

Transcript Wolters Kluwer half-year 2008 results Interview with Nancy McKinstry, CEO and Chairman of the Executive Board

Outlook and results

Q: We'll get to the results in a moment, but first, 10 days ago you changed your guidance about organic revenue growth. What was the thinking behind that?

A: On July 21, we came out and reiterated our guidance for our earnings per share and our operating margins as well as our free cash flow. We did adjust our organic growth from 4 % to 3%. That was driven largely by lower than anticipated volume levels in our transaction business within our Corporate & Financial Services group. Those are transactions that are associated with corporate M&A, IPO, and lending and, obviously, they've been impacted by recent market conditions. In addition, we see continued softness in advertising both in Europe and in our Health group. Those were the factors that contributed to the adjustment.

Despite those recent market trends, the fundamentals of the business remain strong and our profitability guidance has been reiterated.

Q: I hear that you're maintaining the rest of your guidance for 2008, but how can you achieve that?

A We're confident in the guidance that we've given for 2008. One of the things that you see is that our operating margins remain very attractive and that has been driven by a combination of improved retention rates in our subscription business, as well as good growth in online and software solutions that tend to be higher margin product lines. In addition, we're having good success with the Springboard initiatives that we announced earlier, as well as the effect of all of the restructuring that we did over the last several years.

So that combination of product mix as well as the operating efficiency initiatives allows us to remain confident in the earnings guidance that we have given.

Q: So what does that mean for the second half?

A: As we've seen in prior years, we anticipate that organic revenue growth will accelerate in the second half. That's due largely to many of the markets that we serve like Tax and Accounting, where we typically have a strong end of year selling season. In addition, our publishing schedule within our Legal business and within Health is stronger in the second half where we're launching a number of new titles. So we anticipate that that will drive our results in the second half of this year.

Q: What about longer term? How solid are these targets you're setting yourself and will you be able to continue to invest in the business?

A: Yes, absolutely. The fundamentals of our business remain strong and our growth prospects over the long-term are very positive. We are committed to our strategy for accelerating profitable growth by launching innovative products for our customers in terms of information, software and services.

If you look at our investments, we continue to be committed to invest 8 - 10 % of our revenues back into new products and product enhancements, as well as invest 17 - 18 % of our revenues back into sales and marketing. So this investment has been critical for the growth that we're experiencing. In our online and software solutions, those product lines grew 8 % in constant currency through the half year and we will continue to make those investments in order to support our strategy for long-term growth.

Q: If we turn back now to the actual results today, how would you characterise them? Is there any risk of the business slipping backward?

A: The fundamentals of our business remain very strong and I'm pleased with our 20 % earnings growth and our stable operating margins, as well as our good cash flow, through the first half of this year. If you look at our business, about two-thirds of the business is a subscription model which is very resilient and growing. The factors that we're experiencing in terms of our Corporate & Financial Services division, as well as in advertising, are temporary. So we believe very much in the long-term growth prospects of the business and the business is sound and resilient.

CFS and Health

Q: You've already talked about how CFS was impacted by the difficulties in the financial markets, but can you tell me specifically what happened there?

A: Well, for the entire division, around 40 % of the revenues are tied to transactions. So while we saw good growth in our subscription product lines, we did see lower than anticipated volumes in M&A, IPO, and lending transactions. So, as a result of that, we've adjusted our guidance to 2 - 3 % for the CFS division for 2008. That group does have market leading positions and those positions will allow us to weather this economic cycle.

Q: In Health, revenues are still being held back by the decline in advertising spending by pharmaceutical companies who are under pressure themselves. But how big a concern is that for you?

A: The Health results through the first half of this year were largely impacted by the loss of a major pharma data contract which we announced in 2007. In addition, the division experienced softness in advertising and other product lines that are associated with promotional spending on the part of the pharma industry. This accounts for about 22 % of the revenues for the division. So that impact of the lost contract, plus the softness in advertising, offset the very good growth that we've seen within Medical Research and Clinical Solutions.

So as we look at Health, the issues that we need to address are well-identified and plans are in place to improve our performance there. We are focused very much on driving new sales within our Healthcare Analytics business to compensate for the lost contract, as well as continue to migrate our product lines away from those areas associated with promotional spending.

Q: But some question whether Health is still core to Wolters Kluwer. We've talked about the slowdown in advertising spending there from pharmaceutical companies. Healthcare Analytics itself was troublesome not so long ago. You're sticking with it. How are you going to make it grow?

A: The health market remains an attractive market for Wolters Kluwer. The market is growing in many of the segments that represent healthcare. We have a very strong set of assets and market positions and the issues that we're facing are well understood and identified. Now we just need to go about executing to continue to improve the performance of the division over the medium-term.

LTRE and TAL

Q: Legal, Tax & Regulatory Europe has been successfully turned around, but how much impact are you seeing from the U.S. slowdown on your operations here in Europe?

A: We're pleased with the results that we've seen from LTRE through the first half of 2008. They grew 3 % organically. That was driven by improved retention rates, as well as strong growth in online and software solutions. The electronic products now make up approximately 50 % of the division and we saw double-digit growth in online and software solutions through the half year.

If you look at the results on a country basis, we continue to see good performance in Italy, Spain, Central Europe, and Belgium. We also saw improved performance in Germany and Teleroute. We did see some softness in the advertising lines within the Netherlands and France, but

overall, again, the division delivered not just 3 % organic revenue growth, but also very good operating margins.

Q: Tax, Accounting & Legal seems to be performing steadily, but how key is the second half going to be for Tax, Accounting & Legal if it is going to hit that organic revenue growth target of 4 to 6 per cent?

A: Well through the first half of 2008 Tax, Accounting & Legal had 3 % organic growth, which was an improvement over prior year. That was also driven by strong online and software revenues, as well as good performance coming out of Asia Pacific and Canada. This performance will accelerate as it typically does in the second half of 2008 driven by the seasonal buying patterns of our customers, particularly in Tax and Accounting, as well as a strong publishing schedule for our Legal business.

Strategy

Q: There is a lot of focus on the subscription business at the moment. How much can that grow?

A: Well, the core of Wolters Kluwer is the subscription base business model. It accounts for about two-thirds of our revenues whether we're talking about print products or online or software solutions. We continue to grow that part of the business through a focus on improving retention rates, as well as through the launch of many new products, particularly online and software products. Through the half year we grew 5 % in the subscription product lines and saw even stronger growth within our online and software areas. So this growth is the foundation of the business and we will continue to leverage that foundation to drive long-term profitable growth.

Q: You've also been very clear about how embedding operational excellence will help you to accelerate profitable growth. Where is the focus and is this really just about cost saving?

A: We're quite pleased with the progress that we've made on a wide variety of initiatives that are focused on institutionalising operational excellence throughout all of Wolters Kluwer. All of our divisions have specific programs in place. Springboard, which we have talked about in the past, has gotten off to a very good start and Springboard, in combination with several Lean Six Sigma programs, is delivering improvements in our operating margins. So these kinds of programs underpin our focus on continuing to improve our operating margins, as well as become more efficient in terms of how we serve our customers.

Q: So given everything we've been talking about, what's your view on the future growth prospects for Wolters Kluwer?

A: The fundamentals of our business remain strong. Our portfolio is diverse and defensive. About 80 % of our revenues are non-cyclical and we continue to drive improvements in our subscription base through strong retention programs and investments in sales and marketing. In addition, we continue to make investments in online and software solutions which have also demonstrated good growth. So, as we look to the future, the portfolio that we have underpins our ability to drive long-term profitable growth.