

**Edited Transcript**

**Wolters Kluwer**

2019 Full Year Results

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## Wolters Kluwer

**Meg Geldens, Vice President, Investor Relations**  
**Nancy McKinstry, Chief Executive Officer**  
**Kevin Entricken, Chief Financial Officer**

## Questions From

**Nick Dempsey, Barclays Capital**  
**Thomas Singlehurst, Citibank**  
**Matthew Walker, Credit Suisse**  
**Patrick Wellington, Morgan Stanley**  
**Rajesh Kumar, HSBC**  
**Nathalie Casali, MFS**

## Introduction

### **Meg Geldens, Vice President, Investor Relations**

Okay, I think we're going to start. Good morning and welcome, everyone. Welcome to the Wolters Kluwer Full Year 2019 Results presentation.

Today's earnings release and the slides for this presentation are available for download on the Investor Section of our website, [wolterskluwer.com/investors](http://wolterskluwer.com/investors).

With me today are Nancy McKinstry our CEO, and Kevin Entricken, our CFO. Nancy and Kevin will shortly discuss the key features of our 2019 results. Following their comments we will open the call to your questions.

Before we get started, let me remind you that some statements we make today may be forward-looking. We caution these statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Factors that affect our results are discussed in our Annual Report.

This year, we began reporting under the IFRS 16 lease accounting standard. Financials for 2018 have been restated for IFRS 16.

On today's call, we will refer to adjusted profits, which exclude non-benchmark items. We also refer to growth in constant currencies, which excludes the effect of currency movements and we refer to organic growth, which excludes both the effect of currency and the effect of acquisitions and disposals. Reconciliations can be found in the notes to our financial statements.

So with that, I give the floor to Nancy.

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## **Nancy McKinstry, - Wolters Kluwer N.V. – CEO & Chairman of the Executive Board**

Thank you Meg, and thank you all. Good morning. Thanks for coming in, and for those of you on the webcast, thanks for joining.

I want to start by giving you some highlights for 2019, and then Kevin will come up and talk about our financial results in more detail. Then I'll discuss divisional performance and some progress against our strategic goals and then finally, complete the talk with the guidance for 2020.

So, let's look at the highlights. I'm pleased to report that we had another year of good performance across the Group delivering 4% organic growth driven by digital products and services revenues which grew 6% organically.

We also achieved further improvement in our margin, exceeding our own expectation and guidance. We delivered 11% growth in diluted adjusted earnings per share in constant currencies, and our adjusted free cash flow was over €800 million. And, we ended the year with an even stronger balance sheet and an improved return on invested capital.

Our share buybacks coupled with last year's increased dividend meant that a very substantial portion of our free cash flow was returned to shareholders in 2019.

As some of you may know, we started last year with the launch of our three-year plan which goes from 2019 through 2021. Our first strategic priority is to grow our expert solutions. Expert solutions across the Group continue to be the fastest growing digital products, delivering organic growth of 7% in 2019.

We also sustained significant investment in enhancing these products, strengthening our distribution channels and entering adjacencies.

Our second strategic priority is to advance domain expertise and transform our information products. We've been working on enriching our content, improving our user interfaces, and using advanced technologies to add functionality and automation. This strategic goal will take longer to develop but we're very excited about the opportunities that we see today.

Our third priority is to drive operational agility. We made a lot of progress on this front in 2019. We implemented new global enterprise systems across back-office and front-office functions including finance, procurement, and HR. We also strengthened security across the enterprise and made good transitions of our products to the Cloud.

So with these highlights, I'd now like to turn it over to Kevin, who will talk about our financial performance in more detail.

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## **Financial Review**

### **Kevin Entricken, Chief Financial Officer**

Thank you, Nancy. Let's start with Headline Figures on Slide 7.

All in all 2019 results were in line with or better than our guidance. Total Group revenues increased 8% overall to €4,612 million, benefiting from a stronger U.S. dollar. Excluding currency, revenue growth was 5%. Excluding the effect of net acquisitions and disposals, organic growth was a solid 4%.

Adjusted operating profit was €1,089 million, and an increase of 11% overall, and 5% in constant currencies.

Excluding the effect of net acquisitions and disposals, underlying adjusted operating profit grew 7%.

The margin increased 50 basis points to 23.6%, which was better than we had expected and in fact exceeded the top end of our guidance range. I'll come back to that in just a moment.

Diluted adjusted earnings per share grew 11% in constant currencies in line with our guidance.

Adjusted free cash flow was €807 million, an increase of 6% overall and 1% in constant currencies, also in line with guidance.

Return on invested capital increased 11.8%, exceeding our guidance range.

The balance sheet remained strong with our net debt-to-EBITDA ratio finishing the year at 1.6x.

Now let's take a brief look at the divisions.

All four divisions posted good organic growth. Health grew 4% organically, a modest slowdown from a year ago. Growth was driven by Clinical Solutions which delivered organic growth of 6%.

Tax & Accounting delivered 6% organic growth driven by our software products in both Professional Tax & Accounting and Corporate Performance Solutions.

Governance, Risk & Compliance reported 4% organic growth, driven by a pickup in recurring revenues and a strong, better than expected performance in transactional revenues.

Last but certainly not least, Legal & Regulatory beat our expectations with 3% organic growth for the year. Growth was lifted by a very strong performance in our Environmental, Health & Safety and Legal Software group, which delivered 14% organic growth.

Now, let's turn to revenues by type on Slide 9.

