

RELX
Nine Month Trading Update 2023
Conference call
19th of October 2023
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, everybody. As you will have seen from our press release this morning, RELX delivered underlying revenue growth of 8% in the first nine months of 2023, in line with the first half. Electronic revenues, which represent over 80% of the total underlying growth, was 7%. The continued recovery in face-to-face revenues more than offset print declines, giving the overall 8%. Our improving long term growth trajectory continues to be driven by the ongoing shift in business mix, towards higher growth analytics and decision tools that deliver enhanced value to our customers across market segments. Full year outlook remains unchanged, both at the group level and for each of the four business areas. We continue to expect underlying growth rates in revenue, and in adjusted operating profit, to remain above historical trends. Driving another year of strong growth in adjusted earnings per share on a constant currency basis.

So into the performance of each business area. In Risk, underlying revenue growth was 8%, in line with the first half. Growth continues to be driven by our deeply embedded analytics and decision tools across segments, with recent acquisitions in compliance and behavioural biometrics, and in home and life insurance, performing well. In Business Services, which represents around 45% of revenue, growth continues to be driven by Financial Crime & Compliance and digital Fraud and Identity solutions. And in Insurance, representing nearly 40% of revenue, growth reflected continued new sales momentum and positive market factors. Specialised Industry Data Services, representing just over 10% of revenue, continued to deliver strong growth. In STM, underlying revenue growth was 4%, in line with the first half. Growth continues to be driven by the evolution of the business mix, with the high growth segments representing an increasing proportion of divisional revenue. Growth in Databases, Tools, and Electronic Reference, which represents nearly 40% of divisional revenue, was driven by content

development and the evolution of higher value add analytics and decision tools.

Primary Research growth was driven by article submissions, with pay-to-publish open access articles continuing to grow particularly well. In Legal, underlying revenue growth was 6%, up from 5% in full year 2022, and in line with the first half of this year. The improvement in growth has been driven by the continuing shift in business mix towards high growth Legal analytics. Lexis+, our integrated platform leveraging extractive AI functionality, continues to see increasing customer adoption and usage. Feedback from customers participating in the testing phase of Lexis+ AI, our new platform leveraging generative AI functionality, has been very positive. And we are seeing high levels of interest across Legal markets. In Exhibitions, underlying revenue growth was 32%. Average like for like event revenues across the portfolio continues to run ahead of pre-pandemic levels, with increased usage of a growing range of digital tools. With that, we are ready for questions.

Operator : As a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We'll take our first question from George Webb from Morgan Stanley. Your line is open now. Thank you.

George Webb: Hi, and morning, Nick. I'll kick off with three questions, please. Firstly, around Lexis+ AI. Can you give us some key areas of user feedback so far that you've perhaps been going back and revising and improving the products with? And the latest on the launch timeline there? Secondly, on the Insurance segment of the Risk business, in the latest LexisNexis report, the new policies were still growing strongly. Q2 saw a slight dip, year over year, by June around shopping trends. But what have you seen in Q3 so far? And can you talk about perhaps the sustainability of those drivers? And then, lastly, on the Exhibitions business, you were talking in the first half around average like for like event revenue being ahead of pre-pandemic levels by the end of the period. And that's still true at the nine month stage. Can you give us a feel for how much ahead you're running on that metric? Is it 1%, 2%, or something more material? Thank you.

Nick Luff: Okay, I'll take each of those. Yeah, I mean Lexis+ AI, for those who are less familiar, that was our new platform leveraging generative AI functionality. We previewed that with customers back in May. We have been in development since then. Testing it with hundreds of customers, applying thousands of queries across a range of different customers, so law firms, corporate Legal departments, court users. Feedback's been very positive. It's an iterative process, of course, as we take their feedback on what works particularly well and where we can make things even better. But that's been a very positive process. We've got high levels of interest from our Legal

customers. And the commercial launch is coming soon. And we will announce that directly to each customer group when it's available to them.

