

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

EVENT DATE/TIME: JULY 29, 2016 / 8:30AM GMT



JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

## CORPORATE PARTICIPANTS

**Meg Geldens** *Wolters Kluwer NV - VP, IR*

**Nancy McKinstry** *Wolters Kluwer NV - CEO & Chairman*

**Kevin Entricken** *Wolters Kluwer NV - CFO*

## CONFERENCE CALL PARTICIPANTS

**Sami Kassab** *Exane BNP Paribas - Analyst*

**Nick Dempsey** *Barclays - Analyst*

**Joe Barnet-Lamb** *Credit Suisse - Analyst*

**Chris Collett** *Deutsche Bank - Analyst*

**Katherine Tait** *Goldman Sachs - Analyst*

**Tom Singlehurst** *Citigroup - Analyst*

**Konrad Zomer** *ABN AMRO Bank - Analyst*

**Giasone Salati** *Macquarie - Analyst*

**Henk Slotboom** *The Idea-Driven Equities - Analyst*

## PRESENTATION

### Operator

Good day, and welcome to the Wolters Kluwer half-year 2016 results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Meg Geldens, Vice President Investor Relations. Please go ahead ma'am.

---

**Meg Geldens** - *Wolters Kluwer NV - VP, IR*

Good morning, everyone, welcome to our 2016 half-year results webcast and conference call.

Hopefully, you've had a chance to look at our earnings release this morning. The release and the slides for this call are available for download on our website.

We will start today with a presentation of the results by Nancy McKinstry, our CEO, and Kevin Entricken, our CFO, will lead you through our presentation and at the end will open the call for your questions.

As a reminder, some of the statements we make during today's presentation may be considered forward-looking statements. We caution that actual results may differ materially from what is contemplated in these statements, due to a number of risks and uncertainties, which you can find detailed in our annual report.

Throughout the presentation, we will mainly refer to constant currency or organic growth rates, which exclude the effect of foreign exchange rate movements.

We also refer to adjusted figures and you can find a reconciliation to IFRS reported figures in our release today.

Now, I would like to hand over this call to our CEO, Nancy McKinstry.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

### **Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Thank you, Meg; and welcome, everyone. Let me start with the highlights of the first half and a recap of our strategy. Then Kevin will cover the financial results for you in detail.

After that, I'll come back to review our divisional performance and give you an update on our strategic progress. I will finish with an outlook for the full year.

I'm very pleased to say we had a positive start to the year. We delivered 3% organic growth and an improvement in adjusted operating profit and free cash flow. Adjusted EPS increased 6% in constant currencies.

We also made progress on our strategic priorities. We have continued to invest in and deliver some key product innovations, focused on our expert solutions and our leading digital products.

We have made father steps to improve our portfolio, acquiring Enablon and a few smaller companies, while also finalizing another important disposal, this time in France.

And thirdly, we've made progress on some key operational excellence initiatives that will produce efficiencies going forward.

So a positive start to the year, despite some tough comparables and slower growth in Asia Pacific and rest of world. I am confident in reiterating our outlook for the full year, with guidance for adjusted free cash flow increased.

Let me briefly recap the three pillars of our strategy, which builds on the direction we've been following for some time now.

We are continuing to allocate capital towards our fast-growing businesses and digital products, to organic investment. But also supplemented by bolt-on acquisitions and disposals.

Second, we are building and increasing our focus on expert solutions, which are products which combine deep domain knowledge with technology and services, that help our customers deliver better outcomes and productivity improvement.

Third, we remain dedicated to driving efficiencies across all functions, including technology while fostering a creative and engaged workforce.

I will now hand over to Kevin, who will present our financial results in more detail.

### **Kevin Entricken** - *Wolters Kluwer NV - CFO*

Thank you Nancy. Let me start with a summary of the key figures on slide 7.

Our first half revenues increased 1% overall and 2% in constant currencies, to EUR2.042 billion. On an organic basis, revenue growth was 3%, continuing the momentum we reported for full-year 2015.

Adjusted operating profit increased 5% in constant currencies, to EUR408 million.

The adjusted operating profit margin rose to 20%, reflecting lower restructuring costs.

Diluted adjusted earnings per share were EUR0.88, up 6% in constant currencies.