Recurring revenues accounted for 78% of total revenues and grew 5% organically in line with a year ago. Recurring revenues include subscriptions and other renewing revenue streams.

Non-recurring revenue trends were mixed. Print book revenues declined 7% organically, a slight deterioration on the prior year performance, as we expected.

GRC transactional revenues including legal services and financial services transactions grew 6% organically. On legal services side, where two-thirds of these transactional revenues sit, volumes remained quite buoyant, up 9% organically.

Other non-recurring revenues increased 1% organically with varying trends across the divisions. On the one hand we had strong software licence sales and implementation fees at CCH Tagetik in Tax & Accounting and at Enablon in Legal & Regulatory. But on the other hand, this revenue category also includes journal advertising and reprints in health, which were soft in 2019.

Now let's turn to adjusted operating profits. As mentioned earlier, adjusted operating profits increased 5% in constant currencies and the adjusted operating profit margin increased to 23.6%.

As we announced in November, we recorded a one-time €16 million credit related to the modernisation of our U.S. employee benefits in the fourth quarter of 2019. This credit was distributed across the divisions. As you can see on this slide, including one-time items in both 2018 and 2019 the adjusted operating profit margin would have increased by 70 basis points. This margin increase was driven by operational gearing, cost efficiencies, mix shift, and currency.

In Health, as expected we recorded a margin decline due to lower net-positive one-time benefits.

In Tax & Accounting the margin increased by 200 basis points, mainly reflecting efficiency savings, operational gearing and lower restructuring costs.

In Governance, Risk & Compliance the margin increased 210 basis points, reflecting underlying cost savings and net-positive one-time effect of the credit I mentioned earlier.

In Legal & Regulatory the margin declined as we guided due to the absence of prior period significant one-time benefits, the dilutive effect of acquisitions and increased investment in product development and digital marketing.

Now let's turn to the rest of the income statement.

Adjusted net financing costs were €58 million, down from 2018. The decrease reflects a full 12 month effect on lower borrowing costs following the redemption of our €750 million Eurobond in April 2018.

The benchmark tax rate decreased to 23.6%, which was better than we had expected and reflects tax law changes and the conclusion of tax audits.

Adjusted net profit after tax was €790 million, up 9% in constant currencies.

The increase in adjusted operating profit coupled with lower diluted weighted average share count resulted in an 11% increase in diluted, adjusted EPS at constant currencies.

Now, let's turn to the IFRS income statement. Reporting operating profit declined 6% to €908 million. The decline was largely due to the prior year book gain of €159 million on disposals. Amortisation of acquired intangible assets declined to €144 million.

As announced in November, we recorded an impairment of €38 million largely related to our patient engagement solution, Emmi, to reflect a more conservative forecast for this business going forward.

The decrease in IFRS reported effective tax rate reflects the fact that the prior year was impacted by taxable gains on disposals of Corsearch and ProVation Medical.

Now let's take a look at cash flow. As you can see from Slide 13 our cash conversion ratio reduced to 96% from 104% a year ago, as we had guided. This primarily was driven by a €27 million working capital outflow due to timing of payments.

Note that under IFRS 16 we add back not only depreciation of property, plant and equipment and internally developed assets, but also a depreciation of right-to-use assets when calculating EBITDA.

Adjusted EBITDA reached €1,382 million in 2019, an increase of 4% in constant currencies.

Capital expenditures were €226 million which at 4.9% was slightly below our normal capex range of 5% to 6%.

Repayment of lease liabilities was €80 million, and the increase here largely reflects payments of our new office in New York City.

Paid financing costs reduced materially to €46 million over the comparable period and include final coupon payments on the Eurobond that matured in 2018.

Cash taxes paid were €195 million, reflecting favourable timing of payments and refunds, while €218 million included tax paid on disposals.

Including the remaining smaller items, adjusted free cash flow was €807 million, up 1% in constant currencies which was in line with our guidance.

Now, a few comments on how we've deployed this free cash flow.

As you can see from Slide 14, €280 million went toward dividend payments to our shareholders during 2019. Acquisition spending was much lower in 2019 at just €35 million. This was mainly related to the purchase of CLM Matrix, a contract lifecycle management tool which became part of GRC's enterprise legal management unit.

Cash proceeds from divestitures were €39 million and that reflected a few small disposals, mainly our 40% stake in an Austrian information business.

We spent a total €350 million on share buybacks during the year. And finally, we had a €113 million net increase in lease liabilities largely related to the multi-year lease we signed on our new office in New York City.

The bottom line was a €50 million reduction in net debt by year end, leaving us with a net debt EBITDA ratio of 1.6 times.

Now let me update you on our proposed dividend distribution and our share buy-back plans for 2020.

In view of the good performance last year and our strong balance sheet position we are proposing an increase of the 2019 dividend per share by 20%. This will bring the final dividend to €0.79 per share, and the total dividend for 2019 to €1.18. This proposal is subject to shareholder approval at the Annual General Meeting in April.

With regard to the 2020 share buyback, we are today announcing plans to purchase up to €350 million in shares including repurchases to offset incentive share issuance. We have already made a start on this program and have completed €50 million in buybacks to date in 2020.

So to sum things up, we are pleased to report sustained 4% organic growth and improved adjusted operating profit margins.

Diluted adjusted EPS increased 11% in constant currencies.

Adjusted free cash flow was €807 million, up 1% in constant currencies.

Combining dividends and share buybacks we returned 70% of adjusted free cash flow to shareholders last year.