Your second question was on Insurance and the volumes. I think that the first point to make, of course, in Risk is that the key drivers of growth are actually the development of new data sets. And applying new analytics to that data and to existing data, rolling out those products to new customers. And there is some variation in the growth rate, as you've seen in recent years. It's typically been in the 7% to 9% range, as the base revenue varies. And that is because we do have some revenues that relate to the volumes going through the platforms. In Insurance, in particular, the volumes were particularly strong during the first half of this year. They remain strong, particularly for switching and new policies. The growth rates have eased a little, particularly on shopping, as the comparatives have got tougher. But the overall dynamics and volumes are still very good. And, of course, the other big part of the division Business Services, I think we mentioned the volume growth picking up towards the end of Q2 at the Half Year Results. And that has continued through Q3.

And then Exhibitions and how we're doing relative to pre-pandemic. Yeah, no, we have been running ahead. We crossed that threshold during the first half. That has continued through the third quarter, albeit the third quarter is seasonally not quite as big for the Exhibitions business. It does vary from event to event. But I think, on average, for the full year, even though we were behind at the beginning, and now we're ahead, on a like-for-like basis, it should be pretty much, across the full year, in line with 2019 on a like-for-like basis.

George Webb: Very clear. Thank you, Nick.

Operator : We'll take our next question from Lisa Yang from Goldman Sachs. You can go ahead now. Your line is open. Thank you.

Lisa Yang: Thank you for taking my questions. On Lexis+ AI, I was just wondering, obviously you haven't launched it commercially, so not going to talk about pricing. But could you maybe share a bit more colour on the feedback you're getting from customers on the trial? For instance, have they been able to measure the improvement positivity? Have you seen significant growth in usage? Or any just a bit more KPIs you could share. And is it also possible to give us an update on the AI development you're undertaking across the other divisions? I think you spoke about Scopus AI, but also where you are on the testing there. Any other products you can talk about?

The second question, still on Legal, obviously there's been a number of other LLMs, like Harvey AI and Casetext. Also wondering the feedback you're getting from your customers, in terms of how your product compares versus

your competitors? And what you think is the strong moat of Lexis+ AI compared to competition?

And the last question is on Exhibitions. Obviously, China has been quite soft on the macro side. I was just wondering how the JVs there are performing? And, in general, how the rebooking rate's look versus services last year? Thank you.

Nick Luff:

Yeah, the Lexis+ AI development, there's not a huge amount more I can say, other than we have been getting some very positive feedback from customers. They like what it can do, and are seeing good value and efficiency. I'm not sure we've reached the point of being able to measure that for every customer. But what they're seeing from it, and the reaction we're getting, is very positive. The interest from the wider market is very positive. We will be launching it soon, as I said, and then, no doubt, it will keep developing from there. That's progressing well.

As far as generative AI across the group and elsewhere, it is, of course, most relevant for the Legal business, given the nature of what we do and what our clients do. It's perhaps of less relevance in the Risk business. And in STM, somewhere in between. We have got initiatives around generative AI, both for internal application, where we can make ourselves more efficient using it, but also, perhaps more importantly, around the products. As you say, we've already announced the Scopus AI, using generative AI functionality in the STM product there. We have a number of other initiatives underway across different products. And we will be using it to... Generative AI, we will be using it to enhance our existing products, develop new products, as we've been doing with other new technologies as they've emerged. So watch this space on that.

As far as you asked us a question about the gen AI product in Legal and our competitive position and so on. Look, I think we've got the authoritative content in Legal, applying the generative AI to that content. Being able to use the best large language model for each application. Controlling the quality of the output by integrating it with our authoritative underlying content and with our propriety search technologies is absolutely key. We are using a multimodel approach, applying whichever model is best. We're already learning which is the best large language model to use for different use cases. So I think we feel we're as well placed as anybody to bring value from applying generative AI technology in the Legal market.

And your third question was on Exhibitions in China. Obviously, China's a single digit percentage of the revenue in Exhibitions. But it's reopened and recovering strongly. Revenues in China are already above 2019 levels, but see that as part of the overall mix in the business.

