Transcription
Sanoma Q3 2023 Result

Kaisa Uurasmaa: Good morning everyone and welcome to Sanoma's third quarter 2023 results presentation. My name is Kaisa Uurasmaa. I'm heading Investor Relations and Sustainability at Sanoma. Today we have CEO Susan Duinhoven and CFO Alex Green presenting the results. In addition to our solid growth in net sales and operational EBIT in Learning, they will also discuss the earlier announced Solar éfficiency program. After the presentation, we will have a Q&A session. We have an audience here at Sanoma House. We will first take questions from here. Please wait for the microphone and then after that, we will hand it over to the telephone line. In addition, you can also use the chat function in the webcast platform for questions. This whole session is recorded and the recording will be available on our website shortly after the end of the event. With this, I would like to hand it over to Susan to start, please.

Susan Duinhoven: Thank you very much, Kaisa, and also from my end a warm welcome at this third quarter of the results presentation. We had a good quarter, solid growth in net sales, and operational EBIT in our Learning business drove those results up. If we look at the overview of the key figures, if we look at the first nine months of the year, 1.1 billion coming up from 1 billion last year, and that was coming from organic growth in Learning with seven percent up, but also from the Italian acquisition. That was this year for the full year in our results. Last year we acquired it at the end of August. That more than covered the slight decline in our media business in Finland. If we then look at the operational EBIT excluding PPA, that came to 202 million coming up from 192 million last year, and that was driven by that same strong growth in the learning business.

The free cash flow of 35 million is slightly down. That requires a bit of explanation because the Italian business typically has its cash flow in the fourth quarter, and therefore now having the business for the full year drives the cash flow down in the first nine months. However, if we look excluding the Italian business, then there was a significant uplift in the business in the cash flow as well. Our leverage improved to 2.8, and that is now at the level of our long-term target. That means below three. We have also announced the extra facility of 100 million being signed two weeks ago. We are making ourselves ready for the 200 million senior bond refinancing that will take place on March 24th and that we will do about this loan plus our existing facilities. Now, after the high season, we feel comfortable narrowing the range in our outlook and we indicate that our expected reported net sales will be between 138 million and 1.4 billion.

Then our operational EBIT excluding PPR, the range will be between 165 million and 175 million. It will be within the earlier indicated range but slightly on the higher end. As Kaisa had just said, we have also this morning announced our program Solar to improve the profitability of our Learning business to twenty-three percent to our long-term target by 2026. I will give a bit more details in this presentation. As always, let's start by giving some more details on the Learning business. Solid organic growth complemented the Italian acquisition adding to an increase in sales to close to 700 million, coming from 579 million last year. Organic growth of seven percent over the learning business, and specifically when we then look at the content part of that business, even ten percent growth, and that shows the successful implementation of the price increases that we have talked about before, price increases that in this business typically are done in the January-February timeframe, but are only visible in the high season in the third quarter.

That strong organic growth was then also taking place in Spain. As you know, in Spain, a large curriculum reform started last year, finalized this year. That LOMLOE curriculum change has been going quite successfully. Some of the success now in 2023 is also a little bit of pulling forward of curriculum changes that were expected to take place only in 2024, but they have now been coming early. What you also see in the third quarter are early sales whereas last year, sales in Spain were quite delayed from the implementation of that first phase of the LOMLOE. Now the second phase is much smoother and therefore most of the sales are being done as they should with the start of the school year in the third quarter. In the Netherlands, we see a stable position and that is two counterbalancing elements, a very solid growth in the learning content business, but also a rationalization and the planned discontinuation of loss-making contracts on the distribution side of that business.

Poland also showed nice growth, and that was a smaller curriculum renewal that we expected to take place.

That happened successfully also in the third quarter. All in all, its strong organic growth position, successful price implementation, and successes in Spain are great determining factors for us this year. Then the Italian and German acquisitions contributed for the full year, and the integration went very successfully and on schedule, 104 million of net sales was associated with those businesses, compared to last year, only 21 million because the acquisition took place end of August. We only had the last months of that business in our ownership. As you remember, last year we also divested. That reduced our sales by about 6 million. That strong sales growth then also translated into profitability improvement and the operational EBIT excluding PPA at 179 million. The strong organic growth, the price increases, all that contributed, and then also the solid contribution from the Italian business, adding also to the EBIT.

