Transcription

Sanoma Q3 2022 / Interim Report

(Duration: 1:08)

Mira Rinne-Helenius:

Good morning, everyone, and warmly welcome to Sanoma's third quarter report for 2022 presentation. My name is Mira Rinne-Helenius and I work as an Investor Relations Manager here at Sanoma. I'm joined today by our President and CEO Susan Duinhoven and CFO Alex Green who will shortly present the 3rd quarter results. After the presentation, we will have a Q&A session, and we will start by taking questions from the audience here at Sanoma House. After that, we will move on to take the questions from the telephone lines. Please note that you can also place your question vie the chat function on the webcast platform. This event will be recorded, and the webcast, including the Q&A session, will be available on our website shortly after this event. Without further ado, I welcome Susan on stage. Please.

Susan Duinhoven:

Thank you, Mira, and good morning to you all! Warm welcome, also from my end, to this Q3 results presentation. We saw a quarter with good net sales growth due to the Spanish curriculum change and recent acquisition in learning. And if we look at that 40 million in revenue growth, you could see that being split between the learning business and the Media Finland business both organically growing, and then 20 million of that growth was coming from the Pearson acquisition of Italy and Germany.

So, an organic net sales growth of 2%. But even with that good sales growth, our operational EBIT declined. And that was due to two reasons. One particular reason was the Dutch learning distribution business that had a difficult high season this year. But then, throughout the business, we saw higher paper cost impacting both the learning business and the media business. So, that made the overall operational EBIT excluding PPA 192 million year-to-date.

Now, with that lower earnings and the higher investments that we have already indicated at the start of the year, a free cash flow landed below last year, at 48 million. But there we also have to realise that last quarter we were talking a lot about the Spanish curriculum change being late in its decision-taking, and therefore a lot of the revenues moving from Q2 to Q3. And now, of course, being happy that we see that full revenue into the 3rd quarter. But it does mean that the cash flow is now, of course, also delayed, following that revenue shift. And it comes more towards the year end. So, that is one of the reasons for the lower cash flow now in the year-to-date figures.

If we then look at our leverage, our net debt over EBITDA, that's at 3.3, that is above our long-term target of being below 3. But that is very logical because the Pearson acquisition of

Italy and Germany was only closed on August 31st. So, the loans that we had taken from that are fully in the debt.

If we then look at our outlook that is unchanged, on August 31st, when we did that acquisition, we adjusted the outlook based on the fact that the Pearson businesses are only for four months into our results, in that sense slightly dilutive. But since that moment, the outlook fully stands for 2022.

But let me now go into a bit of detail on the learning business. If we look there, at the net sales, we see strong organic growth. And that comes from Spain and the Pearson acquisition. The Pearson acquisition itself contributed for more than 20 million to that sales growth. Organic growth was 2%. And there you see the two effects that we have talked about before: Spain, where we are happy to say, as indicated, that the lease in the curriculum implementation have now come to full "bloom" in the third quarter. We see that the convergence in the schools have gone well. So, the market share that we were aiming for is fully there. And that is something that we will benefit from, of course, not only this year, but also in the coming years. We still see that a big part of that curriculum change will flow into 2023, as we said before. But in the places where the curriculum change happened, it was done well.

What we also knew in advance is that in Poland, where the last curriculum change was last year, we would have a strong decrease in the market. And, you know, strong has different meanings for different people. So, if I attach a value to that, 18 million lower sales. And that is just totally in line with how the whole market in Poland has performed. So, you see that decline and then you also understand that all the other content businesses have also grown quite nicely. In the Netherlands, in Finland, in Belgium, with that still resulting in a net organic growth, even with a decline of that size in the well-performing Polish business. So, a lot of pluses and minuses, but overall good, solid sales growth.

If we then look at the earnings, there we see some impact. Not in the learning content businesses, those have performed very nicely. Earnings improved across all markets. Of course, apart from Poland. Because in Poland, the 18 million revenue decrease, of course, also translates, as expected, in a 10-million lower profitability in that market. But that is, I would say, all part of the normal curriculum change. All the other learning content businesses are doing quite nicely, despite the very significant impact of higher paper cost, because we're selling hybrid solutions, both digital and paper. So, we are impacted by that increase.

Where the issue was in this quarter, what made, overall, a net decrease of four million EBIT in the learning business was in the Dutch distribution business. That business declined due to a bit of an exceptional situation and a very strong competitive market that is ongoing there. Now, it's good to realise, if we just dive a little bit into that... It's good to realise that distribution business is by nature a low-margin business. And therefore, if costs start going up on a big base with small margin, then you are very quickly entering the zone of losses. So, the inflationary cost pressures that we see, be it on trucks, on fuel, on all aspects of the operation, already had a significant negative effect. But then it was compounded by an extreme shortage of labour in the Dutch market over the summer where, if you realise, it is only in 4-6 weeks that these millions and millions of books and parcels have to be constructed, and that is all manual labour. So, over 500 people are needed during those couple of weeks in order to push that business out. If you can't, at that moment, get the labour, you need to pay almost whatever it takes to get the people in to do the work because you can't wait because there is the heart stop of the school start. So, that's the business there. And this year, quite exceptional situation where both the increase in labour rate per hour was needed, but also we had to rely on foreign workers to be brought into the country quite quickly in order to fill those shortages.

