Transcription

Sanoma FY 2022 Results

Kaisa Uurasmaa: Good morning everyone and a warm welcome to Sanoma's Full Year Result 2022 presentation. My name is Kaisa Uurasmaa, I'm heading Investor Relations and Sustainability at Sanoma. Today, we have the President and CEO Susan Duinhoven and CFO, Alex Green, who will present the results. After the presentation, we will have a Q&A session, and we will first take questions from the telephone line and then we'll hand over to the audience here at Sanoma House. This event will be recorded. The recording will be available on our website soon after the end of the event. With this short introduction, I will hand over to Susan to kick off the presentation, please.

Susan Duinhoven: Thank you very much, Kaisa. Good morning to you all, and a warm welcome also from my end to this Full Year Result presentation of 2022. In 2022, we still managed to grow our sales, and even though the operational EBIT was affected by inflation, we consider this a solid year in the business. If we look at the summary of the financials, we see 1.3 billion in sales up from 1.25 last year. That was mainly driven by the acquisition of the Italian and the German business. Some organic sales growth specifically in learning of one percent and stable sales in Media Finland. If we then look at the operational EBIT, excluding PPA, that declined due to the extremely challenging operational environment. We saw higher operating costs, especially paper cost increases across the businesses, but that was partially mitigated by thoughtful cost management. Overall, also in Media Finland, we saw a change in sales mix, and that meant that lower advertising sales, which is typically high margin, was replaced by higher event sales and that also impacted the operational EBIT.

At the end of the year, the operational EBIT margin landed on 14.6 percent and that was within the pre-war guidance that we had given. If we then look at the free cash flow, 112 million down from last year due to the earnings impact on the one hand, but also higher investment cost and cost related to remodeling our offices and costs of recent acquisitions. Quite a number of those investments we had already indicated at the start of the year. This was to a large extent mitigated through the working capital that came with the Italian business. At the year end, we had a leverage of 3.2 due to the higher debt of the Italian and German acquisition that we closed in end of August. Slightly above, as you would expect, our long term target, recently after closing and acquisition. Then the board proposed a reduced dividend of 37 cents, and that corresponds to 93 percent of the underlying free cash flow. For outlook, I will go into more detail later on. You'll see on this slide as well.

That was the financial summary. If we then look at the business summary, we had a solid year from performance in both of the businesses. We see 2022 being another year of growth in our education business. The acquired Italian and German business already had, even in those last four months, a positive impact on earnings and specifically on cash flow contribution. However, also Spain, if you remember, first year of the large curriculum renewal, the LOMLOE, it went a bit more fragmented than we had anticipated at the start of the year. Nevertheless, we saw solid sales growth in the Spanish market and good performance. We also completed a successful integration of the Spanish business. By now, all the temporary service agreements have been closed. We see then with these acquisitions, both the Spanish and the Italian, we see an increased scale and therefore increased opportunity for harmonization of our digital platforms. We spent quite a bit of time and energy on that already in 2022 and we will continue doing so in the coming years. That gives an opportunity for future operational benefits in that learning business. The scale now of being such a large leader in K12 in Europe.

However, also in Media Finland, very good, solid steps were made along our strategic path of increasing digitalization. We saw a very clear increase in the number of visits in our digital news platforms and also solid growth both in Helsingin Sanomat, but also in the regional titles in digital subscriptions. However, not only the new feature increased its digitalization. You also see that on the entertainment side, and their Ruutu, Ruutu+, the VOD service. The Video on Demand Service of Media Finland showed growing net sales and increasing paying subscribers, which was a positive trend post-COVID, where we had actually expected that we would suffer a little bit from post-COVID and discontinuation of that growth. However, very solid continued performance in the media business. Then on sustainability, the ESG ratings further improved in 2022, and we clearly see that where sustainability is very intrinsic to the Sanoma business, we see that improved reporting and improved clarity on the strategy leads to increased ratings. ISS, for example, the rates are now Prime C+ and CDP gives us an A-rating, which are truly industry top performance.