Return on invested capital improved to 11.8% and our financial position remains strong with net debt-to-EBITDA at 1.6 times.

With that I'd like to turn it back to Nancy for an update on divisions.

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## ***Operating and Strategic Review***

### **Nancy McKinstry, Chief Executive Officer**

Thank you, Kevin.

I will start by giving you some updates on the Health division. Health delivered 4% organic growth driven by clinical solutions. The adjusted operating profit margin declined as we had guided. On an underlying basis, there was an increase in Health's margin despite increased investments in sales and marketing, and product development.

Clinical Solutions delivered 6% organic growth led by our clinical decision tool UpToDate, which grew 9% organically. UpToDate renewals and new sales were good particularly in North America, and the roll-out of the new module UpToDate Advanced made progress.

Our drug information products continued to show robust growth and have seen early benefits from our sales reorganisation and our move to solution selling.

Our patient engagement solution, Emmi, recorded soft new sales, mainly attributed to hospital budgets remaining constrained in this area. We are adding new features and we are supplementing the integrated sales organisation with more product specialists.

Learning Research & Practice recorded 1% organic growth with digital revenues up 3%. Our digital medical research platform, Ovid, saw good growth and our digital nursing solutions performed very well, delivering solid double-digit growth.

Offsetting most of this digital growth was the continued decline in printed books and journals as well as softness in advertising and continuing medical education. We remain focused on transforming our leading medical content into digital solutions.

Tax & Accounting delivered 6% organic growth, slightly better than we had expected and driven by the strong performance in software in both corporate performance solutions and the Professional Tax & Accounting segment.

The divisional adjusted operating profit margin increased, driven by efficiency savings, operational gearing and lower restructuring costs.

Corporate Performance Solutions which includes CCH Tagetik and TeamMate grew 17% organically. These expert solutions saw strong demand from existing and new customers around the world, in particular for our cloud-based options.

Our Professional Tax & Accounting businesses performed well, driven by 6% growth in software. North America saw a moderation in organic growth as expected. Our U.S. cloud suite, which includes CCH Axxess and practice management solutions continued to see strong growth. However, our U.S. Research & Learning group experienced a decline as we anticipated with demand for content around the U.S. tax reform falling.

Professional Tax & Accounting in Europe recorded an exceptionally strong year with organic growth of 8%. This was driven to a large extent by our cloud collaboration tools. We expect this to pose a challenging comparable in 2020.

Asia Pacific and Rest of World saw a mixed performance with strong growth in China offset by softness elsewhere.

For Governance, Risk & Compliance the division delivered 4% organic growth in line with prior year. The divisional margin increased 210 basis points reflecting operational efficiencies and net-positive one-time items recorded in the fourth quarter.

Legal Services sustained 5% organic growth with CT, which is the U.S. leader in legal representation services, delivering strong growth, including better than expected growth in transactional revenues.

Our Enterprise Legal Management unit saw muted growth as lower software maintenance offset an increase in volume-driven revenues.

For Financial Services, this unit delivered 3% organic growth led by Finance, Risk & Reporting, which recorded high single-digit growth driven by new software licences of OneSumX.

OneSumX is investing in a cloud-based version of its regulatory reporting solution. Compliance Solutions recorded stable revenues while Wolters Kluwer Lien Solutions saw positive but slower organic growth as the U.S. commercial lending market plateaued in the second half of 2019.

And for our fourth division, Legal & Regulatory delivered better than expected 3% organic growth having outperformed throughout the year including in the fourth quarter.

The adjusted operating profit margin declined as guided reflecting lower net-positive one-time items, dilutive acquisitions and increased investments.

Our EHS and Legal Software group delivered 14% organic growth. Enablon had a particularly strong 2019.

Legal & Regulatory Information Solutions delivered 1% organic growth, which marked an improvement on 2018 when growth was flat.

Growth in digital products is still being largely offset by print declines, but we appear to be close to a tipping point. Digital revenues grew 5% organically, driven by legal research solutions such as One in Italy, Navigator in the Netherlands, and Cheetah and RBSorce in the U.S.

Print formats continued to decline as we expected, and we continued to drive cost savings in that part of the business.

Investments to enhance our digital legal solutions were increased and we're working to enhance these products further by applying advanced technologies.

Now I'd like to give you a very brief update on how we're doing against the strategy that we launched in 2019.

The current plan is focused very much on organic growth. We will consider acquisitions, but we remain focused on driving innovation to support good organic growth. This organic growth is being supported by a reinvestment of 8% to 10% of our revenues. Backing, enhancing and driving new products that total investment is over €400 million last year, and that combines both capex and operating expenses.

Organic growth is being lifted by expert solutions which now make up just over half of our revenues and grew 7% organically in 2019.

These digital products deliver not only information but insights, analytics, workflow automation and productivity benefits to our customers.

Our second priority is to advance domain expertise. This means we're transforming our information products and services by enriching content, leveraging advanced technologies to bring our customers more actionable, intelligence and automated workflows.

One of the more advanced examples of this kind of transformation is our nursing content which we have evolved to nursing solutions, which provides students and faculty with new capabilities like testing and assessment.

Our third priority is to drive operational agility. We want to further improve our organisation's ability to respond to opportunities and to change. This was an area that we made very good progress on in 2019 both in front-office and back-office applications.

