Working Capital in a Service and Content Environment

Boudewijn Beerkens Member Executive Board/CFO



June 5, 2007 - London

### Agenda

- Introducing Wolters Kluwer
- Working Capital Management at Wolters Kluwer
- Credit Management initiatives at Kluwer Netherlands
- Achievements & next steps
- Conclusions



### Introducing Wolters Kluwer



## A Global information provider

### Business profile

- Global information services and publishing company
- Market leading positions in core markets
- Operating in >30 countries; Europe, North America and Asia Pacific

### Key market themes

- Migration from print to electronic is accelerating
- Compliance, regulation and information depth and breadth
- Developing leadership positions in adjacent markets
- Key drivers of growth opportunities, increasing in major markets

### Financial highlights

- Euronext listed (AEX index)
- Market Capitalisation € 7 bln and Enterprise Value € 9 bln (31/05/07)
- Revenues 2006 € 3.4\* bln with 17% operating margins
- 85% institutionally held (of which 37% North America, 62% Europe, 1% Other)

\*restated for continuing operations



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### Our strategy: to build on leading brands and positions

	Revenues 2006 (mln)	EBITA margin	Core Markets	Key Vertical Brands
Health	€823	15%	<ul> <li>Clinical solutions</li> <li>Medical research</li> <li>Pharma solutions</li> <li>Professional &amp; education</li> </ul>	<ul> <li>Lippincott Williams &amp; Wilkins</li> <li>Ovid</li> <li>Adis</li> <li>Source Healthcare Analytics</li> <li>Medi-Span/Facts &amp; Comparisons</li> </ul>
Corporate & Financial Services	€534	22%	<ul> <li>Business Entity Compliance</li> <li>Governance</li> <li>Litigation and practice management</li> <li>Banking and insurance</li> <li>Securities and mortgage</li> </ul>	• CT • CT TyMetrix / CT Summation • Wolters Kluwer Financial Services •PCi
Tax, Accounting & Legal	€826	<b>19</b> %	<ul> <li>Tax research</li> <li>Tax compliance</li> <li>Specialty legal</li> <li>Productivity tools and software</li> </ul>	• CCH • ProSystem <i>fx</i> • Wolters Kluwer Law & Business • ATX/Kleinrock • Croner
Legal, Tax & Regulatory Europe	€1,194	17%	<ul> <li>Broad legal coverage</li> <li>HR professionals</li> <li>Tax &amp; accounting professionals</li> <li>Health, safety and environment</li> <li>Transport services</li> </ul>	<ul> <li>Kluwer</li> <li>Lamy</li> <li>LA LEY</li> <li>Luchterhand</li> <li>Teleroute</li> </ul>
Education*	€316	20%	<ul> <li>Secondary education</li> <li>Primary education</li> <li>Vocational education</li> <li>Higher education</li> </ul>	<ul> <li>Wolters-Noordhoff</li> <li>Liber</li> <li>Nelson Thornes</li> <li>Bildungsverlag Eins</li> </ul>

Discontinued in 2007



## Organic Growth and Share Performance

- Decline in organic growth was turned around by substantial investment in new product development, sales and marketing and restructuring the business to a customer-focused organisation.
- Significant positive reaction in share price.





### Strategy For 2007 And Beyond: Accelerating Growth To Deliver Superior Shareholder Value





## 2007 Outlook & Beyond

Key Operational Measures	2003	2004	2005	2006	2007 <sup>1</sup>	Beyond 2007 <sup>1</sup>
Organic Revenue Growth	-2%	1%	2%	3%	4%	4-5%
Ordinary EBITA Margin	18%	16%	16%	17%	19-20%	Continuous improvement
Cash Conversion	109%	126%	106%	100%	95-105%	95-105%
Key Financial Measures						
Free Cash Flow	€393 mln	€456 mln	€351 mln	€443 mln	± €425 mln	> €425 mln
ROIC %	7%	7%	7%	7%	≥ WACC <sup>2</sup>	> WACC <sup>2</sup>
Ordinary Diluted EPS	€1.18	€1.02	€1.06	€1.23	€1.45-€1.50	Double-digit growth