That then also led to Nasdaq Helsinki Sustainability Index inclusion in December 2022. Overall sustainability, strong performance and we're particularly glad that also our employee experience index again states strong in what was a more difficult year for our teams. We stayed at 7.3, clearly above the European benchmark of 7.1. In 2022 we also indicated our growth ambition. We indicated that we want to be over 2 billion by 2030, so in the longer term, and at least 75 percent of that business is then learning business. That basically means that we are aiming to double the size of our learning business by 2030. However, let me now go into a bit more detail in each of the two businesses performance over 2022, starting with Learning. I said, we saw their net sales growing to 681 million, and that was predominantly due to the acquisition of the Italian business. The organic growth in the overall learning business was one percent, and the strongest growth of that was in Spain and in the Netherlands. In Spain, it was logical, it was a consequence of the curriculum renewal, large renewal in that market. Even though it went a little bit more fragmented and will continue in 2023 and 2024, we still saw a good uplift in Spanish revenues.

In the Netherlands, the growth was really due to the market demand growth where in post-COVID, the schools wanted to make sure that students would not lose out from these two years of off and on in school and at home teaching. They acquired more high quality methods, but also the good performance of our Malmberg team in the Dutch market, made that they had substantial share gains in their business. All the other content businesses also grew, and even the Dutch distribution business had modest growth. Then the expected decline was in Poland, because in Poland the curriculum renewal ended in 2021. As you typically have in a learning business, after such a big renewal, then the year after, the sales drops quite significantly. With that, we then saw the earnings being stable and that at 132 million, the acquired Italian business had already a five million positive impact. Without that, we saw a slight decline in the other businesses, and that came from the Polish business where of course the decrease in sales was then followed also by decreased in earning, and partially compensated by the other content businesses which grew and had improved EBIT.

We saw within the portfolio, the Polish business going more down than the other businesses going up. The reason why the other businesses didn't go up that much was the inflationary cost and specifically paper. If you think about the whole of the Group, the paper cost increased with 15 million and that meant in Learning about seven million higher cost just for doing exactly the same as the year before. That had significant adverse impact on our earnings and overall the inflation in the markets in which we operate, if you think about Poland, Belgium, the Dutch market, high inflation countries, and it will take one to two years before we have increased the prices to such a level that it compensates those costs. Last year, it's good to realize that we were not able to increase the prices significantly because they had already been set at the start of the year. What I would call pre-war, and therefore 2023 will be the first year that we see the learning business a benefit of increased prices.

However, what made a change and we already discussed this in the third quarter, what made the change to the year was the Dutch distribution business making a loss. We have explained that after the Q3, it was a combination of inflationary cost pressure, but specifically also high shortage of labor in the summer period when that business needs to do the peak of its activities. Combine then with late deliveries of one of the main publishers for that business and in the Dutch market. Those pressures in Q3 made that it was loss making, even though we recovered and made a first step to improvement already in Q4, partially due to the late deliveries coming out of the high season. That made the Q4 a little bit stronger than you typically would see. That's overall Learning. Growth through the acquisition, improved profitability throughout the businesses, but modestly and then the Polish business going through its normal reduction after a strong curriculum change.

If we then look at Media Finland, their net sales remain stable, 680 million. However, the mix of the sales was quite different. We saw lower advertising sales and within that portfolio, you also see that digital and radio still grew and print and TV declined. That mix within advertising is also changing. Subscription sales was stable with digital subscriptions continuing to grow and the print declining. That's also a trend that we've seen for the last year and is part of our strategy. However, what we did see that even though the absolute number of sales was stable, the mix difference. So lower advertising, which is typically high margin and then more events and printing sales, which is typically lower margin. That explains why the earnings in Media Finland were lower than last year, with 66 million. This mix of advertising sales declining, being compensated by lower margin and on top, the eight million higher paper cost, that had a significant impact on the cost level of the business, even though the team did very good and early start already on fixed cost reductions being very prudent in their cost levels, also in their paper use. Team has done a very good job in mitigating this to the maximum but slightly lower EBIT.

That concludes the two deep dives and then the conclusion from that results then also in a free cash flow that was lower in 2022. Underlying business, if you look at this chart and Alex will go into a bit more detail on this, but our reported total free cash flow 112 was significantly helped by the acquisition from the working capital with the Italian business. When you acquire a business at the end of high season, you get the average working capital with the business and some cash on the balance sheet that you actually pay for. Due to the timing, there was quite an inflow of working capital. However, that working capital, we will need to bring the Italian business through the first half of this year before that high season. That is something when then we then look at dividend and our calculation for dividend, we typically and also in the past years have corrected for what we think unjustified VAT claim that we have prepaid also last year. We add to that for the dividend calculation, but from the 112, we subtract the operational cash flow that came with the Italian business.

