growth overall. And in Government, representing just over 5% of the divisional total, revenue continued to grow strongly.

For the full year, we expect underlying revenue growth slightly above historical trends with underlying adjusted operating profit growth broadly matching underlying revenue growth. In STM, we saw underlying revenue growth of 4%, driven by continued good growth in electronic revenue, which represented 87% of total.

Print revenue, representing 13% of the total, was broadly stable for the period as a whole, with, as expected, has returned to historical patterns of decline in recent weeks.

In Primary Research, strong growth in the number of articles published continued to drive market share gains in both subscription and open access payment models. Databases & Tools and Electronic Reference, which represent over one-third of the divisional revenue, continued to see strong growth, driven by medical education, clinical solutions and e-reference.

For the full year for STM, we expect underlying revenue growth slightly above historical trends with underlying adjusted operating profit growth slightly exceeding underlying revenue growth.

In Legal, underlying revenue growth was 3%. Electronic revenue, representing 88% of the divisional total, continues to grow well, and print revenue declined broadly in line with historical trends.

Growth across all key market segments was driven by the further development and rollout of our industry leading legal analytics and new integrated functionality, generating good renewal rates and strong new sales.

For the full year, we expect underlying revenue growth slightly above historical trends with underlying adjusted operating profit growth exceeding underlying revenue growth. Exhibitions' underlying revenue growth was 9%, driven by a gradual reopening of exhibition venues across geographies.

For the full year, we expect strong underlying revenue growth with total costs broadly matching total revenue.

And with that, we are ready for questions.

Q&A

Operator: Thank you. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. Should you wish to cancel your request, please press the hash key. So that's star and one to ask a question. Your first question comes from the line of Sami Kassab of Exane BNP Paribas. Please ask your question.

Sami Kassab (Exane BNP Paribas): Thank you. Good morning, Nick. Good morning, everyone. I have three questions please, Nick. The first one, can you elaborate on the average revenue attrition per show for shows held in Q3 versus the 2019 performance? And whether you are seeing any improvements on that metrics for shows held in October?

Secondly, given the comment on strong new sales in insurance, is it fair to expect this segment to see an acceleration in its underlying revenue growth trends in coming quarters? And lastly, in STM, you reported stable print revenues in H1 and Q3, so can you come back on why we should expect print revenues to decline in Q4? Is there a phasing effect, particularly strong Q4 '20 comp base? Any more colour on the print performance expected in Q4 in STM, please? Thank you, Nick.

Nick Luff: Yeah, okay. Yes, starting with the first one on exhibitions. There's a very wide range actually of how the individual shows are doing compared to their previous editions pre-pandemic. Some are up, some are well down, but we run quite different much smaller events. Generally speaking, they are down, but I'm not sure you can read the whole amount into it, given they're also being held at the wrong time of year for that particular industry in the different to normal, little international participation, of course, and the lead times tend to be – can be quite short.

So I wouldn't read too much into it. But I think what's good to see is that we are able to run these events and then running them in almost all the major geographies where we've got activity now.

Your second question on insurance. Yes, and we are seeing good sales and good product development. Lots of things going on, developing new data sources, new products, connected car data, bringing that into the infrastructure, using that in different ways. So that's good to see.

What that means in terms of revenue growth for the business, obviously having strong sales is an important component of that; it is a transactional business of course and you do get the normal ups and downs in the insurance market and activity levels going through the existing products, so we'll have to see how that all nets out as we go through the next few quarters, but it is good to have strong sales.

And your final question about STM and the print revenue. Yes, I mean, clearly in the first three quarters of the year, print has been stable as we said in the announcement, but that of course is against a disruptive comparative. So as you get into the fourth quarter, that disruption wasn't there last year. And so, we are and now already seeing – in fact, as we said in my opening remarks, already seeing a return to more normal decline rates, which we would expect. And the focus over time is about how do we develop the analytic products on the Databases & tools and e-reference products and they get bigger and print continues to get smaller.

Sami Kassab: Thank you, Nick.

Nick Luff: Thanks, Sami.

Operator: Thank you. Your next question comes from the line of Nick Dempsey of Barclays. Please ask your question.