So now I want to give you an example of an expert solution in our Legal & Regulatory group, which is focused on Enablon. Enablon and eVision operate in what is described as the EHS and ORM software markets. This stands for Environmental, Health & Safety and Operational Risk Management.

As you may recall, we acquired Enablon a few years ago and then expanded that group with the acquisition of eVision in 2018, and most recently with the acquisition of CGE earlier this month.

So these products provide customers with a module platform that helps corporations gather data in different ways, including mobile apps that allow input from the field in a real-time way. This helps our customers monitor what's going on and track the data. And if need be, they can act upon it to prevent workplace incidences. And then of course, report this data to stay in compliance.

Enablon had a very strong year in 2019, growing at double-digit levels supported by both new contract-wins as well as growth in service revenues.

As I mentioned earlier, we also made very good progress on our goal for improving operational agility. An important initiative in this arena is to evolve our products towards fewer global platforms. Not only



do customers get more advanced capabilities with this initiative, but we also benefit from reduced complexity.

We also continue to apply advanced technologies to our products, again in order to provide our customers with more functionality.

Another programme we have which is to bring more of our products into the cloud. A major stride was made last year in the GRC division where FRR announced and launched OneSumX into the cloud, and that means that customers will be able to use the cloud-based applications for regulatory reporting.

Finally, we made progress last year in upgrading more of our back-office infrastructure as well as moving to global enterprise solutions in procurement, finance and HR.

We also continued and even accelerated programmes to further strengthen security through technology and training.

Before I go to the outlook, I wanted to just comment on some efforts around sustainability.

I'm proud to say we notched-up our employee engagement score last year marking the fourth year that this independently generated metric has been above the standard for high-performing companies.

We continue to place great importance on our annual employee compliance training programmes, which include IT and data security training. We have nearly 100% compliance among our employees for these programmes.

We are also working to manage ESG risk in our supply-chain. And last year made further progress on increasing the number of vendors that are committed to Wolters Kluwer supplier code of conduct or an equivalent standard by year-end.

So now moving to the outlook for 2020. We expect to deliver another year of solid organic growth supported by all four divisions. We expect to increase our adjusted operating profit margin in the range of 23.5% to 24%.

We expect adjusted free cash flow to be between €800 and €825 million euros in constant currencies. We expect return on invested capital to show incremental improvement to around 12%.

And finally, we expect mid to high single-digit growth in diluted adjusted EPS in constant currencies.

So now let's take a look at the outlook by division.

In Health we expect organic growth to be broadly in line with 2019 with clinical solutions continuing to drive growth. We expect the adjusted operating profit margin to be broadly stable due to increased investments in sales and marketing and product development.

For Tax & Accounting we expect organic growth to moderate from 2019 levels due to a challenging comparable in Europe and some moderation in the U.S. The margin is expected to see a further increase.

For Governance, Risk & Compliance we expect a slight improvement in overall organic growth due to investments in new products and we expect the adjusted operating profit margin to be slightly lower than it was in 2019.

In Legal & Regulatory we expect organic growth to moderate slightly from 2019 levels given the challenging comparable. The adjusted operating profit margin is however expected to improve.

So thank you very much for your attention and now we can move to Q&A.

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## Questions and Answers

### Nick Dempsey, Barclays Capital

I've got three, please.

First of all, just looking at your free cash flow guidance, bottom end of the range, you'd be going down year-on-year on a like-for-like basis. What would have to happen? Are you just being excessively conservative there or are we talking capex at the top end of the range, to get there? Is it cash tax that could drive that or what could make it €800 million?

Second question, looking at the 11% margin at Legal, you've got Enablon, eVision, CGE in there, all of which should be, over time, comfortably above that margin, sort of naturally, even if you're investing in them now, where could that margin get to over time, maybe over sort of five or six years? Could we get a mid-teens or a higher teens margin eventually in Legal?

Third question - just maybe a bit more colour of how Health can achieve roughly the same organic growth in '20 as '19. So, are you assuming UpToDate can hold its level of growth? I know that it's been maturing. Are you assuming that Emmi can turn around, and that's significant, or are we relying on new products in Clinical Solutions to sort of hold our organic growth?

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### Nancy McKinstry, Chief Executive Officer

Okay. I'll cover Health, but why don't you cover cash flow and long-term margin on Legal & Regulatory.

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### Kevin Entricken, Chief Financial Officer

Absolutely.

On the free cash flow guidance, I would say the expectation is to be around the 95% conversion ratio as we've guided you to. That, I think, is the right place for this business to be. The last couple of years it's been slightly above that. So, that would be the first point.

The second point is I do expect capex to be between 5% and 6%, in that range, and that is a step up from where we landed in 2019. So, that was the thinking going into the guidance.

On the Legal & Regulatory margin, as we have noted, the margin there is a bit held back by the impact of acquisitions. The margin is dilutive on some of those acquisitions today. But, as those businesses scale, we do expect them to be a lift to the overall margin in the business.

So, we haven't given a longer term guide on that margin, but we do expect - these are software businesses that, you know, typically, software margins are very healthy compared to some just information products. So, we would expect to see margin improvements over time.

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### Nancy McKinstry, Chief Executive Officer

And, on Health, as we look at 2020, what we are expecting is still good performance out of clinical effectiveness, both from UpToDate, but also from our drug information businesses. We're expecting a bit more growth coming out of International, across that entire product portfolio. And we'd expect that Emmi begins to stabilise. Emmi is quite a small part of the overall revenues, so it really is about, the UpToDate business and the drug information businesses.