If we then look forward to 2023 and think about cash flows, it is also important to realize that with an increasing scale of our learning business, the swings in the year, so the seasonality between the quarters of our cash consumption does change significantly. That means that the Q1 becomes more and more loss making just like the Q4, and the Q2 is also still quite negative on the cash flow generation. However, the Q3 then becomes much higher. The swings over the year become bigger. That then also translates in the Board's proposal for the dividend. The Board proposes a reduced dividend of 37 cents and it tries to strike in that recommendation to the AGM, on the right balance between capital use for dividend and for continuing investments in the business to grow our digital platforms and our learning content. This dividend still represents 60 million in payments to the shareholders, a payout of slightly above 90 percent of the underlying free cash flow, and it represents a yield of close to four percent of the year end 2022 share price.

In order to accommodate what I just explained, that increasing seasonality in our free cash flow during the year, the Board proposed to split the dividend in three parts. One part end of April, 13 cents, then 13 cents early September, and the final 11 cents in late October. That is a late October record date and payment in November. The dividend policy will remain unchanged. It aims to pay an increasing dividend 40 to 60 percent of the annual free cash flow, but it will also remain that the board always takes into consideration, the economic environment, the capital structure, the investment needs of the business, as well as the underlying cash flow in its recommendation to the AGM. With that, rounding off the 2022 and then going to look forward to 2023.

In 2023, we will continue to build our business and the long term strength of this business. We've split this into the two parts, the two different businesses to give a bit more detail. If we look at the Learning business, there you see that we expect continued organic growth and the logic there is the Spanish new curriculum. The second phase of the implementation will be this year. In addition, Poland will be returning to growth because there start with a small renewal in some of the parts of the curriculum. Organic growth, and then the additional focus will be on the successful integration of the Italian business. We have started that project, it started well. We're very happy with the team there, but it is a long and heavy project. We indicated, this is a year and a half project, so it will take all of 2023, to be busy integrating processes and systems. In the business, we do expect that increasing cost levels will impact the profitability, and the impact comes from a slight increase still in paper cost.

However, specifically on personnel, we will see an increase, and we need to remember that we're in countries where the inflation last year was very high and salary increases are typically at start of year or in the first quarter, and therefore the salary increases of last year were only reflecting the very modest inflation of the year before. So 2023 is the first year that we will see significant request for salary improvement. Therefore, we estimate that in Learning it will take one to two years to mitigate those cost increases through the prices because we are predominantly a government run and the government is our customer, and they can handle five, six percent price increase, but not the double digit increases that the inflation would warrant. That will take one to two years from now.

We will continue our investments in the digital platforms and in the content. We see this as a highly attractive business, and we see our scale as also our future asset to over time improve our margins. If we look at 2023, then we see organic growth and higher operational EBIT coming from the inclusion of the acquisition then for the full year. In the long term, we stick to our long term target for Learning, organic growth two to five percent and an operational EBIT margin excluding PPA to be above 23 percent. We see that, that growth in margin coming from our scale and our excellent working practices to then also roll out across these larger businesses that we have recently acquired. If we look at Media Finland, then there we're expecting a mild recession in Finland to impact both the advertising revenue with a slight decline there and a declining market, even though the digital component within that mix will improve. However, we also expect a weakening B to C demand, and that is due to lower consumer confidence, and we will need to be quite careful in using the price elasticity and quite careful in how to price our products because we are in this business for the long term, and we want to make sure that we can provide everyone with high quality products, both on the news side and on the entertainment side.

We will therefore continue to focus for our process improvements and very much continue with the thoughtful cost management that the management team in Media Finland has already exhibited for years. They will continue to be focused on that, improve their ways of working in order to mitigate those inflationary cost impact. If we look at Media Finland 2023, we see modest net sales decline due to the recession, but a significant impact of inflation on the overall operational EBIT, and there from an order of magnitude perspective, you need to think that we expect to lose about a third of our profitability in 2023 in Media Finland. Long term, we do see also from Media Finland, the long term targets still to hold. We know the media business is a fluctuating business and the long term target of stable revenues and then an operational EBIT margin, 12 to 14 percent. That comes from increasing digitalization, and that increasing digitalization we only see going faster due to these inflationary pressures on paper and distribution. We see that the trend faster to digital actually supported by the trends in the market that will give us temporarily a decline in our profitability, but our long term target stays in place.