Nick Dempsey (Barclays): Yeah, good morning, Nick. I have three. So just on exhibitions. Can you give us any indication on what you're seeing from forward bookings from the shows that you've run into next year, and whether there's any patterns there that it's different to what you might have expected when we were talking about this back in July?

Second question, any commentary you can provide regarding the kind of early start of negotiations for journal renewals into 2022, we always ask that at this point. But UK seems to be the largest one out for renewal. Anything you can say about that?

And then the third question, yeah, just wonder whether Risk – given the strong growth in identity, etc., whether the momentum coming out of '21 into '22 can mean that you can achieve a growth rate that's a bit higher than what you've done in '16, '17, '18, '19 that sort of 8% you did through there.

Nick Luff: Yeah. Okay. First question about exhibitions and forward bookings. Yeah, I mean, we are seeing good appetite for people to come to face-to-face events when we're able to hold them. Clearly, it's sometimes difficult to interpret exactly what's going on. As I said earlier, international participation is not where it was. Sometimes the lead times are quite short as to when people are confident that events are going to go ahead. So we're – it's sort of – as we expected and nothing different from what we were commenting back in July, but again, I think it's very early to comment on what that means for the business in '22. We've got a reasonably fuller programme. And obviously through the second half of this year, things have picked up very significantly. So we'll look to see whether that can continue.

On STM renewals, well, I think you're referring to the answer. It's just too early to comment the – we are just at the start of the negotiations. As you know, every year, we've got different customers on different contracts that come up and we'll see what happens. Clearly, this time a year ago was a very tough environment with the budgetary pressures that many customers were seeing and that's obviously reflected in this year's numbers. And the fact we've able to drive good growth from many countries[?] in the database & tools you referenced, I think, is an overall good sign. But too early to comment on renewals for next year at this stage.

And your third question on Risk and the growth rates there. Yeah, look, I mean, I think the key point about Risk is that the value creation is from sustaining the high growth rate we've had. And our objective is to sustain that high-single-digit growth rate for many years to come and we think we have the opportunities and the water running as we're operating and the market environment and the things we can do that give us the ability to do that recognising it's a transactional business or at least some 60% of the revenue. So it can vary from year to year. But that's the objective there in contrast to STM and Legal, where we are looking to accelerate growth over time. In Risk, it's about sustaining the growth.

Nick Dempsey: Thanks, Nick. That's great.

Operator: Thank you. Our next question comes from the line of Mandeep Singh of Redburn. Please ask your question.

Mandeep Singh (Redburn): Thank you for taking the questions. Thank you. Hi. I just wanted to sort of kind of step back and look at the sort of Group as a whole. You're growing at 6%. We kind of remove the, let's say, short-term boost from the print comp being better and lapping effects and so on and so forth. I mean, is it fair to say that the three main divisions in aggregate are growing around 5%? And is there any reason to think that isn't a sustainable level of growth rate for the Group, so ignoring exhibitions for the minute?

Nick Luff: Yeah. Well, you can do the weighted average of the growth rates of those three businesses. And as you say, you might take out a little bit from the – from Risk and STM in terms of the comp and how that's affected this year's growth rate. But we are seeing a return to the improved growth conditions in STM and Legal that we were seeing in the early parts of 2020 pre-pandemic.

And clearly, that is what we are looking to do strategically. It is about sustaining the high growth that we have in Risk and about looking to drive faster growth in STM and Legal. And clearly if you can – if we can do that, then the overall Group growth rate will pick up.

Mandeep Singh: Okay. Can I just follow-up? So this is – like why would it be unreasonable to think that the like-for-like for the Group, ignoring exhibitions, is – from being a 4% grower is now a 5% grower?

Nick Luff: You could do the maths on the average – the weighted average of the growth rate. And yeah, the – it's clearly if the growth rate for STM and Legal is higher, then it will – the Group growth rate will be higher, but we'll see how we progress from here.

Mandeep Singh: Okay. Thank you.

Operator: Thank you. Your next question comes from the line of Adam Berlin of UBS. Please ask your question.

Adam Berlin (UBS): Hi. Good morning, Nick. Three questions, if I can. First thing, you made a comment in the release about market share gains in subscriptions and open access within STM. Can you just talk a little bit about what data you're tracking and what you're seeing around this market share gains and how you know that's happening?