On the Health learning, research & practice side, we just expect continued good growth in digital. And, as you know, they still have about 30%, 35% print, so we expect that to continue to decline. But, again, as we reach more of a tipping point in that unit, over the long-term, we would clearly expect stronger growth coming out of Learning, Research & Practice over the long-term.

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**Thomas Singlehurst, Citibank**

A couple of questions, in fact, three if it's all right.

The first one is actually on transactional revenue. I think you said it was up 6% across the board organically, relative to recurring up 5%. So, obviously, it's helping. I think you talked about some elements of transactional becoming maybe less of a tailwind in 2020, but can you just break out how we should think about the, sort of, main drivers of that transactional revenue just so we can, sort of, benchmark what the KPIs are that we should be looking at? That was the first question.

The second question - Thomson Reuters, I noticed, saw sort of similar acceleration in Tax & Accounting into the fourth quarter. I mean, in fairness, I think you just sustained the growth, but it's a very good level of growth. I wanted to ask on the sort of competitive dynamic there - I mean, their overall growth rate in Tax & Accounting is around 8%, yours is around 6%, both good numbers, but should we view that as a share loss, or is that just for the different mix impacting?

And then a very final question, nothing to do with financials, but, actually, funnily enough, a question maybe for you, Nancy, on succession planning. I was asked this by an investor relatively recently. I'm noting that you've been in place since 2003. I just wanted to get a sense of your commitment to the business, but also succession planning as a sort of general topic. It's not one that I've noticed come up before. Thank you.

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**Nancy McKinstry, Chief Executive Officer**

Okay. So, why don't we go in reverse order? I'll start with succession planning.

I have no plans to change my role. I'm very focused on driving the business. As you would imagine, it's quite rewarding, not just for Kevin and I, but for the whole team to have gone through the transformation and to now be in a very strong position to continue to improve our performance.

So, we do, however, just to reassure investors, we do have a robust, talent management programme, at all levels, so not just for myself but across the board, and we have, very strong management at the business.

In terms of Tax & Accounting, competitively, we're in a strong position around the globe. As you may recall, we are still really the only the provider in the U.S. that has a full cloud-based suite, and we've had that in the market now for six years. So, we continue to see good growth in the cloud.

I think that we basically would indicate that we do have mix issues, right. I think you may recall that Thomson has much more revenue coming out of the corporate market that grows a bit faster than the professional market, and we remain the leader in the professional market.

So, we're excited about the new things that are going on in Tax & Accounting, not just in North America but in Europe as well.

And then transactions?

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**Kevin Entricken, Chief Financial Officer**

Yeah, on transactions, really a tale of two different revenue streams. The Legal Services transactions, where we help our clients register new legal entities was very strong at 9%. That was better than we expected. We expected that to slow down a little bit in '19 and really continue to maintain good growth.

On the financial service transaction side, where we have transactions related to mortgage volumes and related to corporate lending, on the mortgage volume side, we did continue to see a decline there, but that is becoming a very small part of the business.

On the corporate lending side, while we saw some moderation, we still saw some good growth in that particular area.

So, that is a bit of a sum-up of transaction revenue.

With regard to our mix on growth rates in Tax & Accounting versus Thomson, I would say that we're seeing very good growth on our tax professional side, but even better growth on the corporate side with our Tagetik and TeamMate products.

The corporate market tends to be growth faster than the professional side, so it is a bit of a mix shift when you compare us to others in the market.

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**Matthew Walker, Credit Suisse**

Thanks. Good morning. Three questions, please.

The first is on, sort of, extraneous impacts, so any impact of Coronavirus, or any impact from the data hacking problem that occurring during the year?

Second question is on, again, going back to free cash flow. I'm a bit perplexed to why the mid-point of your guidance for free cash flow is still so low. I mean, you mentioned that capex could step up, and that could hold back the growth a little bit. But, actually, when you look at it, that's like a €35m movement, but you also have minus €27m of working capital, so those are broadly equal, so can you just explain why free cash flow is not growing in line with the expected operating profit growth?

And, thirdly, on UpToDate, you mentioned Advanced is now in 850 hospitals, what percentage of that is the total? How should we look at the penetration of Advanced relative to the core UpToDate product? How much runway is there for that to go?

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**Nancy McKinstry, Chief Executive Officer**

Okay. So, on the extraneous factors, the Coronavirus, you know, our focus is very much on employee safety and making sure they're supported. So, way too early to tell,, what the impact might be there. I would remind you that North America remains our biggest market, so, from that standpoint, the virus has been more localised in geographies where it's a relatively small part of overall. But, again, too early to tell.

In terms of the malware attack, I would want to remind you that there was no data breach. As you know, we took our systems offline very proactively. We don't see any long-term effect from that occurring.

I would say, if you just look, though, at cloud adoption, this is broadly across all the places we have cloud products, in every division, what we are seeing, and would expect to see, is you get a real ramp in the beginning as you move early adopters to the cloud, and that's been driving good growth across - our cloud solutions have grown very rapidly.

We would expect, over time, not, specifically for 2020, but over the sort of medium term - at some point you kind of moderate, right, as the next wave of growth comes from that. So, we do expect that cloud migration will take a long period of time to occur, and that's just not related specifically to the whole question of security, but just an important element to recognise.

And then, as it relates specifically to UpToDate Advanced, we're still very early days. There's something, I think, like 6,000 hospitals in the U.S. As you know, we have pretty high penetration from UpToDate. So, we're really just at the beginning stages.