Adjusted free cash flow increased to EUR229 million, an increase of 34% in constant currencies.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

And finally, our net debt to EBITDA ratio improved to 1.7 times, as compared to 2.1 times a year ago.

Now let's turn to slide 8 to review revenues by division. Three of our divisions delivered good underlying revenue growth.

Health grew 5% organically, driven by another strong performance in clinical solutions.

Tax and accounting delivered 3% organic growth, driven by the performance in software products in all regions of the world.

Governance risk and compliance also achieved 3% organic growth. This was an expected moderation compared to a challenging comparable of 7% organic growth a year ago.

Legal and regulatory revenues decline 1% organically. This was an improvement compared to the 4% decline a year ago.

The division benefited from improved growth in digital products, as well as some timing and one-off factors, which we expect will reverse in the second half of the year.

Now let's look at revenues by geography on slide 9. North America grew 4% organically, slowing modestly as we expected, reflecting the challenging comparable in the governance risk and compliance division.

We noted improved performance in Europe. Organic growth was 1% compared to a 25% decline a year ago. This improvement was driven by better results in legal and regulatory, governance risk and compliance, and tax and accounting.

Finally, Asia Pacific and the rest of the world, saw organic growth slow to 2%. Trends varied by country. China and India continue to see double-digit growth, but other parts of Asia Pacific were held back by declining print revenues.

In Brazil, health sales were impacted by public sector spending cuts and tax software sales were soft.

Let's turn to slide 10 now to look at revenues by media type. Digital products, and in particular, our expert solutions, continue to drive organic growth. Digital products grew 5% organically and now make up 73% of our total revenue.

Services, which includes legal representation, consulting, training and other services, grew 2% organically.

And our print format declined 9% organically, in line with our expectations. Print now represents only 14% of our total revenues for the first half.

Now, with that, let's turn to profit. As mentioned at the start, adjusted operating profit was EUR408 million, up 5% in constant currencies. The adjusted operating profit margin increased 60 basis points to 20%. This was driven by lower restructuring costs in legal and regulatory, and the health division. The margin was also helped by certain disposals that we made last year.

The health margin increased significantly to 20.9%. Lower restructuring costs, operating leverage and the effect of mix shift was partially offset by higher investment in marketing and sales, and new product enhancement.

The tax and accounting margin declined to 25.5%. This was as we expected and reflected the phasing of cost savings and investment. We expect the full-year margin in this division to be broadly in line with 2015.

Governance, risk and compliance margin declined slightly to 26.1%, mainly due to cost saving.

And, finally, the legal and regulatory margin increased to 9.7%, due to lower restructuring costs and disposals.

## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

Now, on the next slide we see adjusted net financing were reduced to EUR51 million. This reduction reflects a substantially lower impact of foreign exchange rate movement, as compared to the prior year.

Our benchmark tax rate was 27.2%, resulting in an adjusted net profit after tax of EUR260 million. This results in a 10% growth in overall profit and 5% increase at constant currencies.

The share buybacks we previously announced reduced our average weighted shares outstanding slightly.

Diluted adjusted EPS increased to EUR0.88, up 6% in constant currency.

Now, I'll briefly cover our reported earnings on slide 13. Reported operating profit increased 13% to EUR317 million, reflecting a decline in amortization of acquired intangibles.

The reported tax rate increased to 24.4%, primarily due to higher portion of profits from countries with higher tax rates. As a result, reported profit for the period increased 22% and reported EPS increased 23%.

Now, let's turn to cash flow. The first half cash conversion ratio was 90%. This was slightly better than a year ago.

We saw an increase in CapEx, offset by a fall in our working capital outflow. The increase in CapEx reflects investments in new products and development, mainly in tax and accounting, and governance risk and compliance. We continue to expect CapEx to be 5% of revenues for the full year.

Paid financing costs were broadly in line with the prior year.

Cash taxes paid declined to EUR60 million.

As a result, adjusted free cash flow increased 35% overall and 34% in constant currencies to EUR229 million.

Cash flow benefited from higher adjusted operating cash flow and lower taxes paid.

Now, let's turn to slide 15 for the uses of our cash flow. As you can see, we paid dividends of EUR167 million related to the final 2015 dividend.

Acquisition spend was EUR32 million. This relates to the acquisition of Triad in governance risk and compliance; PrepU Technology in health; and CPE Link in tax and accounting.