And then, compounded by another unfortunate element that we had not seen before, and that is that publishers were late in delivering their books. And that not only creates the cost of double deliveries, because in the end you need to make sure that the students can at least start with the majority of their books. So, you have to do that first delivery and then you have to do the late books in the second delivery. So, that's extra cost, but also it creates, of course, massive inefficiency during your whole process because... It's quite impressive to see the scale of that operation once you start handling over five million books in the period of a couple of weeks.

Now, a number of these effects are one-offs. But a number of them we expect, take for example the labour cost and the labour shortage, we expect also to continue into the next year. So, we want to pre-warn a bit that this business, even though we see that the pressures in the market have led to also a thinking through, on both the publisher and in the schools, to optimise this chain. And that will gift, in the longer run, good results back to this business. But for next year, we still expect some of these impacts to continue, and therefore a relatively low performance, also, next year. Now, whole story on that business, but we don't often talk about it. This is now a moment to understand a little bit the pressures that the business in under.

But, as said, the acquisition of Italy and Germany performed well, according to the plan, contributed already nicely both to sales, but also to the earnings in the 3rd quarter, in that one month that we owned that business. So, all in all, earnings strong in the content businesses, issue in the Dutch distribution business that made EBIT go down with four million year-to-date.

The Pearson acquisition, I already talked a bit about it. And we have, of course, presented it before. But with this acquisition, we are quite happy to now enter the Italian market which is one of the largest K-12 markets in Europe, and which is at the starting point of its digitalisation. It's the 3rd largest publisher, 15% market share. And the interesting thing for us is it's focused on secondary education. And that gives us more scale in that important part of the publishing portfolio. And that allows us that, also, to invest further in digital platforms specifically for that part of the K-12 market. The EV of this business is 190 million. As said, we closed it on August 31st. And with this acquisition, our share of learning revenues within the total group increases to 55%. And the share of total profit, the total EBIT excluding PPA, increases to about 70%. As we indicated, the sales for these acquired businesses contributed around 20 million in the 3rd quarter. And for the full year, we expect 4-5 million contribution in operational EBIT.

If we then turn to Media Finland, there we saw stable net sales and earnings a bit impacted by the higher paper cost. But the stable net sales, we feel quite comfortable with, and it's quite a complement to the Media Finland team to have achieved this, because the advertising market, as the B2C market, are declining slightly.

But if we look at the total advertising, we are in a good position that the digital and the radio advertising is continuing to grow, which are typically quite resilient types of advertising. And then, of course, compensated, unfortunately, by a decline in print and TV, and that made net a small decline in line with how the market segments operated.

If we look at the subscription sales, that also declined slightly. And it's coming from a high of the corona-driven period, because during corona we had these two balancing factors: lower advertising but higher B2C. Now the subscription sales is coming back to a more normal level. What we do see is that also, when consumers are economising, they exchange print for digital, which, from a top-line perspective, leads to a decline, but is not necessarily negative for our profitability.

In the quarter, the event sales and the external printing services contributed to the net sales and compensated the decline. But there, even though the net sales stayed stable that way, we know that we are exchanging high-margin sales for low-margin sales. So, therefore, you see an impact on the operational EBIT that was 21 million compared to 24 last year. And a large part of that difference is coming from the increased paper cost, that even with economising on our paper usage, we still see that in our numbers. And then, as indicated, change in sales mix impacting the profitability.

Just on the events business, a small positive contribution, also in the profitability, in the 3rd quarter. But for the full year, as we have indicated before, it will be around break-even.

Now, if we then go to the outlook for the full year, that is unchanged since we last updated it on August 31st, and there was an update only because of the acquisition of the Pearson businesses in Italy and Germany. We only have those businesses four month in our numbers. So, it was slightly dilutive on the full-year outlook. But unchanged at this moment, meaning in 2022, we expect to be between 1.3 and 1.35 billion in sales, and the group operational EBIT margin excluding PPA to be around 15%. At this point in the year, looking out for the last quarter, we can see that we will be on the lower end, trending towards the lower end of these ranges.

Now, this outlook is, as before, still contingent on our operating environment staying stable, and that means the continuing Coronavirus pandemic not to have an impact on our business, also not in the 4th quarter, and the advertising market in Finland for the whole of the year to be stable. So, outlook 2022 - unchanged.

But if we then look forward to 2023, then we see an operational environment that will continue to be challenging. And we are in a solid position, a strong starting position, with a resilient learning business that will be looking out for some growth, both in Spain with the second year of the curriculum change, but also in Poland where we, this year, had a big step down. In Poland, next year, a small curriculum change will be happening. So, that will end that decrease and give a little bit of uplift, but no way near back to, let's say, last year's levels. But still, a bit of an uplift. And then, of course, the addition of the Italian and the German business.