And then, of course, outside of the U.S., very early days. And we're still building out the product. So, we would anticipate that, as we continue to build out the number of pathways that we have in UpToDate, coupled with, the early adopters beginning to build that reference base that is so important in our market, that they will continue to grow nicely.

And then cash flow.

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**Kevin Entricken, Chief Financial Officer**

On free cash flow, I would say for a business like ours, a healthy cash conversion is 95%. That's the guidance we're giving you. I will point out that, in 2018, we were actually above that at 104%, and then in '17 we were just slightly over 100%. So, I think, what we're seeing is more normalised cash conversion.

The step up in capex from 2019 to 2020 is incorporated in that guidance, so that's why we've set the guidance range as we are.

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**Matthew Walker, Credit Suisse**

Sorry, just to come back on that, I mean, as I said, you've got, the step up in capex was like €35m, but you have a minus of €27m working capital, so are you saying that you expect a negative working capital to continue, otherwise the two factors should offset each other?

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**Kevin Entricken, Chief Financial Officer**

I would say that the negative working capital - we will probably work very hard to make sure that that doesn't continue going forward, but, the thinking that we've put into that guidance range, I'll leave you to draw conclusions from that, but you should expect a step-up in capex.

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**Matthew Walker, Credit Suisse**

Okay. Thanks.

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**Patrick Wellington, Morgan Stanley**

Hi. A couple of questions.

Expert systems are 50% of the total, so are non-expert systems the other 50% of the total? How do you define something that's not an expert system if you like?

A similar question then on financials - I mean, in your guidance you allow, potentially, for the margin to go down 23.5% to 24% versus 23.6%. As you've pointed out, the underlying margin went up 70

basis points last year. So, again, under what circumstances would you expect that to happen, or do you think it's more likely that you'll again exceed your range as you did this year?

And then, thirdly, acquisition spend quite low this year. Has your experience with Emmi put you off, Nancy, or are you still out there looking for stuff?

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**Nancy McKinstry, Chief Executive Officer**

Yes, so why don't I start there?

I think, as you'll recall when we launched this three-year plan, this is most organically focused plan we've had in my tenure. And that's a great place to be because we see lots of opportunities to continue to innovate in our core markets.

With that said, we, of course, are still looking at acquisitions, primarily either to roll up our existing positions - there's not a whole lot of those kinds of opportunities - and then adjacencies. So, we're still looking.

I think, as you probably hear from all of your clients, assets prices are very, very high, so, of course, we have to remain disciplined in that effort, for example, CGE, while small, is a terrific example where it's an adjacent market. We already had a partnership with them in the Enablon space, and so that's a nice addition. So, you should expect some level of that to continue.

On expert solutions, so what is the difference? I think that's a really important question. We define expert solutions as products that have elements of information and content expertise, coupled with technology that deliver customers a very defined benefit.

So, I'll contrast, UpToDate is an expert solution. Why is that? We know that hospitals and doctors and nurses who use UpToDate will be able to lower their morbidity and mortality rates. We've proven that over and over again through lots of external studies.

Contrast to Ovid, it's a fantastic product, but it is a research product, right. It is used primarily by pharmaceutical companies and scientists and doctors doing research. There is obviously large benefits from the use of Ovid, but it's not something that you could go to a client and say, - if you use Ovid you will get XYZ in terms of defined and measurable results.

So, that's what the definition is. And so we fully expect that expert solution revenue, which is around, slightly more than 50% today, will grow. And, as that grows, it will support not only, stronger organic growth but, very importantly, margin expansion because when the expert solutions are at scale they are higher margin than traditional digital products. So, that's one point.

And then the second point, just real quick, is we are in the process, as part of our second priority around advancing domain expertise, of remaking some of these digital information products, like an Ovid, into expert solution. So, we have a very defined amount of revenue that we want to take from that bucket of information products into the expert solution route.

It is probably the hardest, thing we have to do because there's not one thing that makes an expert solution, but it's a very focused effort because we really believe that that's the future of the business.

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**Patrick Wellington, Morgan Stanley**

And Nancy, while we're on this subject, as Sami isn't here, does this require a huge pick-up in your sales and marketing expense to sell these expert systems, or can that be contained within the normal parameters?

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**Nancy McKinstry, Chief Executive Officer**

Yes. I think what you will see is we still believe that the range on capex - that's Sami's real thing, right - is the range on capex is still very much in what we need to support the business, so we don't expect any kind of - it may go from the low end to the high end of the range, but we don't expect that to change materially.

On sales and marketing, we're already making changes there, both really advancing our digital marketing, so taking some of our traditional marketing spend and moving it to digital. And then, within the wholesales arena, as you may recall, we have been stepping that up over, say, the medium, the last 10 years. We think what we have now is fine, but the way we spend that money may change a bit as these products do require a pretty high level of expertise from our sales team.

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**Kevin Entricken, Chief Financial Officer**

And, on the margin, traditionally, when we've given you guidance, we've given you a guidance range of about 50 basis points. We've done that again for 2020, from 23.5% to 24%, but we have also said we expect improvement in that margin over 2019, which was 23.6%. So, we've given you a range, but we've also said we expect improvement.

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**Rajesh Kumar, HSBC - via the webcast**

How much of the capex pertains to maintenance as opposed to innovating or investing in new products? So, put another way, if you were not spending any money on new product, what would your capex to sales be? I don't think we've disclosed this before, but maybe you can make some comments on that.