Lisa Yang: Thank you very much.

Operator : We'll take our next question from Sami Kassab from BNP Paribas. Your line is open now. Thank you.

Sami Kassab: Thank you. Good morning, Nick. Good morning, everyone. I have three questions as well, please, Nick. The first one is on pricing with Lexis+ AI, to the extent that you can discuss that. Case Counsel is the main competitor here. Do you intend to price Lexis+ AI in the range of CoCounsel, or above or below this other product? Secondly, I assume that your sales people are busy trying to renew contracts, your products and services, as we go into 2024. Can you comment on the price inflation you expect to put through in these discussions, and how that compares to 2023? Will it be at the same level, or will it be below or above what you put through in '23? And, lastly, with regards to RX, do you think you can exceed 300 million of operating profit this year at RX? Thank you, Nick.

Nick Luff: Okay, Sami, thanks for those. Lexis+ AI, on the pricing of it, as we said when we previewed the product back in May, it will be offered as a premium tier to the Lexis+ platform. The price, however, will vary, depending on exactly what services a particular customer is taking, which specific content has been configured for that different customer type, and different locations. I think that's as much as I can say. We'll obviously talk to the individual customer groups about what that pricing is when we launch commercially.

Your second question about price inflation more generally. Strategically, we actually are always looking to provide more value to customers. So we are not typically looking to put through inflationary type price increases. Of course, the volume and value we're adding is going up all the time. So we're looking to drive increased spend against that increased value that we provide. But the key to driving the revenue growth, in all of our businesses, is actually about developing new content, new data sets, applying new analytics, developing new tools, and rolling those out to customers. It's not about the price of the existing offering.

And your last question on Exhibitions, I think you can probably, from what we said, make some reasonable estimates on the revenue base for 2023. As we said at the half year, we are expecting margins this year to be above pre-pandemic levels. So if you apply that, you'll get numbers reasonably close to what you're suggesting, Sami. And I think the key point there with Exhibitions is that we've come out of the pandemic having restructured the business, having focused it on the best performing events. And believe we now have a higher value add business that is higher growth and higher margin.

Sami Kassab: Thank you, Nick. And if I may have a quick follow-on on RX? A few years ago, there was discussion on keeping or selling the asset. You had suggested that

you wanted to normalise the business post-COVID, and we are almost there. And that you were trying to digitalise and add value through technology. Can you update us on your latest thought as to whether RX is a long-term asset you want to keep, please?

Nick Luff: Well, look, there continues to be a big opportunity in Exhibitions, as we complete the recovery and now focus increasingly on the digital and data opportunity. As I said, we do believe the business is going to be higher value add, high growth, higher margin than it was pre-pandemic. And our focus is entirely on delivering and demonstrating that.

Sami Kassab: Thank you very much.

Nick Luff: Thank you.

Operator : We'll now take our next question from Nick Dempsey from Barclays. You can go ahead now. Thank you.

Nick Dempsey: Yeah, good morning, Nick. I've got three as well. So first of all, just going back to the Lexis+ AI product, just to try and understand your broad hopes for the scale of this product. Is it something that we could notice in the 2024 organic growth for the Legal division? Or is it just another product, part of the usual process, and it's not something that's going to be noticeable on top? Second question, looking into 2024 for STM, I know a lot of people think it's logical that with Germany coming back in, that that should provide a small boost to your organic growth in 2024 versus what you're seeing in 2023. Is it logical to follow that through or not? And the last question, in Exhibitions, can you give us an idea of the pricing you've been able to put through in 2023, and what you are starting to achieve for 2024 in your forward book?

Nick Luff: Yeah, look, I think on the generative AI and the Lexis+ AI platform, obviously generative AI is a powerful technology. And we do see that as something that we can use to enhance our existing products and develop new products. That applies particularly in Legal, as I said, but also in STM. And that's, of course, what we've been doing with other technologies over many years. And I think you should see it as a continuation of that overall strategic path of developing new content, developing new data sets, applying new technology. And that's what's driving the improving growth trajectory you're seeing in Legal and STM in particular.