Second question is on ThreatMetrix. I think in the past you talked about the fact that ThreatMetrix is growing 30%, but realistic it will probably slow down as the base got bigger. And that doesn't even happen this year. Can you talk a little bit about what do you think is driving the sustaining of that 30%? Is it the kind of more digital transactions because of COVID? Is it better product sales to more customers? Can you just talk about what's helping that business sustain that really good growth?

And then third question just to help with the modelling on exhibitions. Just in absolute revenue pounds million, do you think Q4 will have more revenue than Q3?

Nick Luff: So yeah, the first question on market share again. Yeah, we're – in STM, we're tracking article volumes. And this has been very transparent. We have lots of analytics of course that enable people to – other people, we let them use them to have products that both around article tracking and what's been published by whom and where.

And so we can see the volume of articles that we're publishing both author-pays and in subscription journals. And if that's faster in overall market, then that's how we can calculate we're gaining market share.

Mandeep Singh: Right. Just market of volume rather than revenues, sorry.

Nick Luff: Yeah, it's volume. Yeah. ThreatMetrix, yeah, as you say, it's continued to grow well and it's – pleased to see that. What's driving it? I mean, the power of the data set and the associated analytics, the value that can add to customers, as you say, the increasing e-commerce online, everything else that people do online, where you need to be confident that the person you are dealing with is who they say they are that you're not dealing with a potential fraud situation. That's expanding over time. And as we integrate the ThreatMetrix product capability with our physical identity, data sets and the like, that's able to add more value and get faster adoption amongst the customers. And we're seeing wider and wider applications for the ThreatMetrix products and that's what's enabling us to keep the growth going.

And your question on exhibitions. Yeah, October is a very busy month for – we have a lot of events that are normally scheduled this time of year and other events sort of normally take place earlier in the year have been pushed back to this time. So we are very busy right now. And if you take consensus revenue, which is a bit over £500 million, then that does imply quite a busy fourth quarter.

Mandeep Singh: Thanks very much, Nick.

Operator: Thank you. Your next question comes from the line of Matthew Walker of Credit Suisse. Please ask your question.

Matthew Walker (Credit Suisse): Thanks a lot. Hi. How's it going? Yeah, just three please. The first one is on exhibitions. So for '22, can you tell us what percentage of revenue are you – of 2019 are you running in '22 in terms of the event – the actual events that you're planning to run? First question.

Second question is on analytics, obviously you've been saying now for a while that analytics is doing better, the growth rates – the underlying growth is helping the underlying growth rates of the division improving. Can you just pick a couple of – to illustrate this point, can you just pick a couple of products and give us the total addressable market for those products and where they are on the customer adoption curve to sort of help us judge how early in this journey you are and where the opportunities lie? Because it was obviously from the Risk that the growth rates were improving but it didn't provide that kind of time analysis or indeed the sort of competitive analysis in terms of who is competing with you in different pieces of the analytics pie. That would be super helpful, not us only now on this call but at some point.

And then finally, can you give us an update on net debt and acquisition and disposals for where you are in the nine months?

Nick Luff: Yeah. So exhibitions 2022, obviously, we're finalising programme at the moment, and we'll see exactly how it all lands. If you weight it by size of show, we have in the calendar at the moment perhaps 90% of events that we're running in 2019 in order of magnitude. Obviously, it's lower than that if you took it by number, but the – when we rationalise the portfolio, we obviously focus more on removing some of the smaller more marginal shows.

On analytics, yeah, look, it's difficult to give a total addressable market because – and market shares in comparing to other companies because the market opportunity is expanding all the time. I mean, the previous – to Adam's question about ThreatMetrix, the applications of ThreatMetrix just keep expanding. Initially it was sophisticated financial institutions primarily using the product but now it's whole range of different financial institutions. It's in e-commerce situations, it's government agencies, etc. So those market opportunities are always expanding. So I'm not sure where it's real – it's sort of helpful to give an addressable market. I think it's better to look at the growth rates.

And even your question about penetration, again, the products are being evolving all the time, the data sets expanding, the analytics evolving. And so, you never really reach the point where you're sort of 100% penetrated because you've gone onto the next opportunity and then the next development in the product. So – but I hear you. We'll see what we can have in future presentation and see what we can do help you get a sense of the overall opportunity.

