

RELX PLC

Q3 Trading Update

20 October 2022



Transcript

Disclaimer

This transcript is derived from a recording of the event. Every possible effort has been made to transcribe accurately. However, neither RELX nor BRR Media Limited shall be liable for any inaccuracies, errors, or omissions.

Nick Luff:

Good morning, everyone. As you'll have seen from our press release this morning, RELX delivered underlying revenue growth of 9% in the first nine months of 2022, up from 6% in the same period last year. As we enter the final quarter, momentum remains strong across the group and we continue to 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 remain above historical trends.

Turning to the performance of each business area, in Risk, underlying revenue growth of 7% in line with the first half, and on top of the particularly strong growth of 10% that we reported in the first nine months of last year. In Business Services, which represents around 45% of revenue, growth has remained strong, and then insurance, representing nearly 40% of revenue, The improvement in momentum that we reported at the results in July has continued, with growth rates currently running in line with historical trends.

For the full year, we expect strong revenue growth in line with historical trends with underlying adjusted operating profit growth, broadly matching underlying revenue growth. In STM, underlying revenue growth is 4% in line with the first half. Primary research has continued to grow well, but the number of articles submitted and published remaining ahead of last year's elevated levels. Databases and tools and electronic reference, which represents nearly 40% of divisional revenue, has continued to grow strongly.

For full year, 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 is 5%, up from 4% in the first half. The improvement in growth was driven by the further development and uptake of legal analytics with renewals remaining strong and new sales continuing to show positive momentum. The full year, we expect underlying revenue growth to remain well ahead of historical trends with underlying adjusted operating profit growth continuing to exceed underlying revenue growth.

In Exhibitions, underlying revenue growth was 85%. Revenue growth has been driven by a significant increase in face-to-face activity as venues have reopened across most geographies with digital tools supporting our physical events. For the full year, we expect strong underlying revenue growth while

the operating result will continue to benefit from a structurally lower cost base. And with that, operator, we are ready for questions.

Operator: If you would like to ask a question, please press *1 on your telephone keypad. Please ensure your line is unmuted locally, as you'll be advised when to ask your question. So once again, that's star one if you would like to ask a question. And the first question comes from the line of Sami Kassab from BNP Paribas. Please go ahead.

Sami Kassab: Thank you.

Nick Luff: Hi, Sami.

Sami Kassab: Good morning, Nick. Good morning, everyone.

Nick Luff: Hi, Sami.

Sami Kassab: Thank you, Nick. I have three usual questions. First one, can you provide us with a geographic breakdown of RELX's headcount, possibly by regions, North America, Europe, UK, Asia, rest of world? Would be fantastic. Secondly, does your guidance in risk imply some sort of acceleration in Q4 and why would that be the case? Why would Q4 be stronger? And lastly, can you please provide us an update on RX Chinese shows for the rest of the year? Do we expect November and December shows to go ahead? Thank you, Nick.

Nick Luff: Okay. So the geographic head count ... There is some analysis in the annual report, actually. So I'm not sure I can remember the exact numbers, but we have about 40% of the headcount is in the US, I guess about just under 20% in the UK, and then the rest split between continental Europe and Asia. But there is an analysis in the annual report, I think note six, I think.

Your question about risk in the fourth quarter, as we said in the statement, business services continues to remain strong. We are seeing improving trends in insurance with growth rates there now back in line with historical trends, the transactional business to a fair degree in risk. So we can't be exactly sure what's going to happen in the last couple of months of the year, but obviously, we do know that the comparative from last year, it does get a little easier in that we did have those very strong revenues in the first nine months or first half, really, of last year, which obviously have less of an impact as you get to the full year. So that's the dynamics as we enter into the fourth quarter.

And your question on exhibitions in China, we have been running events in China. We ran a couple in Shanghai in September, but clearly, there remains uncertainty. And so, looking forward, I think it's hard to know, but elsewhere in the world, everywhere is up and running and operating in a reasonably predictable manner. And China's not a huge part of our overall portfolio.

Sami Kassab: Thank you very much, Nick.

Nick Luff: Pleasure.

Operator: Next question comes the line of Nick Dempsey from Barclays. Please go ahead.