1 For continuing operations and at constant currencies EUR/USD 1.26 2 Currently 8% after Tax



CFO Working Capital Management Forum

### Working Capital Management at Wolters Kluwer



### Wolters Kluwer Working Capital Management

A holistic approach focusing on the Balance Sheet <u>and</u> Income Statement

#### **Balance Sheet**

- Acc. Receivable
- Acc. Payable
- Deferred Income
- Inventories and Supply Chain

Working Capital Optimisation

Strong cash \_ conversion

By implementing Best Practices in Working Capital and SG&A Wolters Kluwer has:

- -Strengthened strong cash flow levels
- -Improved profitability
- Improved budgeting and forecasting process, resulting in better predictability and better manageability of results

Improved Process Quality and Business Value

-Heightened risk visibility and reduced reaction time

Finance
Procurement
Off-shoring
Outsourcing
IT.
Marketing & Sales

**Income Statement** 

SG&A Optimisation

Improved profitability

#### Source: REL



# Negative Working Capital at Wolters Kluwer

€ Million	YE 2006
Inventories	134
Accounts receivables	969
Deferred Income	(979)
Trade and other payables	(420)
Other current liabilities	(355)
Operating Working Capital	(651)

Percentage of Wolters Kluwer Revenue from Online/Flectronic



- The Wolters Kluwer business is subscription driven resulting in a high proportion of deferred income and negative working capital.
- Our current business model requires investments in accounts receivables. Investments in inventory are minimised through a transition to electronic publishing and print on demand.

## Working Capital trend Wolters Kluwer



- Working capital improves in Q4 due to advanced invoicing and collection of subscription products and declines in Q1 and Q2 as subscription obligations are fulfilled.
- Q3 peak is driven by Education business sales cycle and will level off after the divesture of this division.



### Why Working Capital initiative?

- <u>Strategic Importance</u>: Working Capital is a significant driver of Free Cash Flow, Cash Conversion and ROIC: 3 of the 6 Company Key Performance Indicators.
- <u>Improve Profitability</u>: Profits are maximised by improved Working Capital positions (reduced financing charges, bad debt and inventory obsolescence write offs).
- <u>Drive Operational Excellence</u>: Optimisation of processes (purchasing, billing, inventory, collections).
- Improving Working Capital demonstrates financial and operational <u>discipline and</u> <u>control</u> to external stakeholders and enhances shareholder value.



# Active Working Capital Management initiated on central level

Working Capital Project centrally initiated at executive board level with strong operational involvement

Introduced incentive system on divisional level and business units

Share best practices



# Operational excellence on Divisional and Business unit-level

Divisions and BU's focus on all relevant line items improving Working Capital:

- Accounts Receivable: Improved collection processes, dunning and customer service procedures.
- Accounts Payable: Vendor consolidation and renegotiation of payment and discount terms.
- Deferred income: Timely start of renewal process and clear communication to customers regarding payment and service maintenance.
- Inventories: Decrease due to print on demand and shift from print to electronic.



### Initiatives to improve Accounts Receivable and Accounts Payable at divisions and business units

- Initiatives to improve Account Receivables:
- 1. Transactional business model offering with credit card payment
- 2. Tailor collection efforts by customer segment
- 3. Increase customer touch points
- 4. Encourage use of upfront credit card payments on new sales and renewals
- 5. Collection efforts focused on top down approach
- 6. Segregate credit management from account collection
- 7. Collaborative collection efforts for significant accounts across business units
- Initiatives to improve Account Payables
- 1. Summarised vendor billing and payment arrangements
- 2. Consolidating vendor spend through sourcing efforts
- 3. Consolidating print and paper buying volumes
- 4. Application of payment tools to maximise days payables outstanding metrics
- 5. Leverage off-shore relationships



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## Initiatives to improve Deferred Income and Inventory levels at divisions and business units:

- Initiatives to improve Deferred Income:
- 1. Offer automated renewal options to our customers
- 2. Adopt early subscription renewal process
- 3. Extension of multiyear contracts
- 4. Investments in sales and marketing
- Initiatives to improve Inventory Levels
- 1. Encourage customer migration to online products
- 2. Tight management of print runs
- 3. Improved management of work in progress lead times
- 4. Migration to print on demand minimises need for capital tied up in inventory