In the first half we also repurchased EUR70 million in shares, of which EUR3 million was settled July, so that will fall into the second half.

All together, we have had a small net outflow, increasing our net debt very slightly to EUR1,800 million at the end of June.

The net debt to EBIT ratio was 1.7 times, compared to 2.1 times a year ago.

Now, a few words on returns to shareholders, and let's start with dividend. As indicated in February, we paid an interim dividend of EUR0.19 per ordinary share. The interim dividend will be paid in September. We remain committed to our progressive dividend policy, under which we aim to increase the absolute dividend per share each year.

Now, let's look at our share buyback program. You will recall, back in February we announced a three-year, up to EUR600 million share buyback program.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

So far this year we have bought back 2 million ordinary shares under this program for a total consideration of EUR70 million. It remains our intention to spread the repurchase equally over the three-year period. In other words, around EUR200 million each year.

Now, let me sum up, before I turn the presentation back to Nancy; we are pleased with the positive start to the year. Organic growth was 3%. The adjusted operating profit margin increased by 60 basis points to 20%. Adjusted free cash flow increased 34% at constant currencies and our net debt to EBITDA ratio improved to 1.7 times.

Now, with that, I'd like to hand it back to Nancy.

---

### **Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Thanks, Kevin. I'll start with a review of our divisional performance, then give you a brief update on our strategic progress and finish with our outlook for 2016.

So let's start with health. Health achieved 5% organic growth and a significant increase in margin. Growth continues to be driven primarily by Clinical Solutions, which achieved 10% organic growth in the first half.

UpToDate, our market-leading clinical decision support tool, again, grew at a double-digit rate. About one-third of UpToDate revenues are now coming from outside the US.

Our drug information group also performed very well, delivering robust organic growth despite some weakness in China.

Health learning, research and practice grew 1% organically. Here we are seeing the growth of digital products start to outweigh the decline in printed journals and books.

Ovid delivered good organic growth. We've been launching new open access titles and adding key society journals to our publishing program, which drove good performance from our journals business.

Our medical books business declined, due to the migration away from print format, but we are starting to see this business being transformed by digital products.

Our nursing solutions portfolio grew by more than 25% organically in the first half.

Another part of learning, research and practice that will help us build our digital footprint is Learner's Digest International, which brought us valuable content and a strong mobile platform to deliver continuing medical education for doctors.

Now, let's move on to tax and accounting. Tax and accounting delivered 3% organic growth, driven by our software product lines around the world.

As expected, the margin eased back, due to a step-up in product investment, which we started in the second half of last year. We expect the full-year margin to be broadly similar to last year's margin, which was 27.5%.

North America saw good organic growth, drive by software, which was up 4%. In medium and large firms we are seeing steady growth in both our on-premise and our cloud-based solutions. In the small firm segment, software renewal rate edged up, and we're seeing a good response to a recently-launched practice management platform, CCH iFirm.

In research and learning, print declined as we expected, but we are encouraged by the recent performance of our digital tax research platform, CCH IntelliConnect, following a series of product enhancements. We are seeing improved retention rates, and gaining recognition in the market.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

Tax and accounting in Europe also saw good organic growth, with all countries delivering positive growth. Our investments continue to be focused on developing a cloud-based collaborative solution to support tax advisors and their clients in their workflow.

Asia-Pacific and rest of world saw organic growth in low single digit. Growth in Australia and New Zealand was subdued, mainly due to weakness in print.

And last but not least, TeamMate achieved double-digit organic growth, driven by strong performance in Europe.

Now let's turn to GRC. Governance, risk and compliance achieved 3% organic growth as expected, in the face of a demanding comparable in the prior period of 7%. We saw slower growth in transactional volumes, and a decline in non-recurring revenue. The margin fell slightly.

We are now viewing this division to two major groups: legal services and financial services. Legal services is essentially the former corporate legal services unit, but now excludes CT Lien solutions, which we've grouped with our financial services business.

Legal services saw organic growth of 3% compared to 7% a year ago. Legal transactional revenues flowed from 12% a year ago to 5% in the current period, driven mainly by a decline in M&A volume.

Financial services, which includes all GRC units serving the financial services sector, delivered 3% organic growth. It also faced a tough comparable, 7% organic growth in the first half of last year.