Your second question was on STM. And I think you're referring to one particular contract and customer. And as you know, I won't comment specifically on that. But what I would say is that the key growth driver in primary research is the article volume growth. And that, over many years, is what's key to continuing to drive growth out of primary research. Changes in

how customers buy from us, so whether they buy in consortia or whether they buy us individual institutions, have not been a key factor on our revenue and how it develops. And you can see that from history. And you wouldn't expect it to suddenly become a significant factor. As I say, the key is the article volume growth.

And then, your last question was on Exhibitions and pricing. As we do elsewhere in the group, the key for us in pricing is to reflect the value that we're providing customers. And so we actually don't necessarily just put through straight price increases for the same product, but we're always looking to add more value. And in the Exhibitions in particular at the moment, a lot of that is coming through the development of digital tools. And we're looking to provide more value to customers and, therefore, get higher spend. But that doesn't necessarily mean charging a higher price or a different price for the same thing that we provided last year. It's about adding more value and capturing that value in our pricing.

Nick Dempsey:

Thanks a lot, Nick.

Operator :

We'll now take our next question from Steve Liechti from Numis. You can go ahead now.

Steve Liechti:

Yeah, morning, Nick. Just a couple from me. One, I hear what you're saying... These are both about events. I hear what you're saying about the like for like growth, which is great on events. But can you zero in on any specific regions, and we talked about China a bit, or verticals that are seeing macro pressure now? Just to help us try and unpick some of the macros against the recovery phase. That's the first question. And the second question, can you give us any harder data in terms of rebooking performance into 2024 when you're looking forward? And has there been any great trend between quarters as the year has progressed? And I guess the macros have gotten more difficult in the overall economy. Thanks.

Nick Luff:

Well, Exhibitions overall, as we said in the statement and we're discussing, the recovery has been strong. And it obviously varies from event to event, but not particularly by geography, more with sector. And the strength of that recovery has been such that you can't really see any other underlying and macro trends. And that includes how we see behaviours for rebooking as well. So I see nothing really to call out for you.

Steve Liechti:

Do you want to give us an actual rough figure for rebookings compared to previous years? Or anything like that, above, below, any feel at all?

Nick Luff:

No, look, as I say, there's nothing in how the business is trending or in future bookings to indicate any change in overall trend.

Steve Liechti: Okay, thank you.

Operator : We'll now take our next question from Adam Berlin from UBS. Your line is open now. Thank you.

Adam Berlin: Hi, Nick. I missed the first question, so apologies if this was asked already. But you talked about good open access article growth in STM. Can you just break that down into how much of that is just being driven by publish and read agreements, so you're not necessarily generating extra revenue from those articles, versus growth in APC funded articles where you're actually generating incremental revenues? That'd be really helpful. Thank you.

Nick Luff: Yeah, as I said earlier, yes, open access is growing on a pay to publish basis, rather than the more historic pay to read model, is growing fast. And that's shifting the overall mix. But if you're trying to turn that into what does that mean for revenue, in the same way as what I said earlier about consortia and individual buying, the payment model, whether people are pay to read or pay to publish indeed, indeed, whether they are part of subscription agreements or more on a transactional basis. And you can do both, of course, under subscription, and both under a transactional basis. That has not been a key factor in how our revenue has developed. And, again, you can see that from history, the key driver of the growth is in the overall article volume. And as we said, that continues to progress well. But if you focus on that overall, that will give you the right impression.

Adam Berlin: Okay, thank you very much.

Operator : We currently have no questions coming through. As a final reminder, if you would like to ask a question, you can press star one now. We don't have further questions, so I will hand you back to Nick to conclude today's conference.

Nick Luff: Okay. Well, Alicia, thank you. And thank you for your questions and thank you for joining the call today. And we'll see you for the final results in February.