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**Kevin Entricken, Chief Financial Officer**

No. I would say we don't disclose specifically what is maintenance, what is new product, but it is a consistent mix of both. We are always looking to innovate, we are always looking to come out with new products and product enhancements. At the same time, we want to keep the products that are in the market very fresh, very vibrant and we're constantly looking to improve the user experience of those products.

So, it is a mix, and it will be consistently invested in over the long-term.

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**Nancy McKinstry, Chief Executive Officer**

Yes, I would just say one quick thing to remind everybody, most of our new product investment is expensed, right, because the technical definition is you have to reach technical feasibility, this accounting definition, however - so, most new things, you don't reach that until you're in market, essentially. So, most of the brand new things are really expensed. What is in capex is maintenance plus building out cloud products because you reach technical feasibility much earlier because you're essentially already proven with your on-premise products. So, that is one of the reasons why, in the overall, kind of 8% to 10%, you see the mix shift between opex and capex.

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**Nathalie Casali, MFS - via the webcast**

Can you talk a bit about the increased investment in enterprise software and services? I think this is in the corporate line, or perhaps on one of the sides. The investment in enterprise software and services to support HR, finance, digital marketing. I think this refers to, all our investments in enterprise rolling out global enterprise systems. Perhaps you could talk a bit more about that.

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**Kevin Entricken, Chief Financial Officer**

Yes, absolutely.

The corporate investments we've been making are in systems that help us be more agile and execute on our strategy. We have implemented a global HR system, one HR system around the world that we're very happy about that will help us bring our employees together and help make us more efficient in that process.

On the finance side, we are investing in systems to help in our financial consolidation process as well as our procurement process, again, systems that will help us be more agile and to help us execute on our strategy in a more effective way.

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**Nathalie Casali, MFS - via the webcast**

Okay. And then just one on financing. We've got a €250m private placement which matures at the end of this year, can this be refinanced at a potentially lower rate that improves your financing across the portfolio?

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**Kevin Entricken, Chief Financial Officer**

Well certainly, the markets are open to this. We have seen, very competitive rates in the market, and we'll refinance during the year. That process has already been started, and I expect a very successful outcome.

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**Unidentified Analyst**

I've got a couple more questions - the first, actually, on UpToDate. I was just wondering whether you could just give us a little bit of a sort of overview of the competitive landscape and the dynamics within that marketplace. Obviously, you've got UpToDate Advanced, which is, sort of, a new iteration and has, potentially, a very significant runway for growth, but are you effectively sort of doing that in a vacuum, and so therefore it's a relatively straightforward process selling through, or is there any competitive tension in that market? That was the first question.

And then the second question on the buyback, when you've managed to do pretty much everything, you've grown revenue, profit, you've managed to return cash to shareholders and de-lever, but by maintaining the current level of buyback and growing profitability but, without necessarily doing more M&A, you're going to be de-levering again, so why aren't you being a bit more aggressive on the buyback relative to last year?

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**Kevin Entricken, Chief Financial Officer**

Yes, starting with the buyback, announcing the €350 million share buyback today is something that we're able to do because of good performance and the strong balance sheet of the organisation.



Obviously, we are constantly evaluating our situation and our uses and needs of cash, and if our thesis in the future would change, we'll certainly come to you and talk about that, but, today, we feel that the €350 million buyback is the right place to be.

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**Unidentified Analyst**

And will leverage come down, all things being equal, as a consequence?

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**Kevin Entricken, Chief Financial Officer**

Well, our leverage today is about 1.6 times. We have seen it come down. I would imagine that in a non-acquisition scenario, you could imagine leverage coming down slightly, but, frankly, we're not guiding to that. We are guiding to the buyback of €350m. And, as Nancy has said, while this strategy is focused on organic growth, we will consider select acquisitions that help us achieve that strategy.

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**Nancy McKinstry, Chief Executive Officer**

And then, on UpToDate, I would say, just within clinical effectiveness, the two main product categories are our drug information businesses and the UpToDate business, both of which, from a competitive perspective, we see no major changes.

In the drug database business, it's really a duopoly between us and Hearst, and then, on UpToDate - UpToDate is really a unique product offering, and so there you're competing more for budget dollars than you are in a direct, you know, product comparison way.

So, again, we continue to innovate as we want to respond to customer needs and we want to continue to grow wallet share, but nothing changed from a competitive dynamic.

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**Patrick Wellington, Morgan Stanley**

A couple more.

Nancy, you're unusually confident in your guidance about the organic growth at GRC, which was better than expected this year, at 4%, and you're confident that that will improve in 2020, but there's obviously transactional revenue in there. So, what's driving that, arguably, unusual degree of confidence?

And then, secondly, I think you said that, going back to UpToDate, that UpToDate renewals this year had been strong. Can you put that in context? I think you had 9% growth last year. Is that the sort of renewal rate that will support the 9% growth or is that just your baseline of business? Does that information tell us anything about the likely growth of UpToDate? If you want to tell us what the growth of UpToDate will be, in your opinion, feel free.

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**Nancy McKinstry, Chief Executive Officer**

Yes. So, on GRC, as you know, because half of the revenue is transactional, it is our most difficult division to set a forecast around. What we are assuming is that transactional revenue is sort of no real change, right, meaning that we don't expect that to be booming. In fact, we expect it to moderate off the 9% growth that we had in '19. So, we expect transactional revenue to moderate.