CT Lien solutions delivered better-than-expected double-digit organic growth in UCC search and filing transaction. Origination revenues were stable, as a drop in license and implementation fees, following the one-time TILA-RESPA event last year, was compensated by a sharp rise in mortgage filing volumes in the second quarter.

Finance risk and reporting performed well, helped by growth in recurring software maintenance revenue.

Now let's turn to legal & regulatory. Legal & regulatory recorded an 8% decline in revenues in constant currencies, primarily due to disposals we made in the latter part of 2015. Organic growth was minus 1%, benefiting from timing and one-off factors, as we expected.

The adjusted operating margin increased, mainly due to lower restructuring costs.

Very importantly, digital products grew 4%, improving from a year ago, and now account for 55% of the division's revenue.

Our key digital research offerings in Europe and the US improved following investments and product upgrades that we rolled out in 2015 and 2016.

Print format contracted 8% organically, and services were flat. Both these formats benefited from one-off factors and timing, which we expect will reverse in the second half of 2016.

Importantly, we also completed the sale of our French trade media asset on July 1. This means that in the past 12 months we have divested assets with annualized revenues of approximately EUR100 million, about 10% of last year's divisional revenue.

So now let me update you on some early progress on the strategic plan that we outlined at the beginning of this year.

As mentioned, the first pillar of our strategy is to expand our market coverage by allocating our capital towards the leading growing parts of our portfolio. We expanded our position in the fast-growing EHS software market with the acquisition of Enablon. We are also investing more in sales and marketing for key global products such as UpToDate and CCH iFirm.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

The second pillar of our strategy is to deliver expert solutions. We continued to put in the product launches of recent year, such as CCH Access, and UpToDate for China; and we added a few new and exciting innovations in the past few months.

One example I'd like to mention is Addison OneClick, which we launched in our German tax software market. The product provides an end-to-end collaborative workflow environment that enables tax advisors and their clients to work together in a seamless and very efficient way.

Finally, the third pillar is to drive efficiencies and engagement. We continue to execute on our ongoing efficiency programs across editorial, production, IT, and other areas.

On July 1 we completed the acquisition of Enablon, one of the leading providers of EHS software. Enablon helps corporations collect, analyze and make decisions around their environmental health safety and sustainability areas, enabling them to manage risk and comply with reporting requirement. This reporting could be around emissions, hazardous materials, energy consumption, and workplace incidents.

Strategically, this is a very good step with Wolters Kluwer. The company's growing rapidly, and as it scales up we expect margins to expand.

Financially we expect the acquisition to cover our after-tax cost of capital, and 8% within three to five years; and to be earnings-enhancing in 2017.

We are increasing our focus on expert solutions, tools that combine deep domain knowledge with technology to support our customers to deliver superior results and greater productivity.

I wanted to take a moment to highlight two of our expert solutions. The first one is Medi-Span, a core part of our clinical drug information business. Medi-Span offers authoritative drug databases and software for hospitals, retail pharmacies and insurance companies, providing customers with information such as drug dosing; drug interactions; therapy; or pricing.

The solution can be easily integrated into electronic medical records or pharmacy management systems, and delivers significant productivity to users.

The second example is CCH iQ in tax & accounting. We just launched this innovative predictive intelligence tool in Australia. Essentially, CCH iQ is able to automatically identify which of a professional's clients are impacted by tax or accounting changes. Then it alerts the professional, and provides relevant actionable content. It's a very unique offering in its early days, but we're excited because it has the potential to automate what is today a very time-consuming part of the accountant's workflow.

So now with that I'd like to talk about our outlook for 2016. Again, I'll start with each division.

In health we foresee another year in good organic growth. Margins are expected to improve slightly for the full year.

For tax & accounting we expect revenue growth to improve slightly in 2016, driven by a continued mix shift towards software solutions. We expect margins to be maintained for the full year, despite higher investment.

We expect governance, risk and compliance to deliver positive, but slower organic growth in the full year, facing challenging comparables from the prior year. We expect margins to improve slightly for the full year.

In legal and regulatory we expect to see continued organic revenue decline similar to 2015. Margins, however, are expected to improve due to lower restructuring costs.

And, finally, summing up with our financial guidance for 2016, we expect our full-year adjusted operating profit margin to improve and to be between 21.5% and 22%. This includes restructuring costs of approximately EUR15 million to EUR25 million.





## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

We now expect our adjusted free cash flow to be between EUR650 million and EUR675 million in constant currency. We raised this guidance by EUR50 million. We will continue to expect our ROIC to be above 9% and EPS growth in mid-single digits in constant currencies for the full year.

So, all in all, we are well on track to achieve our 2016 goals and remain confident in our growth prospects.

Thanks, all of you, for your attention. Now, we'll take some questions. Operator, if you would please open the call for Q&A. Thank you.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions). Sami Kassab, Exane BNP Paribas.

#### **Sami Kassab** - *Exane BNP Paribas - Analyst*

Two questions, please. Can you elaborate on the EUR50 million of free cash flow upgrade? To what extent are these lower cash tax payments sustainable or is it a one-off for 2016?

And, secondly, in the GRC division, what's the outlook for H2 in terms of organic revenue growth? Do you expect it to accelerate or decelerate versus H1, given the comp base in H2? Thank you, Nancy.

#### **Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Yes, thank you, Sami. I'll take the second question and ask Kevin to talk about cash.

In terms of GRC, as we guided, we expect the division for the full year to deliver positive growth, although at a lower level than 2015 due to the very tough comparables that we have, particularly in the transaction product line.

So, we are expecting similar trends continuing from the first half into the second half for that division.

Kevin, do you want to talk about cash flow?

#### **Kevin Entricken** - *Wolters Kluwer NV - CFO*

With regard to the upgrade in our free cash flow guidance, we did have a very strong first half. We saw free cash flow increase 34% in constant currencies. That was due to some good working capital management, but also lower cash tax payment. We do expect our prepaid tax payments this year to be less than they were a year ago.

So, those are the main drivers behind that EUR50 million increase in the guidance.

#### **Sami Kassab** - *Exane BNP Paribas - Analyst*

And is the tax payment sustainable or is it a one-off settlement that you benefited from this year?

## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

**Kevin Entricken** - *Wolters Kluwer NV - CFO*

Like I said, the prepayments this year were less than they were next year. Obviously, in the future we will evaluate that again and it could go up -- the prepayments could go up, depending on our situation moving forward.

**Sami Kassab** - *Exane BNP Paribas - Analyst*

Thank you, Kevin.

**Operator**

Nick Dempsey, Barclays.

**Nick Dempsey** - *Barclays - Analyst*

I've got two questions. First of all, are you expecting to accelerate your buyback significantly in the second half, looking at what you've done so far?

And, second question, if you were to look at the legal and regulatory division in the first half 2016 pro forma for Enablon, what would the division's organic revenue growth have been?

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Yes, I'll ask Kevin to take both of those, although we may have to come back to you on Enablon, depending, Kevin, if you --

**Kevin Entricken** - *Wolters Kluwer NV - CFO*

Yes, I would say that -- first, for the share buyback, Nick, we do expect to spend roughly EUR200 million a year on share buyback.

I would say in the second half we will probably do a little bit more than we did in the first half. First half we did about EUR70 million, so my goal is to spread that out evenly over the three years.

With Enablon, as you've seen, Enablon is a fast-growing business. I believe in the back of the press release you'll see what growth rates or what revenue was for 2015 as well as what we believe the Company would deliver on a pro forma basis in 2016.

So, you can use that and it would certainly enhance our growth in that division, because it is a faster growing business.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Yes, so, Nick, if I can (technical difficulty) a little bit on what's going on in legal and regulatory, we clearly see the division moving in the right direction, really coming from two major activities.

One is all around the portfolio, not just acquiring some of these bolt-on acquisitions, like Enablon that are fast-growing, in fast-growing market segments within legal, but also getting the disposals underway.

Very importantly, we're encouraged by the digital revenue growth of 4% in the division. That's really coming from a lot of the investments we've made in our platforms over the last couple of years. Again, encouragingly we see that today 55% of the division's revenues are coming from digital.



JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

That really has been the major contrasting factor between legal and regulatory and the rest of the portfolio is the percentage of digital. So, we're encouraged by that.

---

**Nick Dempsey** - *Barclays - Analyst*

I guess you can see where my question was going, which was if you factored in the disposals and Enablon, would you no longer be shrinking organically in this division?

---

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Yes, so that's what we'll ask you to figure out from the press release.

---

**Nick Dempsey** - *Barclays - Analyst*

All right, okay.