That more than counterbalanced the inflationary impact that we also this year still experienced, paper price increases because in Learning you print in the early part of the year, personnel salary cost increases and some other fixed costs that increased with inflation. Asset price increases mitigated those cost increases and we keep to the same indication that it will take two years to counterbalance, last year's price increases and this year's inflation. If you look at the curve you see a very positive picture. I need to give a bit of a warning because we're looking here at a margin of 12 months rolling, four quarters, you have here a bit of the benefit of a fourth quarter that was a bit exceptionally strong last year and now a more regular third quarter. Last year we had delays both in the Netherlands and in Spain, and therefore more of the revenue than normal came in the fourth quarter. Because of the 12-month rolling, you see those two on top of each other.

You need to take into account that the fourth quarter in the Learning business will not be at the same loss level as last year. It will be more at the level of the first quarter results of this year, meaning we have our regular costs and then we have hardly any revenues to compensate for that. This pattern, by the way, is the more regular pattern. Last year it was an exceptional one. This year is what you will, but we expect to see it also in the year going forward. Then on Solar that we announced this morning. All aspects are not new. The aim of Solar is to do process and efficiency improvements in our Learning business to reach profitability in line with our long-term target of twenty-three percent by 2026. That streamlining of our businesses is something where we now will benefit from the skills that we have gained in the last year. Last year we focused quite a bit on organic growth, but also on acquisitions, and this program is now set to really benefit from that, to take the best practices out of each of the organizations, but also to, with this increased scale, lean up all processes.

When we have now put this program together, all the sub-projects are time-boxed, targeted, and put in motion. Of course, a lot of it is a three-year program. A lot of it will also be coming in later years, where we see improvements in some projects going better than others in a different way. The four key buckets that the 55 million uplift that we expect in EBIT will be coming from our, on the one hand, organizational improvements post the curriculum reforms in Spain and Poland. We discussed that already a little bit in line with the second quarter results, the process improvements in all our processes, in all publishing businesses, because these are businesses that have been successful for years and years, but can now take a step of being part of a large European organization. That gives process improvements that individual businesses might not have had. Then a continuation of our harmonization of digital platforms. That is something that is already ongoing but is now taken as part of Solar in order to benefit from the monitoring and the management of this larger program, but also because some of these harmonization are interlinked with process improvements. And then the more regular, I would say, overhead and other cost optimizations across the whole of the SPL.

Those four streams are buckets of improvement. You could say add up to the 55 million. We will not, in the coming quarters and years specify exactly what is what and where we expect the benefits exactly to come from. We do see that this program also brings some cost with it, and 15 million of those costs have already been booked in the third quarter result as an IEC. Those were largely associated with the organizational restructurings in Spain and Poland. For the next year, we still expect 30 million of costs to be booked as IEC.

If we then look at the long-term impact you see in the graph, small steps in the coming years, and then a big margin improvement in 2026. This is due to the fact of the way our business works. If you look at 2023 it is a bit of a peak here. 2026 is again a bit of a peak here with curriculum reforms. In the years in between, you will have a little bit of a decline in revenues, which is logical, post significant curriculum reforms. If you calculate that 2023 margin, you need to do that on a revenue that is similar level as the 2023 revenue. That also is a simple explanation of why some of these cost benefits, come out once you again grow the business through curriculum reforms. I'm always saying if you improve a pre-print process, you need to do pre-print in order to see the benefit of that. At the same time, we will see in the coming years, of course, a continuation of this rationalization of loss-making contracts and lower-margin businesses. Solar will be quite an area of focus for us in the coming three years, but that is always in addition to improving our K-12 learning offering for our students and teachers, small in-market acquisitions that are typically highly synergetic. We will also focus on deleveraging our balance sheet. That will be our focus for the coming three years in addition to this important solar program.