Nick Dempsey: Yeah. Good morning, Nick. I've got three questions. So the first one, we do get a few questions on how the transactional component of business services, specifically inside risk, will be impacted by US downturn. I don't know if you can help us out by talking through the kind of transactions you're exposed to and where those would be impacted by weaker macro. Second question, would you give a quick update on the debt you have coming up for refi in the next couple of years and whether we should expect a notable impact on the interest from the rate environment moving up. And third one, just on legal, you've pointed to momentum in analytics and [inaudible 00:07:04] sales in the release. Is inflation also helping your ability to drive higher increases in renewals? Because it seems like quite a remarkable step up now, if it's just coming from actions that you're doing on your product base.

Nick Luff: Yeah. Okay. So the first question on transactional revenue in risk, obviously, insurance is very transactional. It's 90% transactional revenue. Business service is more 60/40. It's a fair amount of subscription. On insurance, based on experience of the last downturn, the volumes actually went up rather than down in the recessionary environment. And of course, as we said in the statement, we have seen a pickup in activity levels in insurance quite recently. So that's different dynamic than you might expect.

On Business Services, then I think there are some parts of the revenue base that, if there was a deep recession, might be impacted, but certainly more muted and delayed compared to many others. We're not exposed, to any significant degree, to the mortgage market, for example. We no longer do employment screening. There's no advertising revenue left in the risk business, which there used to be many years ago. So very different business profile to what we had at the time of the last significant downturn. So obviously, we're not seeing anything in the revenues at the moment that would suggest there's any impact from a changing economic environment and you can see there's good momentum in the business right now.

On the debt refinancing, we have a couple of maturities in the next couple of years. We've got about \$800 million of debt maturing next year, although some of that's at quite high rates, over 4%, some of it over 6%, so not particularly different to current rates. And then there's a billion or so in 2024, which is at lower rates, but we'll see where our rates have got to by then.

I would say that the more significant impact in terms of the ... or rapid impact is from the floating rates. We do have 40%, 45% of our debt at floating

interest rates and, clearly, we have seen quite rapid increase in floating rates through this year. Right now, the average cost of our debt is running at about 3.4%, having been 2.3% in the first half. So it looks like it's going to average 2.8%, 2.9% for the full year with that run rate at 3.4% as we go into next year, subject to what floating rates do from here. And your last question on Legal and inflation, no, I think we wouldn't say there's anything in these growth rates for inflation.

Nick Luff: Most of the revenue that we're recording at the moment is under agreements that were signed some time ago before inflation became that significant. It is coming from the rollout and the adoption of analytic tools and we are seeing good traction, good take up as we introduce those new products and roll them out across the customer base.

Erik Engstrom: That's great. Thank you.

Nick Luff: Hope that helps.

Moderator: The next question comes from the line of Adam Berlin from UBS. Please go ahead.

Adam Berlin: Hi. Good morning, Nick.

Nick Luff: Hi, Adam.

Adam Berlin: Adam Berlin from UBS. Got three questions, if that's okay. The first one is on STM. I think you made the comment in the note that article submissions and articles published are above last year's high levels, but are they still growing at the same rate or do we take that to mean the growth rate slowed a little bit as the year has gone on versus the very high growth rates we saw last year? That's the first question.

Second question on Exhibitions. For the three kind of big regions you're in, Europe, North America, and Japan, can you give us your view on where we are versus 2019 in terms of revenue vs. 2019 for those three regions, either for the most recent quarter or for the nine months, whichever is easier? And so just following up on your point about finance costs in 2023, which is you very helpfully gave us this run rate of 3.4% as an average cost. But can you tell us what floating rates you're exposed to? Is it LIBOR? Is it the US federal funds rate? Of the 40 to 45, can you kind of split that 40 to 45% floating by which where you have the exposure? That would be very helpful. Thank you.

Nick Luff: Okay. So the first question on articles in STM, I think it was actually 2020 that saw the very sharp spike in pick-up in submission rates, sort of the COVID impact when people were, or at least our interpretation is, people couldn't get into their laboratories and so therefore wrote up their research and then submitted it. And then for the last year and this year, the volumes have remained at those elevated levels. So you almost had three years

growth in one in 2020 and then it sort of stayed up at those levels, which just shows the underlying strength and the importance and continued pace at which scientific research is being published.