---

**Kevin Entricken** - *Wolters Kluwer NV - CFO*

Nick, you do see in the press release on page 28 that revenues were EUR45 million in 2015. We expect that it will grow to approximately EUR55 million this year. So, that is a very healthy double-digit growth rate and that will help you add that into your pro forma calculation.

---

**Nick Dempsey** - *Barclays - Analyst*

Right, thank you.

---

**Operator**

Joe Barnet-Lamb, Credit Suisse.

---

**Joe Barnet-Lamb** - *Credit Suisse - Analyst*

Two from me, please. Firstly, with regards margins, in health and legal and regulatory obviously you guys do margin expansion.

Specifically, with regards to the 100 basis points seen in health and the 280 basis points seen in legal and regulatory, do you believe that they're sustainable through for the full year.

And then, secondly, with regards cash tax rate, where do you now come out for the full year? Thank you.

---

**Kevin Entricken** - *Wolters Kluwer NV - CFO*

Shall I take that one, Nancy? I would say the margins in both, in health and in legal and regulatory, they were certainly benefited by lower restructuring costs.

This year for the half-year we spent about EUR8 million in restructuring. Last year at this time it was closer to EUR22 million. So, that certainly did contribute to the improved margins in those areas.



JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

Your second question I believe was on cash tax, what we expect it to be. I think usually our cash tax is around 20%, sometimes a little bit less and that's what we would expect moving forward.

---

**Joe Barnett-Lamb** - *Credit Suisse - Analyst*

Thank you.

---

**Operator**

Chris Collett, Deutsche Bank.

---

**Chris Collett** - *Deutsche Bank - Analyst*

One question just on tax and accounting, I know you said you expect the growth to be broadly I think similar to last year, but given some of the products that you've got in the pipeline and the fact that the second half is typically a more important selling season there, just wondering if we should expect a possibility of stronger growth in the second half?

And then secondly just in legal, I know over the last six months/nine months you have made some very good disposals of businesses there. Just wondering without obviously naming names, is there more scope for you to prune back that legal and regulatory portfolio?

---

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Starting with tax and accounting, you'll note in the press release Chris that we are guiding to underlying revenue growth slightly improved on 2015 levels.

As you know, we typically have stronger performance in the second half than the first half, because of largely the taxes in the US in the first half of the year. So you should see us overall deliver on that guidance.

We are very encouraged by some of the new products that we've been investing in over the last couple of years in tax and accounting.

What you see is that we continue to have good growth on the software side of our business, but that is a bit tempered. We grew 5% organically in software around the world, but that's a bit tempered by both the continued decline in print as well as certain product lines, things like bank products that also are in structural decline.

We're encouraged by what we see in tax and accounting, particularly some of the new cloud based solutions that we've got, either coming to market or building scale within the market.

Legal and regulatory, we'll continue to prune the portfolio, as we've mentioned in prior calls. We find the legal market itself to be an attractive market for us over the near and medium term.

But within our portfolio we have a lot of other kinds of products that fall more into the category of regulatory-type products and those are the things that we've been disposing and will continue to look to prune those out of the business.

---

**Chris Collett** - *Deutsche Bank - Analyst*

Great, thank you.



JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

---

**Operator**

Katherine Tait, Goldman Sachs.

---

**Katherine Tait** - *Goldman Sachs - Analyst*

Just two questions from me please. You mentioned that mortgage filing volumes in Q2 boosted your GRC growth. Can I just confirm that that was mostly driven by the US? And also, interested in whether or not this is a trend you expect to continue into the second half or whether that's sort of driven by one-off factors?

And then secondly, clearly one of the headlines was that Europe was -- saw an improved performance. Again, just curious to see if that's an improvement in the underlying market and how we should think about that going into the second half? Thank you.

---

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Why don't I take the first one and then, Kevin, if you want to talk about Europe.

You can see on page 29 of the press release, just to frame the relative size of this financial service transaction revenue in the first half of this year, it's EUR62 million; so just to give you a sense of the scope.

We did see a sharp increase in mortgage filing volumes in the second quarter. Those are very difficult to predict always, the level of and the industry also has a hard time predicting that.