### Credit Management initiatives at Kluwer Netherlands



## Kluwer Netherlands: Credit Management (CM) Operational Excellence

- Credit Management reports directly to CFO
- Whilst keeping the customer on board, still collecting every €uro, as quick as possible
- Quality billing (on time, correct, complete)
- Up front invoicing at the first possible moment (cash flow vs. economies of scale billing and planning capacity)
- CM part of the customer chain with a risk driven focus, but segregated from account management activities.
- Friendly, firmly and professionally collecting sales.
- Credit Management is in charge of credit limits AND credit terms
- Active CM: communication via mail, e-mail, phone and personal visits.
- CM process strengthened with a new automated CM-tool which:
  - 1. Improves transparency in the dunning process
  - 2. Improves management information and dashboard functions



### The automated Dutch CM-tool

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121713028       21-9-2005       21-9-2005       -82,26       -82,26       0.00       -       T       0       €       41       21-9         121631667       14-9-2005       14-9-2005       -86,80       -86,80       0.00       -       T       0       €       48       144         121820922       28-9-2005       28-9-2005       -110,70       -110,70       0.00       +       0       €       34       28-9-2005		Openstaande facturen Factuurnummer 120983531 122249220 121862767 121415210 122249204	Tellingen & sa Factuurdatum 31-7-2005 31-10-2005 30-9-2005 31-8-2005 31-10-2005	aldo's Debiter Vervaldatum 15-8-2005 15-11-2005 15-02005 15-02005 15-11-2005	ur notities Debit Bedrag 1.054.680,61 661.361,18 542,211,05 454,533,29 4,30	eur gebruikersvelden F Bedrag open 1.044.730.77 661.361.18 542.211.05 454.533.29 4,30	actuur gebruikers Bedrag betaald 9.949,84 0,00 0,00 0,00 0,00	velden	+/- +/- + + +	T	B I B Val. 0 € 0 € 0 € 0 € 0 € 0 € 0 €	Verlopen 78 -14 -17 47 -14	)nGuar 15-{ 15-11 15-11 15-1( 15-3 15-11
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### Strengths of the Dutch automated CM-tool

- Ability to split bad debtors from "late payers" and turn customers into individuals.
- Intelligent alert function with 300,000 debtors and 750,000 invoices at Kluwer Netherlands.
- Workflow tool which supports the CM policy and processes.
- Credit scoring model with the ability to localise tomorrow's bad debtor.
- Cash flow forecasting.
- Creating a log of each customer contact/ action.
- Building performance reports per credit analyst (actions/ € collected).
- Break even calculation of efforts vs. profits.
- In line with Wolters Kluwer Internal Control Framework.



### Kluwer Netherlands: improved performance on Credit Management

Year	DSO	Write-offs	# dunning letters
2003	72	0.3%	350,000
2004	66	0.5%	300,000
2005	54	0.3%	260,000
2006	39	0.2%	136,000

Dutch CM model including CM-tool currently the European standard



### Achievements and next steps



# In the past 4 years Organic Working Capital has improved €232 million (1)

Working Capital improvement an important source of funding



#### **Organic Working Capital Movements**



CFO Working Capital Management Forum

# In the past 4 years Organic Working Capital has improved €232 million (2)

 Significant components of Working Capital: Deferred Income, Accounts Receivable and Accounts Payable

€ Million





Next steps: Institutionalising operational excellence will further strengthen Process Quality and Business Value

### Strategic Initiatives

- Globalized strategic sourcing initiatives
- Data centre consolidation
- Off-shoring and outsourcing
- Collaborate management of wholesaler inventory levels
- Share best practices across business units
- Instil operation excellence throughout all aspects of working capital management



### Conclusions

- 1. Make working capital management a top priority
- 2. Drive to all levels of the organisation
- 3. Working capital financial initiative drives operational excellence in the business units
- 4. Improved working capital management provides a source of investment funding
- 5. Optimising working capital is a continuing process



#### Enhanced value for customers and shareholders



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Provide information, tools, and solutions to help professionals make their most critical decisions effectively and improve their productivity