And your last question about net debt, etc., yes, so far this year we're just under £200 million in terms of acquisition spend. I think we've done about eight acquisitions now. So we'll see what happens in the remainder of the year but obviously that's a bit lower than – our average has been for the last few years. You saw the leverage. It come down from 3.3 at the end of last year to 2.8 at the half year. And we're – depending on where net debt is, that reduction in leverage, you'd expect to continue, albeit, that's mostly coming across from the EBITDA recovery and eliminating the loss in exhibitions.

Matthew Walker: Okay. All great. Thanks very much.

Nick Luff: Thank you.

Operator: Thank you. Your next question comes from the line of Matti Littunen of Bernstein. Please ask your question.

Matti Littunen (Bernstein): Good morning. A couple of questions. One on exhibitions. So you mentioned the sort of scheduling for next year. So where events are been pushed back from this year, are they now scheduled to happen at least initially around the same time as they normally would pre-COVID? Or is it perhaps a bit sort of back-loaded towards the end of next year? And related to that, if you had biannual events, which were supposed to take place in 2020 and/or 2021 which didn't take place, are those being pushed back to next year or perhaps 2023? Or is there any kind of clear pattern there?

The second question on the customer billing trends in the US legal software markets. I was wondering if you have any visibility on currently what sort of proportion of research software costs the law firms that you serve are able to recover from their own clients, and how that's been trending over the past couple of years? Thank you.

Nick Luff: Yeah, okay. On exhibitions scheduling, broadly speaking, the schedule for next year that events are – the annual events are scheduled back in their normal slots, generally speaking. There are few exceptions, but generally speaking. And the same is true of biannuals actually. Now there's one or two that is switched from odd to even, where that makes – has made sense, given the pattern of that industry but only – but mostly it's back to – at this stage, back to normal scheduling but we'll have to see how things evolve from here.

Your question on customer billings in Legal, I think in most instances now it's the cost of legal research are built into the overall cost of the law firm rather than necessarily build on. And of course, that's what using our tools and the fact that you can find things more readily, you can make yourself more efficient as a lawyer in finding what you need to know, honing your arguments, the work flow tools that help you become more efficient, quicker in drafting or effective in drafting. And that's obviously helping to make the law firms more efficient and they're obviously looking to do that and that's the value that these product developments can bring.

Matti Littunen: Very helpful. Thank you.

Nick Luff: Thanks.

Operator: Thank you. Your next question comes from the line of Tom Singlehurst of Citi. Please ask your question.

Nick Luff: Hi, Tom.

Tom Singlehurst (Citi): Morning. Thank you very much for taking the question. One question to please note on STMs. I mean, obviously it's encouraging that you're looking for underlying adjusted operating profit growth slightly exceeding revenue growth. I'm just wondering whether if you were to lean into OA more and sacrifice margin, whether you might be able to sustain the growth. Because I suppose in terms of the overall investment case, you're going to get a lot more if you can keep the growth – you're going to get a lot more on the multiple if you can keep the growth at 4% or 5% in STM than by delivering an extra 10, 30, 40 basis points margin?

Nick Luff: Yeah, to be clear, our primary objective is to drive revenue growth across all of our businesses as fast as we can in a sustainable way. And clearly, in STM and Legal as we've been discussing, our objective is to accelerate the growth compared to where they've been historically. That does mean putting the resource behind those growth opportunities and open access is part of that, as you said. But I think we have historically been able to – as we've done in Risk and as we've done in Legal, historically been able to manage the cost base in a way that ensures cost growth is certainly no more than revenue growth. And therefore, profit growth in line with or above revenue growth. And that's a model we've been able to pursue and notwithstanding the fact that number one priority is to drive the revenue as fast as we sensibly can.

Tom Singlehurst: I mean, is there anything you can sort of point out at specific sort of investment items, whether it's technology or individual products that can demonstrate that you are sort of putting your shoulder to the wheel on trying to drive that incremental growth whilst also expanding the margin? Or is it just we've got to sit – just sit tight and wait for open access volumes to just slowly ramp up by themselves – well, not slightly ramp up but ramp up?