We are not taking a prediction of that particular line of business in the second half. We would just ask you to go back to the overall guidance we've given for the whole division, which is that we should see a positive organic growth, but below 2015 levels, largely because of the strong comparables we had both coming from the TILA-RESPA one-time change in the financial service area, and from the very strong transactional volumes we saw in the M&A part of our legal services business.

And then Europe.

---

**Kevin Entricken** - *Wolters Kluwer NV - CFO*

To Europe, I would say that we were certainly encouraged by seeing an improvement in organic growth there.

I would say that the market conditions are largely unchanged, we were happy to see improvements in our digital products; certainly, in legal and regulatory, GRC and in tax and accounting as well.

But I will remind you that in legal and regulatory some of that growth that we saw in the first half was timing related and one-off related. So I do expect some of that to reverse in the second half of the year.

I think we've given you guidance on legal and regulatory specifically that full-year growth will likely be in line with what we saw last year.

---

**Katherine Tait** - *Goldman Sachs - Analyst*

Fantastic, thank you.

---

## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

### Operator

Tom Singlehurst, Citigroup.

### Tom Singlehurst - Citigroup - Analyst

I had one question actually. The last few quarters, certainly the last half-year and interim -- full year and interim I should say, you've given both the growth and the proportion of the business from the leading growth areas. I was wondering whether you could just give us those figures for the first half of this year.

### Nancy McKinstry - Wolters Kluwer NV - CEO & Chairman

We moved away from that with the new strategy that we've launched. We've decided to retire that framework, largely because we're really focused now on both those positions plus expert solutions.

We don't have that figure right here, Tom, but we'll try and post something maybe on our website. But I can say the leading growth positions continue to grow well above the average. As you might imagine, they're mostly digital solutions.

The digital products and services revenues grew 5%. You should anticipate that it's roughly in line with what we showed in prior year of around 7% or so.

### Tom Singlehurst - Citigroup - Analyst

No, that makes perfect sense. Part of the reason I ask is across the second half of last year, 1H full year versus 1H, the proportion went up of the leading growth businesses -- actually, I think it went slightly down a bit.

I'm just trying to get to the bottom of how much of the growth is coming from potentially one-off transactional revenue boosts, and whether there's any change in the trend for those leading growth businesses, which we were tracking at about 7%, I think, across last year.

### Nancy McKinstry - Wolters Kluwer NV - CEO & Chairman

Yes, so we'll come back to you, Tom. But I would say that in general, the leading growth positions continue to be very much in line with, in terms of their growth profiles, what they've done in the past.

Now we're going to talk more going forward, and we'll start to figure out how to communicate this financially. But we'll be talking more about our expert solution product lines that fit all across the portfolio, in terms of both what their growth rate looks like as well as the percentage that they represent of the portfolio.

### Tom Singlehurst - Citigroup - Analyst

Got it. That's very kind. Thank you very much.

### Operator

Konrad Zomer, ABN AMRO.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

**Konrad Zomer** - *ABN AMRO Bank - Analyst*

Just on clinical solutions, it's a business that has shown consistent double-digit growth for you over the last few years. I was wondering, the market share of that business how long do you think that double-digit revenue growth could be sustainable, particularly now that you keep rolling out the up-to-date business very successfully. But just to give us a feel for how big that business is in terms of the overall market.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Just to frame it, the two major lines of business that we have within clinical solutions: one is the up-to-date business and the second is really all of our drug businesses. Then we have a smaller portfolio in clinical software.

If you look at UpToDate, really since our ownership of the business it's been growing double-digit levels. We now have 30% of the revenues from UpToDate coming outside the US. That was a big focus point for us. And, we continue to bring out new innovations in the area. UpToDate, we expect it will continue to grow well.

I think that what you should anticipate, however, is that clinical solutions is getting very big in terms of its absolute size. So we are guiding that overall in this part of health that you will see the rate of growth decline a bit, because of the size of the business.

In terms of share, I would say that we're about 50% to 60% penetrated, with UpToDate in the hospital market in the US, but really just scratching the surface, so to speak, outside the US, particularly in the more emerging parts of the world.

The drug business, again pretty good penetration in the US. The opportunity is both around growing the wallet share in the US and really beginning to extend into non-US markets.

**Konrad Zomer** - *ABN AMRO Bank - Analyst*

Okay. Thank you very much.

**Operator**

Giasone Salati, Macquarie.