Your second question on exhibitions and regionally I think it does vary quite a lot from event to event. We're actually getting a very positive reaction from both exhibitors and attendees as we're able to run events. Participation rates have improved steadily through the year. Globally, we're on a sort of like-to-like basis. We're at about 75 to 80% of pre-COVID levels year to date and that is steadily improving. Some events now are above their 2019 levels. Overall, that 75 to 80 doesn't vary hugely between regions. It does between events. But if you average that across all the events, it's not broadly close to that sort of level.

And your last question was on interest rate exposures. Our debt is split roughly 50/50 between dollars and euros, so we don't have any sterling debt. The floating rate, that is more in dollars, so the most important thing is the Fed Funds rate. So if you're looking at forward rates and whatever the market implies, then you should look at the fed funds rate.

Adam Berlin: So, Nick, do you mind if I just ask one follow-up on Exhibitions?

Nick Luff: Yeah, go ahead.

Adam Berlin: When you talk about 75 to 80% participation versus 2019, is that a good proxy for revenue or does revenue kind of lag participation a little bit?

Nick Luff: Yeah, it's roughly that, whether you're looking at attendees, exhibitors, revenue. They're all in that sort of range.

Adam Berlin: Thanks very much.

Moderator: Next question comes from the line of Omar Sheikh from Morgan Stanley. Please go ahead.

Omar Sheikh: Morning, everyone. I just had a couple of questions, actually. Just maybe starting on insurance, Nick, if I could. You mentioned, we've talked about insurance, improving from the H1 stage. Could you maybe just talk a little bit about what's driving the improvement in transactional revenues within insurance and how sustainable you think that is into Q4 and into next year? Just want to get a better understanding of what's happening there. And then secondly, just on exhibitions again, if you look at the business ex China, when do you think you're going to get back to a hundred percent? Given what you can see today, how are you thinking about the next sort of 12 to 18 months? That'll be helpful to get some context. Thanks.

Nick Luff: Yeah, so the first question on insurance, there's lots of factors that go into driving transactional volumes, driving patterns and how they affect claims,

which I think as we said were sort of been improving since the early part of this year. Car transactions have an impact both new and used car sales, which often prompt activity in the insurance market. And there with those, there was a dropdown in the middle of last year and we're now lapping significantly lower numbers. So the impact of that drop off in car transactions has sort of come out to the numbers now, which is helping.

Carrier activity, insurance carrier activity and what they're doing with their pricing, in their marketing, and obviously it's been with driving patterns and claims dropping significantly in COVID and then coming back as people started driving again has made it quite a choppy environment for insurance carriers. But that's settled down and they're getting back to more normal levels of marketing activity and how they're moving their pricing. So all those things feed into it and it tends to move in relatively long cycles, the insurance market. Perhaps compared to business services, it moves a bit more slowly in terms of the cycles. And I think the improving momentum we've seen right the way through this year and in an activity in the sort of shopping and switching in the last few weeks as we come into the second half has been very positive.

Your second question on Exhibitions, our focus is all on running events when we can. We're staying flexible and with the calendar and pleased to see the level of activity we've managed to achieve, but our focus is very much on how do we keep improving the events as we run them, how do we seize the digital opportunity that is increasing? And so exactly what that means relative to history, I think we don't focus on so much.

Omar Sheikh: Okay. Makes sense. Thanks a lot.

Moderator: The next question comes from the line of Silvia Cuneo from Deutsche Bank. Please go ahead.

Silvia Cuneo: Good morning, Nick. I would also like to ask three questions. The first one is a follow-up on Legal. You reported further improvement in underlying that in growth driven by legal analytics. Can you please remind us on the typical renewal patterns in a year? And also about the new sales positive momentum. Can you please comment about how much variability that this gives into 2023? Then second, a bit of a higher level question. When thinking about subscription-driven revenues, can you please remind us of the typical contract length and if there are any automatic price renewals linked to inflation? And then, finally, within STM, primary research continue to grow well with the number of articles submitted and published still ahead of last year, can you please comment also on the specific plans for open access articles and this within the mix? Thank you.