So, where will the growth come from? It will really be two primary areas; one is we expect a better performance out of the Enterprise Legal Management unit and our Compliance Solutions unit, and we

expect - we don't talk about this very often but, within GRC, there's a number of what we call high-growth product lines, things like motor vehicle lending, things like our Legal Bill Analyzer, our global CT business, and then, when you add all of that up, it's a meaningful amount of revenue, and we expect good growth out of that.

So, the whole focus in GRC is around scaling both, what we call, the expert solutions, which are things like enterprise legal management, but also these high-growth software service businesses that are embedded in the portfolio, again, that we don't talk a lot about, but are a key driver.

And then, on UpToDate,, renewals are good. It's, obviously, a big focus point for us because 80% of the overall revenues of Wolters Kluwer are recurring. So, we continue to expect good renewal rates there, and really the growth in UpToDate will be sustained by, you know, kind of - or the growth in clinical effectiveness will be sustained by, sort of, three factors; one is, stronger international growth. It was a bit disappointing, frankly, in 2019, still grew but not at the levels we'd hoped, so we took a bunch of actions in '19, and so we believe that International will grow in CE at a higher level.

The second area is, of course, new products continuing to penetrate with UpToDate Advanced and other new things that we've brought out.

And then the third area is the cross-selling. We reorganised the sales team to do solution selling at clinical effectiveness, and we saw some very good, kind of cross-selling between the drug business and the UpToDate business.

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**Patrick Wellington, Morgan Stanley**

Thanks.

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**Nancy McKinstry, Chief Executive Officer**

Last one I think.

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**Unidentified Analyst**

Fine. Last question.]. Two questions, please.

Could you give us an update on cloud, cloud percentage in each division for revenue?

Secondly, on Emmi, you've adopted a more modular pricing structure in response to the hospital budgets, but you're also targeting, sort of, best cases, like stabilisations, so what is it going to take for Emmi to kind of grow? Is there any sign that the modular pricing is working?

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**Nancy McKinstry, Chief Executive Officer**

Yes. So, 2 things on Emmi and then Kevin will take the first question.

So, really, we, of course, always look back and say when we made the acquisition, you know, what changed, particularly when things don't live up to expectations.

So what changed was when we made the acquisition, there was a major push in the U.S. to go from what they call fee for service, where hospitals and doctors make money based on the number of patients they see, to value-based pricing. And value-based pricing is, the payers say to the hospital - well, you've got this diabetic patient. We're going to give you \$10,000 to take care of them. And so the hospital takes on more risk.

In a value-based world, engaging with patients is really essential, right. There's proven mathematics, or analytics, around when patients engage in their care, you get better outcomes. So, that's still a concern for hospitals and physicians, but the pressure maybe is a little bit less than we had anticipated given the change in administration in the U.S. So, there is more market headwinds there.

That being said, what are we doing? What we're doing is really two things; one is continuing to build out, not just modularize the product, but build out specific use cases. So, we talked last year about - we put together this whole package around opioids, helping hospitals deal both with our drug database with UpToDate and with Emmi around that crisis. So, we have a number of those use cases, and that's resonating well in the market. So that will be an area for us.

And then the second thing is, as we reorganise the salesforce at clinical effectiveness, you always have growing pains. It's just the nature of doing that. And so we recognised, in '19, that there was less attention being paid to Emmi than there was when we had a dedicated sales team. So, we are adding product specialists that are just focused on Emmi, and they kicked off at the beginning of 2020.

So, we anticipate that we will, achieve a better performance. I would like to remind you, however, it's a very, very small business. So, it's not - it's the other factors to Patrick's question that will really drive the growth in Clinical Effectiveness, not Emmi per se.

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**Kevin Entricken, Chief Financial Officer**

And on the cloud revenue, that revenue stream today, for the total Wolters Kluwer, makes up about 10% of revenues. It is one of the fastest growing revenue streams.

We're probably farthest along on the cloud in our Tax & Accounting Group, with CCH Axxess and Tagetik and TeamMate.

When I talk about fast growth, we, have seen, Tagetik and TeamMate growing at, high-teen type of growth rates.

Another fast emerging area would be in Legal & Regulatory, in the Environmental Health & Safety business, with both Enablon and with eVision.

And I would say in the GRC Group, Enterprise Legal Management, we have a cloud solution there as well, and are investing in cloud solutions for both the compliance solutions business as well.

So, we see this as, truly an opportunity going forward. Very pleased with the growth rates today, and see, better performance going forward.

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**Nancy McKinstry, Chief Executive Officer**

But, at some point, the growth rate's going to moderate. I mean, what you see always, right, is you get the early adopters. It's still going to be high, double-digit levels, but it will be less. And then the last mile of our customers to move from whatever they're on to the new things, is the slowest, sort of journey, as you know, just given that we still have print, right.

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**Meg Geldens, Vice President, Investor Relations**

I think we want to wrap it up.

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**Nancy McKinstry, Chief Executive Officer**

Yes, sorry, Meg, yes, yes.

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**Meg Geldens, Vice President, Investor Relations**

No, No, but I think we want to try and - because you've got some other commitments coming up, unless it's a really urgent question.

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**Nancy McKinstry, Chief Executive Officer**

Thank you all very much for coming.

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**Meg Geldens, Vice President, Investor Relations**

We've got coffee out in the other room if people want, and -

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**Nancy McKinstry, Chief Executive Officer**

Yes, good, yes, join us for coffee, etc. Thanks everybody.

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END

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