Nick Luff: Well, look at the number of open access – dedicated open access journals that we've launched. This is – that requires some resource and – I mean, these aren't investments in a capital expenditure sense, this is a capital light business. But in terms of putting resource and the incurring cost and OpEx rather than CapEx mostly, but it costs money to launch new journals. It costs lot of money to launch new products. And so, you can see the pace at which we're doing that is definitely up all the time.

And that's where you can see how we're looking to drive the growth in the revenue over the coming years. And clearly, you're incurring cost today that is going to – immediately in this very short term doesn't drive much revenue, but over the year or two, it does. So you have to be willing to do that and that is what we're doing.

Tom Singlehurst: Okay. Thanks very much, Nick.

Operator: Thank you. Your next question comes from the line of Rajesh Kumar of HSBC. Please ask your question.

Nick Luff: Hi, Rajesh.

Rajesh Kumar (HSBC): Hi. Good morning. First question is on the total addressable market point you made earlier. Totally agree that if you give us, analysts, a big number of the spend of trying to prove that is wrong or that is too low. And like the idea of giving us more granularity on how growth is coming. In that context, can you talk to us about how much of your growth is coming from existing clients versus new clients, or how much of the growth is coming because you're selling more of the existing products versus OpEx expenses or CapEx expenses in new products? That would be super helpful.

Second question is on the exhibitions business. I appreciate you've given – you've answered a lot of questions around it. Could you give us some geographical or end market differences in terms of where you're seeing recovery and where you're not? That could be helpful to understand.

And finally on the differences in revenue recognition timing on open access versus the print business. Would you expect the revenue to be a bit smoother through the year as the proportion of open access becomes larger in the STM business, or is it such a small proportion still that it wouldn't matter in the next two or three years?

Nick Luff: Yeah. Okay, yeah. See what I can do with those.

Rajesh Kumar: Thank you.

Nick Luff: Total addressable market and new clients. I mean, the new versus existing clients is very much varies between sectors. So if you focus on Risk, first of all – in insurance, of course, almost all major insurance companies are customers of something. So there's opportunities clearly to – we've historically been very strong in auto insurance of course, but now have a growing presence in life insurance, health insurance, commercial insurance. And so it's the same insurance companies, but expanding the offering to them.

In contrast to business services is a much broader customer set. We gave – if you saw the seminar we did on business services a few weeks ago. It's still up on the website. You can go back and look at it. Then you saw just how broad the customer set is and how it's expanding because the need to know who you're dealing with in an online situation, it used to be just about banks really but now applies to any company engaged in e-commerce. It applies to government agencies. It applies to medical care providers and so on. So there's an ever expanding set of clients there.

The other thing that might help you, of course, is the distinction between the growth is coming from new products versus existing products, and that's something we do give a – regularly give a table on, and the proportion of growth in risk that's being coming from new products has been stepped up over the last – if you could go back five or six years, it's stepped up and has been representing half or more of the growth in recent times. Obviously 2020 was a bit extorted. But generally speaking, the new product introduction is bigger – a more important component of growth than it was historically.

Your second question on exhibitions and geography. Yeah, we've seen different timing in terms of when markets have been able to operate. China has been operating pretty normally actually for all of 2020, as has Japan, although we did have the Olympics there, of course, which did disrupt things in the middle of the year. The US reopened in March time I think was our first significant event. Europe's been taken longer. And we only held our first big events in France and the UK in September. So different geographies have reopened at different times, but I think the positive thing at the moment is we are operating pretty much in all the significant markets that we got our products in.

And your third question on revenue recognition. Yeah, I mean, the volumes for – transactional volumes in STM including open access, they're not particularly seasonal. So they are reasonably – typically reasonably smooth over year. Obviously, the subscription side you tend to – you've been recognising revenue every month as you go along. So it's very stable. So I'm not sure you will notice any significant change even if some change in overall mix. I'm not sure you'll see that in the pattern of revenue recognition.

Rajesh Kumar: Understood. Thank you very much.

Nick Luff: Okay.

Operator: Thank you. Once again, if you wish to ask a question, it's star and one on your telephone. That's star and one to ask a question.

Nick Luff: Okay, operator, if there are no further – sorry, go on.

Operator: There are no further questions coming through on the line, sir.

Nick Luff: Okay. Well, thank you, and thank you everyone for joining us today. And we look forward to seeing you again for the full year results in February.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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