The outlook for 2023, when we then look for the whole of the group, we say the reported net sales will be 1.35 to 1.4 billion going up from the 1.3 billion last year. The group's operational EBIT, excluding PPA, is expected to be between 150 and 180 million coming from 189 last year. For this outlook, the assumptions that we have put underneath it from an operating environment perspective are that, in most of the countries in which we operate and particularly in Finland, there will be a mild recession, and the advertising market in Finland is expected to decline slightly with most of the decline during the first half of the year, so we expect that the second half of the year will already show a slight improvement. If we then look at our growth ambition that we have set out for 2030, we clearly aim to be above two billion as a group with 75 percent of our business coming out of Learning. The key drivers for that are the organic growth in line with our long term targets in Learning and the stable revenues in Media Finland. In Learning, we will focus in the coming year when we are very much also busy with the integration of the Italian business. We will focus on in-market acquisitions in the short term and highly synergetic in markets that we are familiar with. While we always stay open for all value creating M&A opportunities if they arise.

Our long term targets for the SBOs, as I have explained, are unchanged, and also our long term financial targets for the group are unchanged. Net debt over EBITDA below three that might take a bit of time, equity ratio 35 to 45, but these targets are in place. All in all, for that, I would like to conclude my part of the presentation and hand over to Alex to give more details on the financials, Alex.

Alex Green: Thank you, Susan. Welcome here, it's great to be with you for this presentation. I will start off with operational EBIT. Remember, for Q4 2022, we had an improvement in operational EBIT versus last year. Whilst you remember that this is always seasonally negative due to the seasonality of the learning business. The operational EBIT went from minus five last year to minus two million this year. Learning contributes to that with a solid performance in most learning content markets, but also an improvement in the Dutch distribution business due to delayed deliveries from Q3. These positives offset the impact of including the Italian and German businesses, which is, learning businesses are also seasonally negative and obviously weren't included in the previous year.

On the Media Finland side, we had savings in fixed costs and lower personal expenses due to full year incentive adjustments, but this was offset by the lower advertising sales with the declining advertising market and also the higher paper costs that Susan talked about earlier and we've talked about before, which at a full year level impacted the whole business by about 15 million euros, a little bit more than half of that impacting Media Finland. On the other and elimination side, we saw lower personnel expenses due to the adjustments to the long term and short term incentive provisions. Looking forward to 2023, we will see those costs that cost level increase as we go back to more normalized bonus provisions. Looking at the net debt chart, you can see on the top right, the net debt over adjusted EBITDA was at 3.2 above last year, primarily due to the acquisition later late in 2022 but coming down and as Susan mentioned, the long term target of being below three is still very much in place. Our interest bearing net debt was at 823 million again higher due to the loan related to the acquisition, and our equity ratio was at 35.8 percent at year end, which is within the long term range of 35 to 45 percent, albeit at the lower end.

In terms of net financial expenses, we are seeing increases here due to the interest rates. Q4 amounts to six million considerably above last year with the higher debt levels and the interest rate increase, and the full year increase to 13 million. In 2023, we do expect a significant increase of that with the higher interest rates we saw at the back end of the year continuing in 2023. To emphasize again, the larger scale of the learning business with inflation, with these higher financial expenses, will mean that our quarters are a bit more seasonally expanded, if you like, so the Q1 will be more negative with the increased business and then offset by higher performance in Q3. The quarters will become more emphasized, the seasonality. Moving to the free cash flow and showing again the slide that Susan showed on the right hand side, the build up from 2022 free cash flow going from EBITDA all the way to the total. The total on the right of 112 included this significant one off impact from acquiring the Italian and German business due to the timing. We bought it at the end of August and therefore had the learning businesses, a lot of money goes out, the first half of the year comes in in the second half, and so we had that impact in our numbers, which we have excluded for the purpose of the dividend calculation.

However, looking at the movement, so 2022 significantly down last year, mainly due to the investments we're doing in the business. Lower EBITDA, which includes the transaction and integration costs related to the acquisition, higher investments in learning content, higher working capital with a build up in inventory, particularly in Spain with the LOMLOE curriculum change, but also longer payment terms and the timing of collections in Southern Europe, in Spain and Italy. We also had saw higher CapEx with the investment in our digital platform harmonization, but also the office adaptations as ways of working changes coming out of COVID.