**Giasone Salati** - *Macquarie - Analyst*

Just a couple of questions [top-down], please. Can you update us on cloud solutions? If you can just cut off cloud solutions-supported product from the total, and identify growth, and potentially targets.

Secondly, also similar update on direct online sales, something which doesn't involve any sort of sales or [presentative] meeting from your side. Thank you.

**Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Kevin, maybe you can take the cloud solutions and I'll talk about digital online.

## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

### **Kevin Entricken** - *Wolters Kluwer NV - CFO*

Sure. Cloud solutions, we're very encouraged about the products we see in cloud solutions, particularly in tax and accounting. We have rolled out the first cloud solution in the industry in North America. We're also seeing good growth in our cloud solution businesses around the world.

I would say that we don't finally cut out the growth rate in those. They're a smaller part of the business today but growing very well. We will continue to invest in those solutions, because we do see that demand from our customer base, and the functionality that brings being a great aid to them. So it continues to be an important part of our business moving forward.

### **Nancy McKinstry** - *Wolters Kluwer NV - CEO & Chairman*

Yes, I think what we are all most encouraged by some of the cloud solutions is they're also bringing in new customers, which, as you can imagine, when we have retention rates, as do our competitors, to be able to use those solutions as a way to acquire new customers has been important for us as part of the overall growth of the business.

On direct online sales, just a couple of things to remind you. We've always sold a portion of our portfolio from, what I would call, indirect sales, meaning not sales people, but telesales, direct mail, distributors; and that remains as it has been in terms of the channel mix.

If you're referring specifically to the digital marketing efforts, where the customers has an end-to-end experience without any human interaction, that's just really getting underway. In terms of the amount of revenues going through that, that type of channel relatively small today. But of course, we're investing there and we expect that channel to grow.

### **Giasone Salati** - *Macquarie - Analyst*

Thank you.

### **Operator**

(Operator Instructions). Henk Slotboom, The Idea.

### **Henk Slotboom** - *The Idea-Driven Equities - Analyst*

I'm trying to get a better feel for the moving parts of the adjusted operating margin. You're guiding for 21.5% to 22%, whereas the margin was 21.4% a year ago. You've been very open in saying that the restructuring costs will be anywhere between EUR25 million -- sorry, EUR15 million and EUR25 million, as opposed to EUR46 million last year.

Basically, that creates a margin tailwind, if I may express myself in that way, of around anywhere between 40 and 70 basis points. Now, you're disposing of businesses, for example, in legal that are loss making. You're outgrowing the portfolio in terms of digital products, where I assume that the average margin is higher than on the Company as a whole.

Could you perhaps highlight what I'm missing here because underlying, it's, sort of, flattish, if I take out the one-off elements. Is this, for example in GRC, the transactional component? It realizes a higher margin than the Company average, or is it something else? What am I missing here?

### **Kevin Entricken** - *Wolters Kluwer NV - CFO*

Well, I think that you're touching on all the right things. If you look at the margin development of our business, we clearly do expect restructuring charges this year to be between EUR15 million and EUR25 million. That's a reduction from last year, where we spent approximately EUR46 million.



## JULY 29, 2016 / 8:30AM, WKL.AS - Half Year 2016 Wolters Kluwer NV Earnings Call

We also have operational excellence programs, which we're continually executing, to try to improve the efficiencies of our business. And, we do get a benefit from the mix shift, as we move more of our revenue to digital format.

But also we are making investments: investments in new products; investments in SaaS solutions, as well as investments in sales and marketing, particularly around the world.

I would say that the good benefit that we're seeing from some of the operational excellence programs and reduced restructuring, we are reinvesting that in new products to drive growth into the future.

I would bring you back to the guidance that we've given you. We've guided to 21.5% to 22% on the adjusted operating margin, which obviously will be a step-up from what we reported last year.

---

**Henk Slotboom** - *The Idea-Driven Equities* - Analyst

Okay. Thank you, Kevin.

---

**Operator**

(Operator Instructions). As there are no further questions, I would like to turn the call back to the speaker for any additional or closing remarks.

---

**Nancy McKinstry** - *Wolters Kluwer NV* - CEO & Chairman

Thank you, everyone, for joining us on the call this morning. I know you have a very, very busy today. Great questions and we'll follow up with some of the questions you had on leading growth positions and look forward to speaking to you again the next time.

---

**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.