If we then turn our attention to Media Finland, media Finland is, of course, operating in a slightly adverse economic climate, but doing a good job and continuing its digitalization path successfully. Net sales, however, declined to 150 million, 5 million down from last year, and this was due to the advertising sales being ten percent down for us, compared to six percent in the market. It's a slight loss of market share. That was particularly in newsprint, where we as a larger player are more hard hit when larger customers step out of print temporarily, and in the TV business. Advertising sales are a bit down. If we look at the subscription sales that grew modestly. This quarter, there was more benefit from a price increase than the slight decline in the subscription base took away.

We've seen in other quarters that the balance is just a little bit the other way around, but this is the absolute optimization that the team in Media Finland does very well. We've also seen positive developments in the business. Earlier in the year, we had Pluto as the new streaming offering. Now the cooperation with Elisa, where we get high-quality local content onto a router and with that improve its position as what we would say the go-to local VOD service. If we then look at the Operational EBIT that decreased in line with the advertising sales, that is significantly impacting the profitability. Then a good balance with, on the one hand, inflationary cost on salaries and the normalization of the bonus provision, but then mitigated by lower paper cost because in Media Finland, of course, you print every day and you use paper every day. Lower paper costs now, and also lower printing and distribution costs due to the conversion of print subscriptions to digital subscriptions.

Also, I want to point out specifically that in the Media Finland team continue with business improvement and process reviews are taking place and the team has been able, both during Corona and now also in adverse economic circumstances, to constantly manage its cost. In the circumstance strong performance of Media Finland, we feel comfortable now with the high season in Learning behind us to narrow the range in our outlook. On the sales side, we expect the reported net sales to be 1.38 and 1.4 billion. The group operational EBIT, excluding PPA, we expect to be between 165 and 175 million so within the previous range, but a bit at the higher end. For those expectations, we build that under the assumption that the advertising market in Finland will decline also in the fourth quarter.

In contrast, I would say what we thought at the beginning of the year where we thought that the second half would be slightly better. We have now seen the third quarter being down and the fourth quarter we expect even against the low comparable to go down. Then we expect that no significant discontinuities appear anywhere else in Europe in the economic climate. With that, I would like to round off my part of the presentation and hand it over to Alex to do the details on the financials.

Alex Green: Thank you Susan, and welcome from my side also to this third-quarter presentation. I'll start with the operational EBIT for the third quarter. As you can see here on the right, the third quarter was up 31 million versus the prior year with a large boost coming from the Learning business. On the Learning side increased by 35 million year-on-year with the curriculum-driven growth, particularly in Poland and Spain, and with the earlier finish to the high season than last year. If you remember, last year we had delays, particularly in Spain, and so we had the EBIT coming in more in the fourth quarter. Here it is being completed earlier than the prior year. We also see here the impact of the successful implementation of the price increases across the entire content business, and also the impact of the acquired Italian business here.

On the Media Finland side, where the slight drop, this is the lower advertising sales and the higher personnel costs and inflation being offset somewhat by the lower paper and printing and distribution costs that Susan was just talking about, and also very active cost containment actions to mitigate the impact. Looking at the cash flow, if we exclude the Italian business, there was a significant increase in the cash at this point in the year versus the prior year. Now the Italian business, if you remember, last year, we'd only acquired it at the end of the end of August and therefore didn't have the full flows of the cash. This year, we do have the full year-to-date flows of the cash, and the Italian business is such that the cash coming in comes in the fourth quarter. As well as the sales that have been done, the cash will come in October, November, and early December. If you ignore that there is a significant increase in cash, which comes from some of the measures.