In Media Finland, we have a good starting position because the digital advertising continues to grow and it is by now the largest single advertising part of our business. So, the largest single segment. And that is typically a segment that is more resilient towards economic worsening situation that, for example, TV or print. And then, part of our good starting position is that we are quite used to thoughtful cost management across our businesses, and we will apply that, again, in full for the next year.

But we do think that when we look out for 2023, there are also elements that will burden our performance. We see, as discussed before, that in learning, our Dutch distribution business will have another year of strong market pressures. But also in Media Finland, declining advertising market is what we think of, looking ahead. And we have been, I think, positively surprised by the resilience of the advertising market so far. But we do not think that that will continue going forward. But in addition, we also see a slightly weakening B2C demands. And that impacts not only the news subscriptions, but also, for example, the events and the Ruutu, the VOD propositions, that weakening B2C demand is coming just from simple lower consumer confidence.

Now, none of us have a crystal ball. If we think back last year this time, we would not have expected 2022 to go this way. So, you know, if the market situation changes for the positive, then this could look differently. But if we now look out to 2023, we see, top-line, some pressures, as indicated, but also continuing inflationary cost pressures. Paper and distribution, we still see further increase in. So, we are not at the peak yet.

But particular attention, I think, we should pay to the rising personnel cost because personnel cost and salary adjustments are typically done at the start of the year. And that means that in 2022 we see personnel cost that are based on still relatively modest inflation of 2021. In the beginning of 2023, we will see, of course, that the demands for salary increases will be based on inflationary increases in 2022, which, in some of our territories, are double-digit. The good thing is that more than half of our personnel is based in Finland. And Finland has been, in relation to Central Europe, quite modest in its inflation, but still significantly above what we have seen in the last couple of years.

Now, we just wanted to share that with you, that we see it at the moment. But, at the same time, saying our long-term targets we see in place. Solid business, both in learning and in Media Finland, is an important part of our equity story, increasing dividend year-on-year.

And that also is when we look further out, to 2030, where we have stated a strategic growth ambition, and we see that fully in play. Of course, the acquisition at the end of August already brought our learning share of the total business to 55% of sales. And what we are aiming for by 2030 is to have a group total net sales of over two billion, of which 75% will be coming from the learning business. So, that means in the learning business significant additional growth. And that growth comes from organic growth in line with the targets that we put on the business, of 2-5% annual growth, but also growth through acquisitions, while paying that increasing dividend. And that's from the solid cash flow that the businesses generate themselves. It's important that we will keep our leverage certainly in a higher-interest environment, keep our leverage below 3. But then, in addition, as we have stated before, if it is in the interest of all shareholders, we also see equity as a way of funding further acquisitions in the future.

So, all in all, solid quarter sales, Spain has picked up nicely after the Q2, strong content learning business, some issues on the profitability in the distribution business for learning in the Netherlands. But that is a contained element, and the media business having done a good quarter, but some impact of the paper cost. So, with that, I would like to hand over to Alex Green to give you some further details on the financials.

Alex Green:

Thank you, Susan. And a warm welcome, from me also, to Q3 results presentation. So, first of all, looking at the operational EBIT and focusing on Q3 here, the EBIT is stable, or in fact slightly increasing versus last year. And as you can see, it is learning increasing by four million versus last year, and Media Finland being three million lower. So, if we look at learning, we can see that the organic growth in the content businesses in particular, Spain and the Netherlands has helped boost our EBIT for this quarter. And also, there's been a contribution from Pearson in Germany where we had for one month in the quarter.

But as you've heard, the weakened profitability in the Dutch distribution business brought us down, and also because Poland had the curriculum change last year and not this year, that creates quite a change on year-on-year basis, which is to a great extent replaced by Spain which had a good high season. If you remember, we talked last quarter about the delays to Spain. We were very pleased how that worked out in Q3.

On the Media Finland side, we had a small positive contribution for the events business in Q3. Overall, for the full season, for the full year, it will be roughly break-even. But it didn't add to Q3. However, this was off-set by the quite significant paper cost situation we're seeing and also by the lower advertising and subscription sales. In terms of the other and elimination line, this, as we said before, will be remained stable versus last year.

If we look at the free cash flow and talk about Q1 to Q3 free cash flow... But first of all, if you look on the right-hand side, you can see clearly that Q3 is a large high-season quarter particularly, obviously, in the learning side. And that was actually slightly higher than last year. But on a year-to-date basis, we are quite a bit behind last year, for a number of reasons. If you remember, at the beginning of the year, we talked about how we were expecting our cash flow to be down because of the investments we were going to make in the business, particularly in digital development, and also adapting our offices to hybrid working.

