Wolters Kluwer 2013 First-Quarter Trading Update


Highlights

- Full-year 2013 guidance affirmed.
- First-quarter revenue flat at constant currencies, down 1% organically, reflecting difficult comparables in several areas.
  - Digital products achieved good organic growth.
  - Recurring revenues maintained positive organic growth; books and other transactional revenues declined.
- First-quarter ordinary EBITA margin declined modestly, partly due to investments in growth initiatives and the timing of restructuring costs.
- Year to date, divestitures raise approximately €90 million before tax, while net acquisition spend was approximately €100 million.
- New ten year €700 million Eurobond completed with 2.875% coupon rate; existing €225 million perpetual cumulative subordinated bonds to be redeemed and de-listed in May 2013.
- Net-debt-to-EBITDA improved to 2.3 as of March 31, 2013, better than our target of 2.5.

Nancy McKinstry, CEO and Chairman of the Executive Board, commented:

“The first quarter faced tough comparables against the prior year, but overall performance was in line with our expectations. Our leading, growing businesses all achieved good to strong organic revenue growth in the quarter, including Corporate Legal Services, Tax & Accounting software, Clinical Solutions, as well as our core Finance & Audit solutions. So far this year, we have completed a number of strategic divestitures and acquisitions which further focus and transform the portfolio. We are continuing to invest in new and enhanced solutions, while pursuing efficiencies to respond to challenging economic conditions. Having also made significant progress on refinancing our balance sheet, we are confident in delivering our guidance for the full year.”

First Quarter Developments

First quarter revenues for the continuing operations were stable at constant currencies, and declined 1% on an organic basis, reflecting tough comparables in a number of areas. In the quarter, revenues contributed by acquisitions made in 2012 were partly offset by revenue associated with divestitures made last year. Digital products achieved good growth on an organic basis. Recurring revenues saw positive organic growth, but this was offset by declines in books and other transactional and cyclical revenues. The ordinary EBITA margin eased in the quarter compared to a year ago, due to product mix, investments in growth initiatives, and increased restructuring expenses. Restructuring, which was mainly severance, is expected to yield benefits in the second half of the year.

In Legal & Regulatory, our North American operation saw good organic growth, due to Corporate Legal Services (CLS). CLS transactional revenue increased, despite difficult comparables and lower M&A-related filings and trademark searches. Trends in our European Legal & Regulatory business remain challenging, as expected, with print products, training, and public sector revenues seeing continued pressure. Year to date, the division has made two divestitures in North America: Best Case Solutions and the minority stake in AccessData. For the full year, we continue to expect growth in North America but weakness in Europe and divisional margin contraction.

In Tax & Accounting, seasonal revenue and margin patterns are similar to 2012, as anticipated. Our North American Tax & Accounting business achieved good organic growth in software revenues, but this was offset by declines in bank product fees and continued weakness in print publishing revenue. Our European Tax & Accounting revenues were broadly stable on an organic basis, showing good growth in
software but declines in print products and cyclical services, such as training. Asia Pacific revenue was impacted by lower book sales.

Health performance in the first quarter was muted, however stronger revenue growth and margin development is expected as the year progresses. Clinical Solutions continued to deliver double digit organic growth, driven by strong performances from UpToDate, Pharmacy OneSource, and Medicom. The acquisition of Health Language, a pioneer in medical terminology management, was completed in January; the business is on pace to achieve double digit organic growth in 2013. Medical Research revenues were lower reflecting weaker advertising, reprint, and print journal subscription revenues. Professional & Education, which has a seasonally small first quarter, was impacted by the timing of book orders in addition to weak markets for print products in both U.S. and international markets.

Financial & Compliance Services faced tough comparables in Originations and Audit, and challenging market conditions in European transport services, as anticipated in our outlook provided in February. Originations saw lower mortgage transactional volumes and fewer new customer implementations than a year ago. Audit achieved solid growth with its core internal audit software TeamMate, but this was largely offset by revenue attrition related to migrating Axentis customers. Finance, Risk & Compliance, including FRSGlobal, achieved good organic growth. In the year to date, the division has acquired iSentry, a software and workflow solutions provider in the U.K., and has increased its interest in AccessMatrix, a technology partner in India.

Cash Flow, Acquisitions, Divestitures, and Net Debt
First quarter cash conversion was lower than in the same period a year ago, due to less favorable working capital movements as anticipated. Ordinary free cash flow declined in the quarter but remains on track with our full year expectations. In the year to date, a number of disposals have raised pre-tax proceeds of approximately €90 million, removing annual EBITA of approximately €7 million. The largest divestment was Best Case Solutions. In the year to date, net acquisition spending was approximately €100 million, including Health Language and a number of smaller investments. The impact of acquisitions and divestitures made in the year to date is expected to be slightly dilutive to earnings in 2013 due to the margins of the disposals.

In March, we successfully completed a €700 million 10-year Eurobond issue, with a coupon of 2.875%. Proceeds will be used to redeem the 6.875% perpetual cumulative subordinated bonds in May 2013 and our 5.125% bonds which mature in early 2014. The listing of the perpetual bonds on Euronext Amsterdam will be terminated as of May 14, 2013. Twelve month rolling net-debt-to-EBITDA was 2.3 at the end of the first quarter, improving further from year-end 2012 (2.4) and better than our leverage target of 2.5.

In line with our progressive dividend policy, a dividend of €0.69 per share will be paid in cash on May 16, 2013.

Full-Year 2013 Outlook
Our full year outlook remains unchanged from the guidance set out in February. Organic growth and margins are expected to improve in the second half of the year as comparables ease and the benefits of restructuring flow through. The table below provides our outlook for the continuing operations in 2013.

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<th>Performance indicators</th>
<th>2013 Guidance</th>
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<td>Ordinary EBITA margin</td>
<td>21.5-22.0%</td>
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<td>Ordinary free cash flow</td>
<td>≥ €475 million</td>
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<td>Return on invested capital</td>
<td>≥ 8%</td>
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<td>Diluted ordinary EPS</td>
<td>Low single-digit growth</td>
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Guidance for ordinary free cash flow and diluted ordinary earnings per share (EPS) is based on constant currencies (EUR/USD 1.29). Guidance reflects IAS19R and removal of the pension financing credit or charge from benchmark figures, and includes the estimated impact of performance share issuance offset by share repurchases.
currency exchange rates. Wolters Kluwer generates more than half of its ordinary EBITA in North America. As a rule of thumb, based on our 2012 currency profile, a 1 U.S. cent move in the average EUR/USD exchange rate for the year causes an opposite 0.8 euro-cent change in diluted ordinary EPS. Benchmark net financing costs, which exclude the pension financing credit or charge, are expected to be approximately €130 million in constant currencies, reflecting the negative carry caused by early refinancing of our bonds due in 2014. The benchmark effective tax rate on ordinary income before tax is expected to be broadly in line with the benchmark tax rate of 2012 (27.8%).

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For more information about our products and organization, visit www.wolterskluwer.com, follow @Wolters_Kluwer on Twitter, or search for Wolters Kluwer videos on YouTube.

Financial Calendar
May 16, 2013          Dividend payment date (ordinary shares)
May 23, 2013          ADR dividend payment date
July 31, 2013         Half-Year 2013 Results
November 6, 2013      Third-Quarter 2013 Trading Update
February 19, 2014     Full-Year 2013 Results

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