Nick Luff: Yeah. First question on renewal patterns in Legal, perhaps unlike STM, there isn't really a renewal season. It does vary a bit through the year, but it varies depending on when the customer first signed up. So there's renewals going

on all the time. So when we're commenting on renewals being positive, then that's sort of current comment, and new sales and uplift to existing customers and taking on new modules is what's driving the growth. It's largely a subscription business, so that does give you quite good forward visibility. Your question on subscription revenue and inflation linkage, it... Won't say never, but it's very... I don't think any of our contracts of any scale have direct links to inflation built into them. They will often have escalators, but that's because typically volumes are rising, whether you're talking about number of scientific articles, the number of legal cases, number of downloads, whatever metric you care to use, so that typically will be assumed volume increases and

Nick Luff: Therefore built in some increase in overall revenue coming from the contract, but rarely if ever, would it be directly linked to RPI or any other inflation index. And your last question was on open access articles? Yes, open access does continue to grow strongly. I think at the half year we said open access volumes were up 40% in that range and they remain at that level. And obviously we continue to launch journals dedicated Author Pays open access journals. We're strategically wanted to make sure we've got good coverage of all the branches of science, all the disciplines and all the quality tiers such that there's always somewhere within an elsewhere journal that a scientist can, if they've got good science that can be published, we'd like to publish it in an elsewhere journal. So that's what we're doing and that's helping drive that very strong growth in open access volumes.

Speaker 1: Great, thank you. Next question comes from the line of Matthew Walker from Credit Suisse. Please go ahead.

Matthew Walker: Thanks a lot. Good morning everybody. Good morning Nick. I've got three questions for you. The first is on the recent announcement by the OSTP in the States about federally funded articles open access from 2026. Can you give us your reflections on what that might mean for revenue and if you think it means that by that point a significant portion of the world's articles will be free. So is there any risk of people asking for discounts on remaining subscription journals or any thoughts you could give us on that transition? And then just in the quarter or in the nine months for STM, I think in the first half you commented that print decline was running at roughly half of the normal levels. You didn't make any comment in the statement this time. Could you give us an update on where print is running in STM? And then the last question is on events. So for Exhibitions, what are bookings looking like for 2023 and what sort of margin do you think you could achieve in 2023 for Exhibitions?

Nick Luff: Okay. Let's see, so the first question on the OSTP announcement, for those that are unfamiliar, this was a guidance being issued to US federal agencies that fund scientific research and giving some guidance on how the publication of that scientific research and articles based on that kind of research, how they should be done. It only comes into effect in 2026 or for

research that starts in 2026, so there's a delay after that before you get to the publication on the OSTP numbers. They cover something between 7% and 9% of the world's scientific articles. But of course a significant proportion and an increasing proportion of those are already published on an open access basis and that will continue to go up. So I don't think we see it as a significant change in the overall direction and trend. Clearly it's a shift in payment model between author pays and subscription or from subscription to author pays, but that's something that's been going on for some time and is obviously reflected in the financial forms of the business today.

Your second question on print plan in STM, it's good question. We actually did not see the normal level of print decline in the first nine months. We called it out at the half year and that remains the position today. So clearly the growth rate you're seeing does have a small benefit in it from not having that normal print decline against that. I would remind you that we had some tough comparatives because there was quite strong growth in the first nine months of last year, and by the full year, the fourth quarter, the growth was slightly lower last year. So the comparative gets a little easier. So we'll see what happens in the final three months.

And your last question on exhibitions and re-bookings, we are seeing strong appetite for people to get back to face to face events, and people see the value in coming to exhibitions and want to be there when they're confident we can run them. It obviously does vary from geography to geography and it varies from sector to sector, but overall the picture is positive. I'm not going to start speculating on next year's margin. We're focused on seizing this opportunity from the re-opening and building on it with the digital tools that we're offering.

Matthew Walker: Okay, that's clear. Thank you so much.

Operator: The next question comes from the line of Matti Littunen from Bernstein. Please go ahead.