Despite some small positive coming from the Pearson one month acquisition, its one month in our numbers, the lower EBITDA for the period has brought in down together with those investments in development and office adaptation, and also the higher taxes paid because 2021 was a more profitable year than 2020. We also see a higher networking capital in a number of markets as we see a build-up in inventory, particularly in Spain, in the curriculum change years. Also, as we talked about before, with the Spain delays in ordering within this year, we saw basically the business operate later than it otherwise would have done, which means more sales were coming in in Q3, and then a lot of cash will actually come later in Q4. So, versus previous years, we see that shift in cadence back towards the end of the year. And this will be increased going forward, as we have Italy. So, as we brought in markets from Southern Europe, where the school start date is later, and also you sometimes see longer payment terms, we will see that cadence of cash coming in, coming later in the year, also, stretching out more than it has been in the past.

Here we also confirm our second installment of the dividend which will be paid on November 4th on 27 cents per share.

If we look at the net debt and average, a number of impacts from our acquisition can be seen here. You see our net debt over adjusted EBITDA ratio is up at 3.3, which is understandable given the debt levels. We do expect that to come down towards our long-term target. At the end of the year, it might still be slightly above but it will go back to our long-term target.

Our interest bearing net debt at 838 which includes the 250 million four-year long-term loan drawn down for the acquisition of Pearson Italy and Germany.

In terms of our net financial items, it's slightly higher than last year. And this is, again, impacted by the acquisition. So, at the last quarter, there is only a slight increase, higher debt, but also with the rising interest rates. So, on a year-to-date basis, I think we were pleased with the job we've done, using commercial papers to optimise, to ensure that our interest rate level stayed relatively low through the year. It's starting to impact us in Q3. Obviously, interest rate is rising. And as we go into the next year, that will have an impact as we bring down that debt, optimise it with commercial papers. But with the higher interest rates, it will clearly have a significant impact.

And finally, at the bottom of the slide, our PPA for the Pearson acquisition. This will be approximately four million amortised each year. But we do also have a light dip in Santillana, an extra 10 million amount for the first 12 month which relates to how we value the purchased inventory as part of the PPA. So, we value it as a sales value rather than a sort of cost value. And that gets amortised as that inventory gets sold, which will be approximately 12 months from the date of acquisition. Post that, it will be four million every year.

So, that concludes my three finance slides, but I do have one date for your diaries, as we will have another deep dive into the Learning business, in this case talking about the learning content businesses that we have in Europe at the moment. So, Rob Kolkman, the CEO of the Learning business and I will host a virtual presentation and a round table, a similar format to what we did before. And, as I said, December 1st. So, save the date for that.

Here, I give you the financial reporting dates for 2023, including the AGM on April 19th, for your information. And with that, I will hand back over to Mira and welcome Susan back, so we can go into the Q&A session.

Mira Rinne-Helenius:

Thank you, Alex and Susan, for the presentations. So, let move on to the Q&A session. As I said, we will first take the questions from the audience at Sanoma House and then move on to the telephone lines and also to the webcast chat where we have questions pending. So, yes, just wait for the microphone. But we will start with Maria from SEB.

Maria Wikström:

Thank you! So, my first question is coming on the Media Finland subscriptions sales that... Do you think in the current environment you could compensate these declines? I mean, it was declining now in the Q3, but the declines in the number of subscriptions by price increases?

Susan Duinhoven:

I think the price increases are a very normal part of, let's say, how to build the product packages. So, the combination between hybrid, digital, print, 7-days print, 3-days print, weekend subscriptions. So, all those packages get priced, and there is quite a bit of science from the whole team that is working on how to then also help consumers that might now want to go through an increased price on one set into another product that is for them doing the same job but in a different mix between printed and digital. So, the price increases are part of the normal procedure. And, of course, with increase in cost base, there is more pressure and bigger steps in those price increases.

So, will we be able to do all? That is, of course, a constant measuring in the market. What we do know is that every time when we increase the prices we know that it might impact a number of subscriptions a bit on the negative, but in the total profitability — on the positive.

Maria Wikström:

And maybe a follow-up there. What happened to your subscriptions, your number of subscriptions, during the financial crisis, for example? I guess you were part in the 1990s in the Finnish economic crisis.

Susan Duinhoven:

Yes, We would need to look them up. But the general trend is that in a strong consumer-oriented economic crisis, take for example the financial crisis in 2008, it didn't impact that much because it didn't hit the full consumer market to the same extent. But if it is a consumer-oriented recession, when everyone feels it in their wallets, we typically see subscriptions coming down. What we, of course, at that time did not have was this, I would say, way out through digital which is considerably lower-priced. So, that is a new dynamic that we hope will help keep everyone well-informed through the news, through qualitycurated news. And then, you know, being able to adapt the package that they choose to their economic circumstances.

Maria Wikström:

Interesting. And then one question on the wage inflation in the Netherlands and Belgium. To my understanding, we are seeing a much higher wage inflation already now in these countries. How do you see the pricing? When can you raise your own prices in the content as well as the distribution business? How long we are going to be behind?