Finally, higher taxes paid because we pay taxes in 2022 for the 2021 results which were stronger. On this slide show the normal free cash flow by quarter slide on the right but focusing on 2023 and connected with what Susan was talking about in 2023, we do expect a lower cash flow in 2023 versus the full number of 111 shown in the previous slide, but about in line with the adjusted the underlying cash flow, and so, whilst we'll see improvements in working capital as the timing impacts of 2022 reverse in 2023, we do see the lower EBITDA in Media Finland, the integration project cost the Italian business, the continued thoughtful investments in the business development and the digital platforms, and the higher financial expenses that I mentioned. All this will have then normalized operating cash flow of the acquired Italian and German businesses versus the one off impact we saw in 2022. Here you have your information, the timeline for the financial reporting, and with that, we will move on to the Q&A part of the presentation.

Kaisa Uurasmaa: Thank you, Alex, thank you, Susan, and as promised, we will now hand over to the telephone line for any questions, please operator.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Maria Wickström from SEB. Please go ahead.

Maria Wickström: Yes, thank you. Thank you for taking my question. I actually have three questions. The first one is relating to the guidance range, so the 150 to 180 million, so if you could discuss about the uncertainties which contribute to a quite wide range that we are currently having here.

Susan Duinhoven: Yes, the range is as you indicate, wider. As the economic environment, the uncertainties that are laid within that, they give rise to a bit wider range than you would normally see. We do think that over time and for us that will mean after the third quarter when we have had the high season in Learning, we will be able to narrow that range, but most likely not much earlier. If you think about where these uncertainties are, then they are predominantly on the media side to see how the market response, but at the same time also the expenses particularly on the personnel expenses side where the different negotiations will land in the different territories.

Maria Wickström: Okay, thank you, and then my second question is more on the leverage, given that you ended up in net debt EBITDA of 3.2. I would be interested to know that, do you have a covenants on the current debt and then more of the structure of the debt. How much of the debt is tied to the variable rates and how much is fixed?

Alex Green: Yes, we do have covenants on the debt, but we don't disclose them publicly, and in the appendix to this deck, you see a breakdown of the debt into the different parts. You see there's a bond which as a fixed lower interest rate, and then you can see the other loans that we relate to the acquisitions together with the element of it, which is in commercial papers, and so as the term loans for the acquisitions were related to the variable rates, but you can see on that slide the breakdowns.

Maria Wickström: Okay, I'll revert back to that. Then the final question is, you said that your digital subscriptions have been performing well on cost of the print subscription. Obviously the sales component is smaller with the digital subscription but if we talk about the absolute EBIT, what is impact if a person changes from a print subscription to pure digital?

Susan Duinhoven: Yes, we have indicated that, that's change to be a 50 percent higher EBIT in absolute terms for an incremental user in digital. That of course assumes that the changes are going to be modest during the year as we have seen and as we have also seen in 2022. You're absolutely right that, the revenue is typically about half of what is in digital versus in print but the there is a 50 percent uplift in profitability for a digital subscriber. To elaborate on that, it is just a fixed cost business in digital where in the print you need to print, and particularly in Finland, a high cost of distribution.

Maria Wickström: She has to be 100 percent clear that this 50 percent incremental that's on absolute level, not on a percentage.

Susan Duinhoven: **N**o, on an absolute level.

Maria Wickström: Absolut, okay, perfect, thank you. I'll let the other to ask questions.

Kaisa Uurasmaa: Thank you, Maria.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Kaisa Uurasmaa: Thank you, and maybe at this point, I would like to ask the audience. We have a small group of people who have survived the storm here at Sanoma House. If anyone has any questions from here, we have a few from chat still, but giving the opportunity, please. Use the microphone, please.

Samu Williamson: Thank you, Samu Williamson from Norwich Credit Research. First of all, thank you for the presentation. I could go back to the leverage levels, because what we've seen here, first of all, you're guiding lower margins for this year for obvious reasons. Your leverage has been above your long term target since last summer. The dividend payout has been from last fiscal year, above your dividend policy. It was 93 percent of free cash flow, if I remember, and your equity ratio was in the lower limit of your policy. That might raise a concern of what your commitment to the targets are relating to the capital structure costs because for example we understand that it might take a while for example, for the leverage to come down. However, this is something that you're expecting to fix by itself with new acquisitions, which are also expected to increase the net leverage. Or are there any measures that you are able or planning in order to quickly, for example, fix the leverage situation or are you just waiting it to-- I wouldn't like to say that fixed itself, but if you understand what I mean.