We talked about the second quarter presentation in terms of higher prepayments and earlier billing, better collections, and better working cash management across the organization. In Media Finland, also, the improved working cash management or active working capital management has also mitigated the drop in sales and therefore in the EBIT keeping Media Finland at similar to prior year levels. For the full year 2023, we now expect the free cash flow to be somewhat higher than the underlying level from 2022 of 65 million. Previously, we'd said that it would be about the same. Now we are seeing that better performance and better cash management are going to increase that. The earlier cash-in will increase that somewhat above the 65. Moving to leverage. You can see here on the right-hand side at 2.8. We are now within the long-term target level of three. We do expect to stay within it at the end of the year.
We see net debt decrease versus both the prior year and the end of the second quarter 691, which is in line with the seasonality of the sort of performance and the cash coming in the third quarter. This also gets our equity ratio improving to 39.5 within the targeted range. Net financial items did increase to 9 million versus 4 million in 2022 in the third quarter, due to the increase in interest rates. We see average interest rates on our loans at 3.6 percent versus just over one percent last year.

Finally, here to look at the refinancing, which we will operate on at the end of the first quarter for the 200 million bond that's maturing at the end of March 2024. As you saw, we've signed a new €100 million term loan with one of our key relationship banks OPE. That was in October. We will draw that down in March as part of the repayment of that bond which matures. We will use also our existing funding facilities, particularly the revolving credit facility, the RCF. We also take advantage of the commercial papers market in Finland, which is very strong for short-term movements in cash needs. The maturity of that €100 million loan is 12 months, but we have an option to extend it for a further ten months. At the same time, you've seen we did extend the maturity of the 300 million revolving credit facility. It was due to expire at the end of November 2025, as you see on the graph because that graph is as of 30th September. Now that gray column will flip to 2026 as it will expire in November 2026. With that, I will invite Kaisa back to the stage to talk about our upcoming Capital Markets Day.

Kaisa Uurasmaa: Thank you, Alex. Indeed I would like to warmly welcome you all to join our Capital Markets Day on the 22nd of November. The event will be held in Helsinki, but there is also a virtual participation opportunity. On Capital Markets Day, we will elaborate on the strategies of both Sanoma Learning and Sanoma Media Finland. The CEOs of the businesses, Rob Kolkman and Pia Kalsta will be presenting in addition to Alex and Susan. Then we will also discuss, for example, Project Solar. You will hear more about that when the invitations are sent out shortly. On the results side, we will next report on 7th February for the Full-Year results. With that, we conclude the presentation and we would like to start the Q&A. We will first take questions from here at Sanoma House. Please use the microphone before asking the question. Susan, please.

Sanna Perälä: Hi. I'm Sanna Perälä from Nordea. Thank you for the presentation. I have a couple of questions. First, on the Solar program. You mentioned the net sales development in 2026. I just want to clarify that it's expected to be on a similar level to this year.

Susan Duinhoven: Yes, that's correct.

Sanna Perälä: Regarding M&A, does this program mean that you will refrain from M&A for some time now, or how should we think about that?

Susan Duinhoven: Yeah, I think we are M&A policy in that sense and our approach is still the same. We will most likely focus on smaller in-market acquisitions in that same time frame. Those acquisitions are highly synergetic, and those are also the ones that you never want to let pass if an opportunity comes by.

Sanna Perälä: Thank you. Then on a group level, if the learning market is expected to decline in 2024 to 2025 organically and the Media Finland Market is kind of flattish, where should we expect growth in the coming years before 2026?

Susan Duinhoven: Now that's the right question and the right math that you're doing.

Sanna Perälä: That's very clear. Thank you. The last question regarding the advertising market, you expect it to decline in the fourth quarter. Do you have any idea when we should expect a recovery in the market?

Susan Duinhoven: No. I think in all fairness, it will very much connect to when we see the Finnish economy pick back up and then specifically, of course, focus on inland consumption. That is still a link that is unbroken, in business advertising and GDP growth go hand in hand. We are following the economists there. We have nothing to add. The visibility in the advertising market is still very short.

Sanna Perälä: Thank you. That's all from me.

Kaisa Uurasmaa: Thank you, Sanna. If there are no further questions from Sanoma House, I would like to remind you of the opportunity to use the webcast chat. Now we hand over to the telephone line. Please, operator.

Operator: If you wish to ask a question, please dial * five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial * five again on your telephone keypad. The next question comes from Sami Sarkamies from Danske Bank. Please go ahead.