Susan Duinhoven:

Yes. Take, for example, the Belgium market a little bit as an extreme because in the Belgium market there is an index that is written in all the contracts, in all the union agreements. And that index just does a multiplication, and that multiplication lands on double-digit salary increases. Now, that is across the whole of Belgium in every sector: civil servants, business... I mean, this is a societal phenomenon. Of course, with its consequences. But that means also that the price increases in Belgium can be higher because everyone is in the same situation that they need to translate it into the price. And that's where it is easier to communicate in Belgium than, for example, in the Dutch market where typically the salary increases are more result of sector-by-sector negotiations, where also the profitability and the circumstances of a sector are taken into account into that negotiation. So, that's where the differences between sectors can be high. That leads to more moderation, but at the same time it makes it a little bit more difficult to communicate because it is not the same for everyone.

So, if we now look, because this is the moment when we, also in our learning business, are thinking through and communicating and testing the price increases, we do see that in some of our markets, the cost increases have now gone so fast so high that we will not be able to translate it all in year-one price increases. So, we will need multiple years for what we are now seeing. In these markets, we do see more modest inflation and therefore the price increase being able to cover those cost increases quite well. We are happy with, let's say, the fact that we have a broad portfolio, so that you have more variation between the markets. And the other thing is that, as I said in the presentation, the positive thing, is that a big part of our employee base is in Finland where, at this moment, Finland is less inflationary hit, let's say, than the Polish market or the Belgian or the Dutch market.

Maria Wikström:

And then my final question. The paper prices are still going up, but let's play with the thought that they would be coming down. When we see this inflection point, how long does it take that we can see it in your cost base?

Susan Duinhoven:

Yes. Let's say everyone is trying to estimate where that is. And at that moment, you will try to decrease your inventories well enough in advance. It is that game that we need to play. At the moment, we are quite careful and building up quite a bit of stock because of the situation that it's not only a paper price, but it can also turn into a paper availability if, for example, in Central Europe the energy crisis would lead to restrictions, as the German Government is preparing, restrictions on production in certain sectors. So, they will make an order in which industries are allowed to produce... emergency industries first. And then graphical paper is not coming in that very first category. So, that could impact availability across Europe. And that's why at the moment we are having well-stocked inventories. As soon as we see how the winter is going, we will be quite clever. And then we have a very good team on this, that also managed us through the strike, that built down that inventory. The long answer to say... It's not exactly to say, but it is a matter of months before we see it in our results.

Maria Wikström:

Is it fair to assume that usually you say that it's 3-6 months you have inventories? So, are you now more...

Susan Duinhoven:

No. Normally, it's quite a bit less. Normally inventories are less. Now we are in 2-3 months. Because now we're talking big bulk. If you think what is running off the printing plant for us in a night, that is quite a bit of volume.

Maria Wikström:

Thank you very much!

Mira Rinne-Helenius:

Let's move on then to Sanna from Nordea.

Sanna Perälä:

Hi! Thank you. You touched a bit on this. But regarding the higher costs in learning, what kind of margin development will we see going to 2023? Do you believe you will be able to make price increases, to offset the increasing costs? Or should we expect margin pressure in Learning?

Susan Duinhoven:

Some margin pressure might be happening. As I said, it might be different within the territories. In several of the markets, price increases will be able to match the increase. But also remember the funny thing about margin: even if you, in absolute terms, are able to translate it fully into your price, it still means that your margin comes down. So, your absolute profitability might be the same, but your margin is then decreasing because your top line goes up. You know, that is a balance. In February, we will, of course, guide in more detail for 2023. And then we will also indicate what that absolute profitability will be.

Sanna Perälä:

Thank you. Then maybe a little bit detailed on that. What kind of profitability should we expect from the Netherlands and from Spain or...? I mean, should we think them as offsetting each other in profitability terms or...?

Susan Duinhoven:

Yes, we typically don't guide on the profitability by territory. So, I will not deviate from that. We are happy with the fact that we have that portfolio where can have the pluses and the minuses balanced with each other. But at the same time, it is also for the reason that we have, of course, central cost that we allocate, where we typically don't put enormous extensive allocation mechanisms behind it and do that quite bluntly in order not to create unnecessary work. So, that's where these profitabilities... If you go country-by-country, then you're getting a bit lost, also in the locations.

Sanna Perälä:

Okay. Well, maybe one more question regarding the Netherlands and the increasing costs and difficulties in that country. Can you just a little bit clarify, what kind of an impact will they have next year? And maybe this year, have you seen these difficulties already in H1 or...?

Susan Duinhoven:

Yes. That's a very good question. The unfortunate thing, and this is specific to the distribution business, because the content business, as I said, performed, also in the Netherlands, very well. And the transformation... You remember from earlier stories that the transformation from this rental model to the sold model model in the Dutch market has actually a quite nice impact on specifically, also, the sales at our content business. So, it is not that much the Dutch market as the distribution in the Dutch market that is a bit under pressure.

