AI for lawyers helps Relx make the case for a raised dividend

Tom Howard

Relx has lifted its dividend and begun a £1 billion share buyback amid strong demand from lawyers and scientists for its artificial intelligence products and a continuing rebound in its events business.

The company, one of the biggest on the FTSE 100, introduced commercial generative artificial intelligence (AI) in its LexisNexis legal business over the autumn. It is also selling AI products to its scientist and researcher customers.

"We've been big users of AI for many years ... but what you might call predictive AI, where you're identifying things in datasets for fraud prevention or identity verification," Nick Luff, chief financial officer, said.

"What's new in the last 18 months is the step forward that has happened in these large language models, generative AI. Legal is where it's really exciting. It helps [lawyers] with drafting letters, contracts, court submissions. It helps with summarising documents. The feedback we're getting is that it's saving lawyers several hours a week."

> **7.5%**
> **Increase in final dividend compared with a year ago**
> Source: Relx

Relx, formerly called Reed Elsevier, employs more than 33,000 people in 40 countries. It operates four divisions, including risk, which helps businesses and banks with cybercrime and money laundering, and legal, which includes the LexisNexis database.

Its largest division — scientific, technical and medical — owns ScienceDirect, the world's largest scientific and medical database, managing more than 2,700 scientific journals. Profits in all three of those divisions increased by between 6 per cent and 8 per cent last year, in part reflecting the growing popularity of its AI offering. Relx's smallest business, exhibitions, which includes World Travel Market events and the London Book Fair, was the stand-out performer, with profits there doubling last year.

Relx said that growth was "driven by a significant increase in face-to-face activity across geographies" as audience levels continued their post-pandemic rebound. Revenue from exhibitions is back above where it was in 2019 and bosses expect further improvement.

In total, group revenues increased to £9.16 billion last year, up 7 per cent on the £8.55 billion recorded in the previous year. Pre-tax profit increased 9 per cent from £2.11 billion to £2.29 billion.

The final dividend, to be paid in mid-June, has been lifted to 41.8p, a year-on-year increase of 7.5 per cent. That means for 2023 as a whole it will have paid out dividends of 58.8p per share, 8 per cent more than in 2022. Relx also confirmed it would buy back £1 billion of its shares this year; most analysts had expected a buyback of nearer £800 million, the same as last year.

"Relx is a very cash generative business," Luff, 56, said. "It's not a capital intensive business, so we do throw off a lot of cash. We spend some of that on mergers and acquisitions ... but there's only so much of that we can do." Usually, Relx would make around £400 million of acquisitions, but last year it spent only £130 million.

Steve Liechti, a media analyst at broker and adviser Numis, said the outlook comments suggested "modest" increases to consensus forecasts. Relx shares ended the day 30p, or 0.9 per cent, lower at £33.06, valuing the business at £63 billion.

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William Kay Tempus

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No need for AI with this investment

RELX

Market cap	Net assetts
£61.5bn	£3.4bn

Relx (pronounced relics) is a multimedia company with more moving parts than a Swiss watch. But the ingredient that has excited the stock market is artificial intelligence (AI), driving the shares from £24.80 last August to a £33.50 record high last week. They were recommended in this column last October at £28.32.

The commitment to AI goes back years, understandably as it is such a natural fit with the group's established position as provider of information-based analytics and decision tools for professional and business customers in science, law and financial fraud. The chief executive, Erik Engstrom, said: "We are confident that our ability to leverage AI and other technologies, as they evolve, will continue to be an important driver of customer value and growth in our business for many years to come."

What has changed is that AI has reached a critical mass as a commercial tool. Although providers and users have only scratched the surface of the potential, we can expect shares in companies such as Relx to benefit from future developments.

Reported operating profit rose from £2.3 billion to £2.6 billion, on the back of an 8 per cent gain in revenue to £9.1 billion. Earnings per share rose 11 per cent, from 102.2p to 114p.

The company has four divisions: risk, STM (scientific, technical and medical), legal and exhibitions. The first two dominate, contributing about a third of turnover each, legal a fifth and exhibitions the remaining eighth.

Risk covers financial crime, compliance, digital fraud and identity checks for banks, insurance and general business customers, with smaller operations in data services for commodities and aviation, and analytical tools for government departments.

STM sells mainly to universities and governments, with a useful old-tech sideline in which academics pay to have their pet learned articles published. While those divisions are enhanced by AI, lawyers are seizing on the new facility to help them phrase questionnaires and draft court submissions.

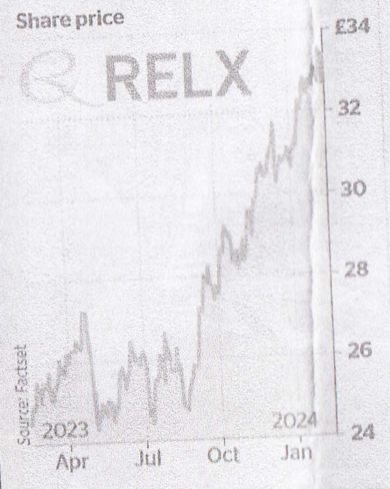
Exhibitions is the outlier of the set, because it naturally plays on the desire for face-to-face interaction. It has recently been growing faster than the main divisions while catching up from the deadening effects of the pandemic, but should settle in the next couple of years at the others' annual growth rate of 6 to 8 per cent. It is a useful channel to feed customers into the company's more technical operations. The exhibition management's experience in dealing with human end-users might open the way for selling software direct to the public. Meanwhile, its products offer high value while remaining an insignificant part of business and government customers' budgets, a nice niche.

AI will reinforce the Relx business model of low capital employed and high cash generation, highlighted in the disparity between the £61 billion market capitalisation supported by only £3.4 billion net assets. It is also reflected in 15 types of principal risk listed in the annual results statement, from data privacy and intellectual property rights to geopolitical, economic and market conditions. More than half of sales are recorded in the US, where competition can be stiff and regulation unpredictable.

But, while the present outlook prevails, investors can expect a continuation of the tradition of putting cash back in their pockets through buybacks and dividends. That must be a constant temptation to cash-hungry corporate predators, but probably not at the 35 price-earning ratio, which keeps the dividends down to a 1.78 per cent yield. However, as the payments grow, Relx will turn into an income stock for long-term holders.

Great exhibitions

Share price



Revenue (£)	2022	2023
Risk	2.9bn	3.1bn
Scientific, Technical & Medical	2.9bn	3.1bn
Legal	1.8bn	1.9bn
Exhibitions	953m	1.1bn
Total	8.6bn	9.2bn

Adjusted operating profits (£)	2022	2023
Risk	1.1bn	1.2bn
Scientific, Technical & Medical	1.1bn	1.2bn
Legal	372m	393m
Exhibitions	162m	319m
Total	2.7bn	3bn

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