Susan Duinhoven: I understand that and maybe I start answering it then I hand to Alex. I think the waiting for it fixing ourselves is not our attitude. I would say we will work hard to make sure that the cash flow from the business improves this. With the investment levels that we are committed and keen to do to make sure that we have our long term business, the full benefits, it might take a bit of time, but we are in a strong position, I think also with strong sponsors both on the banking and on the shareholder side. Yes, we are going to work hard on that. I don't believe, generally speaking, in growing yourself out of troubles. I don't believe that you should increase at high speed all at once in investments. We're on a solid path. We want to do M&A. Only very selective M&A we will do while we have limited headroom, improve the business. We have done quite some acquisitions in the last years. There is still quite some work and some improvements and some scale benefits to be gotten. We see good opportunities to work hard and bring the leverage into the other financial targets all within line.

Alex Green: Perhaps 100 percent agree. That's totally aligned.

Samu Williamson: Yes, thank you. Just a quick elaboration on that, if for example, it's due to improved cash flow, which you are expecting to be weak next year, so if I'm reading correctly that you are, for example, comfortable of running the leverage above your target for the next four quarters, for example, but you're more looking on the long term.

Susan Duinhoven: Exactly.

Samu Williamson: All right, thank you.

Kaisa Uurasmaa: Thank you for the question. If there is no further questions from the room, I just heard that we do have active people still on the telephone line, so I will hand back over there, please.

Operator: The next question comes from Sami Sarkamies from Danske Bank. Please go ahead.

Sami Sarkamies: Okay, I have two questions. Firstly, starting from the profit outlook, if we look at the development over the past couple of years, guiding for currencies to €5 million this year. Two years ago, the level was almost 200 million. During these years, you have acquired Pearson, which brings in about €20 million in EBIT. If we look at the underlying EBIT contraction, it's more than 50 million over a two year period. We know the reasons but could you somewhat elaborate on how quickly you think you will be able to recover from the current margin pressure? It is like something where you can make a lot of progress even in one year, assuming that inflation and macroeconomic situation is favourable for you, or is it something that will require much more time, let's say two or three years?

Susan Duinhoven: Yes, we have indicated that take the learning business, which is of course 70 percent of our profitability. In the learning business, it will take another one to two years before we have been able to mitigate the cost increase through the prices. That is a business with only an annual sales cycle. Therefore, is a bit slower than you would normally see in, for example, a consumer business in working in these cost increases. In addition, as I just said, we also see opportunities to start using more and more scale. We have just integrated the Spanish business. We're now at the start of the Italian business. In that same time frame of these two to three years from now, we would see significant return to that logical profitability level in the learning business. The media business is fluctuating. That goes typically much faster, it goes faster down, but it also goes faster back up. We've seen that in the corona pandemic, even within a year, a return to normal levels, here it will largely depend on how the economy goes, and that I'll be honest, I don't have a glass ball for that. It will very much depend on also the geopolitical stability.

Susan Duinhoven: However, that's where we indicate it will fluctuate down but then it typically fluctuates back up. The team is on top of it, solid products, increasing user base, so all the ingredients are there and we are going to be careful not to go for short term gains and then lose our long term perspective. We're in businesses that are well performing, solid operation, so we are going to take then a little bit of that 2023, a little bit accept that lower margin in order to be able to come back and then have that long term growth perspective.

Sami Sarkamies: Okay, thanks, and then I would have a second question regarding the dividend proposal. There was an earlier question regarding debt covenants, but if I would formulate it this way, you obviously did give in on the promise for a growing dividend, was this like a forced decision by the debt covenants or are you thinking about your ability to deleverage ahead of future learning acquisitions?

Susan Duinhoven: Yes, as you say, it was a difficult decision for the board to take. It was also a difficult for management to recommend a reduced dividend because we have been promising increasing dividend. However, a reset at this point is important, and it's important as you indicate for being able to continue to invest, to continue to grow in line with our long term targets and our long term growth perspective. In addition, we see a four percent yield on a company with a profile like ours, more of a learning company. We see that still being above market. If we look at companies like Pearson, we see lower yield levels. That's where the Board has tried to strike the balance between the interests of the company to continue to invest in its future and the dividend. The difficulty there is the promise of increasing. On the other hand, we also always indicate 40 to 60 percent of free cash flow. The underlying free cash flow in the last year was not of that level that we could continue to increase. That's where you should see this as a reset to a level at a four percent yield.