And there, I would say, will be a continuing effect from that. These are things that, to a certain extent, you see upfront. But given the fact that the whole of the high season is done in six weeks' time, it then really comes down to, "Can your temp agency recruit the right staff at the right price?". And when they, two weeks in advance, come to you and say, "We can get the people but the price is 20% up". Then you can say, "I disagree with that". But then you negotiate for a week, you have one week left, and then they need to come because then all those books need to be made into parcels. Otherwise you never make it. So, that's a little bit the pressure that that business is under. Normal circumstances, let's say the last 20 years, have not seen such a shortage in labour market as we have now seen, which is, I think, surprising in general, but specifically if you then, in six weeks' time, need 500 people in the centre of the country, you're quite exposed to these fluctuations. So, did we see this, for example... Not even in July did we see this coming because it was mid-July that we only got the inkling that we need to get migrant workers into the country in high speed in order to have enough. So, it's quite short-term. For next year, we're of course, taking the careful approach and saying that we'll start from the assumption that it will be as difficult. And then we have, of course, also learnings from this year.

Sanna Perälä:

Thank you, that's very clear. I don't have any further questions.

Mira Rinne-Helenius:

Okay, let's hand over, at this time, to the telephone lines.

Operator:

Thank you. If you'd like to ask a question, please press *1 on your telephone keypad. First question comes from the line of Sami Sarkamies from Danske Bank. Your line is open. Please go ahead.

Sami Sarkamies:

Okay, hi! I would actually like to continue on the Dutch distribution business. You haven't really spoken about this in the past, at least I don't recall. Can you please spill open up the problem a bit and quantify the impact on results this year? I mean, also talk about your expectations regarding next year. You're now a bit cautious that this might be an issue, still, next year.

Susan Duinhoven:

Yes. Thanks for that question. I think... Not going into further operational detail on it, even though it's tempting to explain because it's such an operational business. But if I give you a feel for the financial impact that we see year-to-date, that is about an eight-million negative impact in contribution, meaning a loss-making business to that effect. Typically, these businesses do 45%+. And this is... We're talking, of course, only on a smaller part of the Iddink business, this is only the learning material part of that. But that is EUR 80-90-million business. So, that gives you a little bit of a feel for the deviation and the size of the deviation.

Of course, it is not just one element, it is the compounding of inflationary cost pressures in all aspects of the chain. And then the inefficiencies coming from the publishers which is quite unique that publishers have difficulty with their supply chain. Not our publisher, Malmberg, our books were there, but other publishers had difficulties in their, specifically far-east, supply chain with printing and bringing that over to Europe. Being delayed there made inefficiencies in our process that you don't normally see. And this is a logistics business in essence. The part that happens during the summer, of course, in the spring time: you go to schools, you do the sales process, you help them form the book lists and all that. But in the summertime, this is a pretty straightforward partial forming business. And then it needs to be shipped out with trucks to the schools and with the post to the individual students. But, of course, all of those contracts have inflation correction measures, and by summertime the inflation in the Netherlands was double-digit. So, those contracts really also exploded in their cost.

So, that's the situation, given the fact that we are projecting for 2023 a continuing difficult economic climate. We're therefore also predicting that this cost base will stay high. The contracts that you go into in this business are longer-term. And governmental contracts, some of them with an inflation correction, but typically with cap. And then others even without a possibility to correct for inflation.

Now, of course, that is what I indicated, that within the chain and with our customers we are, of course, now in discussions. And that's not only us, but our largest competitor, who has the majority of the market, went this summer through a full financial restructuring, change of ownership during the high season with the support of their banks because they couldn't continue operating. And that, of course, would have had a disastrous impact on the start of the school year. So, I'm saying this is now a well-known market phenomena where it also gives us the opportunity, with the whole supply chain, to solve this. But that solving, and that's what I'm signaling, will take more than, let's say, April next year, because by April next year what isn't solved isn't solved for the high season. So, it will take us some time before we're back to the more normal ranges of margin on this business.

In the meantime, business did contribute to the top-line growth. Customers are enthusiastic about it because we were performing, from an operational perspective, quite well. And people are grateful for the fact that the schools, that buy their books through Iddink, get majority of them on time. But, of course, not too much pleasure on our end, at least not financially. So, does that answer your question?

Sami Sarkamies:

Okay, that was very helpful. Yes, just wanted to verify there's been no impact on your sales. So, it's just about sort of incurring additional eight million euros in cost relative to the previous year cost base.

Susan Duinhoven:

The only thing is I do indicate that for next year if contracts really go to large extents in losses. Then, at some point, it will have also top-line impacts because then we will not be able to beat, for example, those tenders that do not allow the right price level. So, for the next year, there might be a bit of top-line impact but that is then only to mitigate further bottom-line impact. Competitively speaking, we have improved this year and gotten market share, unfortunately, at the moment where it was a loss-making market. So, that is, of course, not winning any prizes.

Sami Sarkamies:

Okay. And then just curious on timing these eight-million-euro delta you highlighted. Did part of that take place in the 3rd quarter or has it more evenly spread throughout the quarters of this year?

Susan Duinhoven:

I think the eight million is a year-to-date figure. I'm just looking at Alex if the eight-million split between the quarters... I will think that it's predominantly Q3.

Alex Green:

It is predominantly Q3 impact. It connects exactly what Susan talks about in terms of the very tight and short period of the key part of the high season for distribution.