Matti Littunen: Hello. Good morning. First question on Legal. So you mentioned the new product boost there. Would it be possible to identify the specific contribution from Lexis+ into the underlying growth this year? Then in Risk, I just wanted to check whether the growth for the acquisitions, the ThreatMetrix and Emailage, is that still tracking in line with H1? And then finally on Exhibitions, other than the China questions you already covered, are there any sort of sources of uncertainty into Q4? Maybe the pacing of events, which mean that we shouldn't project the underlying growth for the nine months so far into the full year. Thank you.

Nick Luff: Okay. So the first question about Legal and Lexis+ in particular, the key driver of the growth and the improved growth in legal is the development and rollout of analytics tools. Lexis+ is an important component of all that,

but it is a platform and a packaging, and a way of presenting and making the analytic tools accessible. And it's a brand name, it's a marketing position. We are getting good adoption of Lexis+ - virtually all new customers take Lexis+ and most renewing customers switch to it, but they're doing it because that's what gives them the ease of access to the analytic tools, and it's the analytic tools underlying it that are the key driver of growth.

Your second question on risk and ThreatMetrix and Emailage. Yes, the fraud and identity segment continues to show strong demand and the electronic identity tools such as ThreatMetrix and Emailage continue to do well within that. Between them, they're currently, I would say, currently running close to 20%. So obviously as they've got bigger, the dollar growth has remained good. Obviously as a percentage of the base, it is not quite as high as it was when they were smaller but still growing very well.

And your final question on Exhibitions and nine months to full year, the only comment I would I'd make is just remember of course that in the first half of last year there was very little face to face activity, and by the second half we were somewhat busier so that the dollar base gets bigger as you go through the remainder of the year, which obviously will impact percentage growth rates. But I think I've given you an indication of how individual events are doing on a like for like basis compared with our pre Covid level. Remember that we did keep it, we kept in our portfolio ongoing events that represent about 90% of the revenue base. So we dropped some of the more marginal events, and then I've given you an indication of how they're doing on a like for like basis, so that's probably your best starting point.

Matti Littunen: Very clear. Thank you very much.

Operator: Next question comes from the line of Tom Singlehurst from Citi. Please go ahead.

Tom Singlehurst: Oh, thank you very much. Yes, Tom here from Citi.

Nick Luff: Hi Tom.

Tom Singlehurst: Hey. So two questions if that's okay. Both on Exhibitions, I'm afraid. Completely understand the point you are making about each show being individual and also that 2019 really is ancient history and we shouldn't focus on it so much, but I guess equally there's no reason why 2019 should be a ceiling rather than relative to being a floor. So the question is this, for the next 12 months, can you just confirm how many exhibitions you're going to be running, or at least the percentage change in the number of exhibitions you're going to be running relative to 2019 levels, such that if we assume that attendance is approaching historic levels, what level of structural shortfall in revenue should we expect given there are just fewer shows happening relative to.

Tom Singlehurst: Just fewer shows happening relative to where we were in 2019. So that was the first question. And then the second question, and I completely understand your reluctance to comments on margin for 2023. That makes a lot of sense given we don't know where the revenue's going to be. But you had previously talked about a fixed level of cost or at least the fact that you've taken out some costs. I just wanted to double check that there was no reason why those costs wouldn't come back in if indeed growth continues to be strong and may even surprise on the upside.

Nick Luff: Okay. Yeah, look, I think on comparison to 2019, as I've said, we did rationalize the portfolio of events. We kept events, if you weight it by revenue, that represent 90% of the 2019 base. So there's your starting point. And take your view as to exactly how they'll do relative to on the like for like basis with that starting at that 90% of history. On the second question on margin, we did take out a significant part of the overhead base. That was a permanent structural change. So the cost base will change to some degree over time and depending exactly which events we're running where. But we do expect to retain the benefit of that structural reduction in the cost structure and on a like for like basis. That would ultimately give you a better margin business.

Tom Singlehurst: Got it. That's very clear. Thank you.

Operator: Next question that comes from the line of Lisa Yang from Goldman Sachs. Please go ahead.