Sami Sarkamies: Okay. Thank you. I don't have any further questions.

Operator: There are no more questions at this time. I hand the conference back to the speakers for any closing comments.

Kaisa Uurasmaa: Just double checking, are there more questions on the telephone line? Okay, then we will move on to chat and we can always come back if needed. We have some questions on the 2023 expectations on learning and media Finland, so we may be taking those first. The first one are related to price increases. Is there any indication that we can give on average price increases in both businesses?

Susan Duinhoven: Yes, that is very hard to do and that's not unwillingness. However, these price increases, they are very operational and very flexible. If you take price increases, for example, in the TV business, they go on a daily basis and on the daily rate. In the learning business, you set the prices once a year, but you do that on a book by book basis or a method by method basis. If in Poland, the math method is doing very well and very strong, they might increase that a little bit more. If the English has a little bit weaker position, it will not increase that much. These are very precise ways of adapting and measuring our elasticity. The same is true in the whole of Media Finland, not only on the B2B side but also on the B2C side that it goes product by product, package by package, and then over time.

Susan Duinhoven: This is where the deduction also to say if we were to increase prices by five percent, it doesn't mean revenue increases by five percent because there is elasticity. There are then typically reductions in volumes and you try to balance it in such a way that you don't hurt your competitive position, you improve your profitability. Large teams in our company are going through this on a daily basis, to do this math and these underlying researches to prepare for that. A long answer to actually say no, I cannot. I cannot at least not in a sensible way, give you any details on that.

Kaisa Uurasmaa: Thank you. Then going on the cost side and the inflation impact in particular. Susan, you mentioned in your presentation the one third decline in Media Finland's expected earnings. Alex, is there any kind of elaboration that you can give on the breakdown of the drivers behind that? Are there paper and printing costs, personnel?

Alex Green: Yes, so as we saw, there was a large impact on paper and printing costs in 2022. There will be an element of that in 2023, particularly in the early part of the year when the comparison is quite large. In addition, we will see the impact of the personnel inflation coming through salary rises and increased personnel costs. We obviously didn't see that in 2022 because that tends to trigger in as you do pay rises and that will be different across the different countries that we have in Europe and come in at different stages in the first half of 2023. That will be a big impact in the year. Worth noting that although we have a large number of people in Finland where inflation is lower than say, average in places like Poland and the Netherlands, Belgium and also Southern Europe, the inflation has been much higher. This will all impact into our cost base.

Kaisa Uurasmaa: Thank you. Then moving a bit to the longer term, we have two questions. First of all, on the long term targets. Have they been reconsidered, especially what comes to the segment level profitability targets? Now in particular, when we moved the guidance from the margin to the absolute EBIT and then the long term targets actually are margin targets.

Susan Duinhoven: Yes. The honest answer is no, we have not reconsidered the change to apply that also at this moment to the targets to also make the targets in absolute sense, because given the fact that this is such a long term target, I think the margin is more telling as long as we don't do sizable acquisitions. That is a little bit where the difference comes. That if we do sizable acquisitions and they have a different margin profile, that might change the target. However, we have carefully reconsidered. Are these long term targets still valid also in light of the temporary margin pressure that we will experience in 2023? There we see wholeheartedly, yes, we stand behind these long term targets, both on the learning side and on the media side.

Kaisa Uurasmaa: Thank you. Then the other question, you may have touched this already a bit with the dividend. That now when the dividend proposal is clearly below previous year's dividend, should it be interpreted like that we actually prioritize M&A and the cash flow used or the capital used for M&A or what the dividend in the future as well?

Susan Duinhoven: I think dividend continues to be an important part of our equity story and we consider the four percent yield as important, and the 60 million of cash going to the shareholders as an important part of our equity story. It stays a balance between investments, M&A and dividend. It is not going all the way one way or the other. It's that balance that the board has tried to strike. In this economic environment and with the investments that we have in the business, the 37 cents, the 60 million has been considered as the right balance.

Kaisa Uurasmaa: Thank you. We have some detailed questions on the debt maturity. I think that we can come back to those offline because we don't have the data here. I don't think that we remember it from the heart. They can be still published on the webcast platform as well as written answers. With that, I would like to conclude the presentation and the Q&A and thank you to all participants. If there are any further questions, please be in contact with us at I.R. in the afternoon or next week. We wish you all a good weekend. Thank you.