Sami Sarkamies:

Yes. Okay. And then I would have the second questions regarding advertising media market. I think... You know, the monthly figures have still been quite decent during the third quarter. Are you seeing softening trends when you look ahead at the year highlighting advertising media market as a negative factor going in the next year?

Susan Duinhoven:

Yes, we do see some softening trends. But I think it is also a little bit that we are... a bit surprised by the resilience of the advertising market so far, where, economically speaking, you would start expecting... Already in the Q3, we were expecting more softening of the market. So, of course, the digitalisation, also in the advertising market in general, helps with the resilience. Digital advertising is more part of the sales mix than it is part of the marketing mix. So, that helps. But still, we do expect softening going forward.

Sami Sarkamies:

Okay, thank you. I don't have any further questions.

Susan Duinhoven:

Thank you.

Operator:

Next line comes from Pia Rosqvist from Carnegie. The line is open, please go ahead.

Pia Rosqvist:

Thank you, hi! It's Piia from Carnegie. With regards to the distribution business, do I recall correctly that when you acquired Iddink, there was also a small distribution business in Spain? So, has this been affected in the same way as you're now describing in the Netherlands?

Susan Duinhoven:

Yes. Not to the same extent, but yes, it has been impacted as well because that is also a low-margin business as any distribution business is. The Spanish model is still a bit more towards rental. So, that mitigates the impact. But, for example, trucking and all the inflationary cost elements were prominent in Spain as well. As it also was in our Polish business where we also have a distribution part. There are more parts. And there, we don't make that distinction clearly because it's more part of the Nova Era business. But also, there we saw that the distribution part of the business was more under pressure than the content part of the business.

Pia Rosqvist:

Okay, thanks. Then you discussed the publisher or other publishers in the Dutch market being late. So, do you have any typical compensations agreed upon these situations?

Susan Duinhoven:

This is such a unique situation because, as I said, learning materials are quite predictable. And specifically in the Dutch market where not big curriculum changes are ongoing. So, you have very much... regularly. Unfortunately, that is still a hot topic of debate with our publishers, as this webcast will also be viewed by our commercial partners in the Dutch market. I will not go into more detail but you can understand that that is a heavy point of debate and learning for the coming years.

Pia Rosqvist:

Okay, thank you. Then regarding the items affecting comparability. So, there was, I think 11 million euro impairment in relating to the harmonisation of digital learning platforms and rental book inventory. So, can you give some kind of split between these? I mean do we see a risk for continued impairments relating to either of these items.

Alex Green:

So, in terms of the platform harmonisation, as we move forward and look to use the right technology across all our products, we do have areas where we have more than one platform or technology that is roughly the same thing. And so, we will look for the right one and use that for the new products going forward and to launch into other countries, which leaves the ones that we don't need anymore, which have some balance sheet value, that we then to a write-off. So, it's a fairly standard thing that we are doing going forward. And that is a large part of that 11 million.

The rental books... There was an impairment in the stock there mainly due to the fact that with some curriculum changes, some of the books that we are renting are no longer really valid and useful for students. So, it's a sort of accelerated appreciation, if you like, as we buy different books in order to satisfy the students. So, that is a small-ish part of that number. I mean, going forward, we will continue to harmonise the platforms. But a lot of these... Where we brought in an acquisition to the past, we had these different technologies. It will happen more closer to that period. So, you know, it wouldn't necessarily continue at the same levels.

Pia Rosqvist:

Okay, thanks. And then, coming back to your announcement of the divestment of Eduarte. Should I read this as a signal that you are exiting the vocational business or is this just another platform that you don't need for now?

Susan Duinhoven:

Yes, it is... Don't read more into it than just a good opportunity to divest a platform with quite a bit of overlapping capabilities with Magister, the main platform for secondary education. And historically, these had been in the past. Iddink had bought both and not yet integrated those two. We will see now Eduarte going to someone who had a platform in there and can do some harmonisation. We will then make the decision if we want to go and build out Magister more into the vocational or not. But the overlapping capabilities... And that's where we do a bit of clean-up in our portfolio in order not to have to maintain all these platforms, even in smaller segments in smaller markets. So, this is more of a focus and putting our efforts specifically on Magister which has a very strong position in the Dutch market.

Pia Rosqvist:

Okay, thank you.

Susan Duinhoven:

Sorry. Vocational content is, of course, an important part of the Malmberg business. And that is fully in play, nice and profitable business with very good methods. So, we would not want to exit it in any way.

Pia Rosqvist:

Okay, very clear. Thank you. Then, coming back to Media Finland, how much of the non-print advertising sales relate to TV?

Susan Duinhoven:

I think we typically publish that. I'm just looking around here. We're typically publishing how we do by segment. And the TV business is... And this is where you see me a bit grasping for the numbers because we're, of course, reporting Q3, and I'm having more full-year numbers in mind. But we're typically around 100 million. That can be, in some years, a bit more on the full-year basis in TV.

Pia Rosqvist:

Okay, thank you. All right. That's all for me. Thank you!

Susan Duinhoven:

Okay, thank you.