Lisa Yang: Hey, good morning. I only have two questions. Firstly on Legal, assuming that sort of 5% or maybe 5% to 6% could potentially be the new normal, what do you think happens to operating leverage and margin? Cause obviously this segment is still the lowest margin segment of the group. So is it fair to assume we should stop to see meaningful improvement margins going forward converging with some of the other businesses? That's the first question.

And secondly, on Exhibitions, obviously it feels like in a consensus has about 80% organic growth next year. So I think should normally imply that are going back to a 100% of 2019 level, adjusted for the shows you have pruned. How do you think about the cyclical or how the macro would impact events? Obviously in 2009 you were down 15%. I think revenue mix might have changed a little bit, but just curious to see for instance, how that could affect 2023 and actually even 2024 if for the number of attendees were to go down a lot next year and how that impacts, I don't know, how the exhibitors might think about rebooking for 2024.

Thank you very much.

Nick Luff: Okay. Yeah, first question on Legal and margins. Look, our primary focus is on continuing on this path of improving organic growth in legal. That does

mean putting the resource behind the growth opportunities through new product development, development of new analytic tools and rolling those out across the customer base. Our approach in legal is the same as it is across the group, which is always to ensure that cost growth is, on an underlying basis cost growth is below revenue growth. And that certainly applies in legal. All other things being equal. If you achieve that, of course subject to variations year to year through currency and M&A and things. But all things being equal, that will drive incremental marketing improvement and that remains the objective. But I wouldn't say that dynamic changes because the growth rate has gone up.

On Exhibitions and the macro, I think it's going to be very hard for us to identify any overall economic impact. Clearly it varies significantly from sector to sector and geography to geography. But the key drivers at the moment are ability to run events, international travel and how events are doing when they get back to the right place in the calendar and things like that. So those are more significant drivers of the result. So it's hard for us to separate out whatever economic impact there might be.

Lisa Yang: Okay, thank you.

Operator: Next question that comes from the line of is Sarah Simon from Berenberg. Please go ahead.

Sarah Simon: Sorry, I've got a few more.

First one, still on Exhibitions. Obviously it's... As far as you've talked about the level of revenue recovery and so on. Can you talk about whether there's any difference in terms of the rate of recovery of the exhibitor specific revenues as opposed to the ancillaries? Cause obviously those have tended to be a bit more cyclical. I'm wondering if those have recovered as quickly as the revenues that people you are getting from renting space to exhibitors.

The second one was just on Legal. What proportion of revenue is coming from analytics and tools?

And then the third one was just on STM. And I know you never comment on specific deals, but can you just confirm that your arrangement or lack of arrangement with Germany is still the case in terms of project deal? You haven't reached an agreement with them.

Thanks.

Nick Luff: Yeah, I mean on Exhibitions, the adding value, additional value, particularly through digital and data for exhibitors so they can get maximum value out of attending an event, is clearly a key part of our overall strategy. That is reflected to some degree in the underlying revenue that we get for the rental

of the space. Some of it we charge for separately but I don't think I'm able to separate out the different revenue streams-

Sarah Simon: I'm thinking more actually about things like marketing and sponsorship, whether that's recovered as quickly as attendance.

Nick Luff: Yeah. Yeah, the key is holding the event and if the events are on then the mix of revenue is very similar to what we've seen historically. Other than we're driving it towards more digital tools and more support from a strategic point of view.

Sarah Simon: Okay.

Nick Luff: And sorry, your second question on legal was that?

Sarah Simon: I was just wondering what proportion of revenues coming from analytics now, given that this is a key driver.

Nick Luff: Oh, okay. Yeah. Yeah, obviously a little tricky to measure that because some of the digital tools are built into the core platform and available for everyone to use. But I think we would say 25% plus of the revenue is coming from products that have a significant analytic feature to them, something like that.

Sarah Simon: Okay.

Nick Luff: And on your third question, you are quite right, we don't comment on individual countries or individual negotiations or contracts. So I can't help you.

Sarah Simon: Okay. All right.

Operator: There are no further questions in the queue, so I will hand the call back your host for some closing remarks.

Nick Luff: Okay. Well thank you off Rachel and thank you everyone for joining us this morning and if you have further questions I'm sure you'll come back to us. Thank you very much.

ENDS.