Operator:

There are no further questions on the phone line. So, I hand it back to the studio.

Mira Rinne-Helenius:

Thank you. We have a few questions here in the chat. I think that we have touched quite a few about the Dutch distribution business. But here is still one about it. As was said, it is a low-margin business, and giving the issues and risks, meaning it being very time-boxed and labour intensive, making it sensitive to labour costs and access to labour, is it financially sensible to stay in that business?

Susan Duinhoven:

At this moment, we're happy to have it in the portfolio, from an overall market portfolio perspective. Of course, depending on the situation and depending on how we can now longer-term see that changes in the market returning this to a more profitable business, we will make those decisions along the way. But in itself, distribution businesses in various markets are more or less part of the learning businesses and are part of the cost that you typically have to distribute. Dutch market has always been a little bit exceptional, and the distribution business, due to the rental model, was quite sizeable.

So, we will make that decision while going. But it's good to remember that we see this year's impact, next year's impact, but we also see very positive trends on awareness, both within the publisher community and within the schools and governmental community where they are very keen to keep the distributors alive and well in order to fulfill that essential part within the supply chain.

Mira Rinne-Helenius:

Thank you. Then can you give any comments on the profitability level of the divested Eduarte?

Susan Duinhoven:

We don't disclose that.

Mira Rinne-Helenius:

Then can we get some more insights into the development in Spain? Has it developed according to the plan? And what level of additional costs are you taking in this year, which shouldn't recur next year?

Susan Duinhoven:

Yes. I think on the Spanish market I'm very positive. We have seen the delays in the decision-making. But now when the decisions are there, we see that the schools are picking up the new curriculum in a good way. The editorial team has done an excellent job and clearly produced very attractive methods that have now been picked up. So, according to plans and maybe a little bit beyond, for the provinces and the methods that have gone into the curriculum change now. And that is where next year the second half will happen. And, as we discussed the last quarter, that second half is a bit bigger that we had anticipated last year. A little bit more is still to come. That also means that a little bit more of the production and the preparation cost, the marketing and sales cost, will still need to be done next year.

So, you need to see there that this curriculum change has now been split across two years. This year, of course, we had to take upfront cost on some of it. Certainly, on the late decisions we have already prepared. And then next year we will do the second round. We do not have an exact number on how much is now non-recurring and will recur next year. I think that will become a very complex mass to lead you through. I think this is where, I would say, if you look at the total business, outlook 2022 stands as is. Outlook 2023, we will be coming back to you in February.

Mira Rinne-Helenius:

Good, thank you. Then we will take two more questions. The first about the paper costs. What can we say about the paper cost impact next year?

Susan Duinhoven:

Next year. [Chuckles]

Alex Green:

So, if we go back to the beginning of this year, before the world situation we talked about, how the paper costs would be roughly 10 million higher this year than the last year, split 50/50 between Media Finland and Learning as we've gone forward and we've seen more inflation and supply challenges, that number, we believe, will be for the full year round about 15 million with slightly more coming from Media Finland. So, that is a fairly decent rise that we've sort of managed through and, you know, as we've talked about, is still on our guidance. We believe that will continue into the next year. And this is a big part of our equation in terms of how we phase that into our pricing on the market-by-market basis depending on competition and depending on various limitations, and that may end up being done in more than one phase. So, you will have a bit of a gap, like we talked about before. But yes, we do see it remaining high next year.

Mira Rinne-Helenius:

Thank you. And then the last question. With increased personnel costs being a challenge, what are you doing outside of costs to retain, develop and hire talent?

Susan Duinhoven:

That, I think, is the interesting challenge that the whole of the business community sees these days. It's that on the one hand, an extreme shortage of labour in general and talent in particular, and at the same time recession and threats and increasing cost levels. So, we're very much focused on whether people are asset. We are in principle, not only in logistics business, are a creative business. Be it news, be it entertainment, be it learning materials, all that hinges on people and creativity and talent. Let alone the digital talent, which is about 25% of our educational team, is working on the digital platforms and digitalisation of content. So, challenge management is critical for us. We are traditionally and constantly re-visiting the programmes to put in place, be it on training, be it on engagement, be it on informing.

Big part of our investments of this year are on office renovation, not only in Sanomatalo, but also in all our learning offices, in order to facilitate flexible hybrid working where teamwork is possible in the office, while working from home is allowed and possible for, let's say, the other half of the week, that people work more individually. So, doing a lot in order to attract and retain. And a big part of our attraction and retention is, of course, also our sustainability and our promos, let's say, that we impact the life of millions in a positive way every day. And that we see certainly, in these days, being a very important element to be strong in sustainability and to have that positive impact, strong element for attracting talents every day.

Mira Rinne-Helenius:

Thank you. These were all the questions from the chat. If we don't have any more questions from the audience, I would like to thank you for your good questions and active participation today. And if you have any further questions, please don't hesitate to contact us at Sanoma IR. And wishing you a good day in this busy day for many of you. Thank you!

Susan Duinhoven:

Thank you.

Alex Green:

Thank you.