Sami Sarkamies: Firstly, starting from the fourth quarter outlook. If you look at your revised guidance midpoint, you are suggesting a negative €22 million of EBIT in the fourth quarter after negative 2 million last year. Can you explain why you expect the fourth quarter profitability to be €20 million lower than last year?

Susan Duinhoven: I think the logic lies in the Learning business. In the learning business, last year we had quite some delays both in Spain and in the Netherlands, meaning that quite a bit of the revenues that we know sort of celebrate in the third quarter were actually last year coming in the fourth quarter. That's where you saw that the fourth quarter last year had a sort of a bit of exceptional low losses in the Learning business. That is, let's say, 15 million out if you take the first quarter of this year and the fourth quarter of last year, that takes around 15 million, and then the remainder is the decline in Media Finland.

Sami Sarkamies: Okay, that's very clear. Then moving into learning. Did I understand correctly that you're suggesting flat sales over the next two-year period, even though there will still be sort of price increases?

Susan Duinhoven: We indicate that 2026 will be expected to be at the same level. Let's be fair with each other. We're talking three years out. This is not perfect guidance in the way that we normally guide for the next year. This is in order to avoid misconceptions about the twenty-three percent going over potentially to higher revenue. That's why we indicating that taking into account that this will be given or taken at the same level as 2023. We're now at the peak. In 2026 we again expect to be a bit peaking because of curriculum changes in Belgium, in the Netherlands, in many of those markets. That's how you need to retest. Take this as an indication, not as a guidance yet.

Sami Sarkamies: Okay, but I guess previously the message has been that you would be within two to five percent, say bracket.

Susan Duinhoven: Long term.

Sami Sarkamies: Maybe the reason that you've been pulling revenues from next year into this year, I guess in Spain the curriculum renewals have happened a bit faster this year.

Susan Duinhoven: I think you also need to take into account that is our thing that also creates some uncertainty in these indications. Take into account that what we're planning to do is reduce low-margin loss-making contracts and business lines. Those reductions, they will of course also give a reduction in revenue. This is where we always indicate when we say two to five percent that is the underlying business, the continuing business. There I think if you look at our Learning businesses, the success of the price increases, the way we see those businesses developing very strong and good performance. There are also business lines that we want to reduce. That of course, in the total of the company, you see that then back as a little bit flattish. I think that is an improvement in the business quality.

Sami Sarkamies: Can you still confirm that you will be making another round of above-normal price increases next year?

Susan Duinhoven: Yes. We definitely you know, and this is of course market by market, product by product. I'm not here to scare all our customers. We are making significant price increases because the cost inflation requires that. We're confirming that is the path. As long as there is this level of inflation, we will also need to do and maybe over time we will no longer call it above average, but it will be following the inflation.

Sami Sarkamies: Then moving on to the, let's say margin progression that you are provided for it is a bit difficult to understand why it's looking like a hockey stick because you're making quite material cost measures that seem frontloaded. You just said that you will be reducing low-margin contracts going into next year. You're making these price increases. Why don't you expect more margin progression in 2024 and 2025?

Susan Duinhoven: I fully understand the complexity of getting a handle on this. We will spend more time on that, on the Capital Markets Day because what is crucial is to understand, the base of the business fluctuations. If you were to look, let's say at 2024 and 2025, excluding solar, you would see that these are largely fixed-cost businesses and that the revenue swings in Spain, and Poland are quite significant. That goes almost directly to your bottom line. The fact that you keep those margins at the same level that already requires, eats up the early benefits of Solar in 2024 and 2025. Then in 2026 when you see that revenue come back in the curriculum reform, you also see all the process improvements in the business coming to fruition. It sparks the growth of the business at a lower cost.

That's where you then see the 2026. As you can imagine from telling the story, we have really sort of looked at what can we do to pull things forward. Part of the business is that we have these fluctuations and they are there. They also bring us peaks like now in 2023 and in 2026, but in the years in between it's in that sense a bit tighter. This is where solar then comes in and puts structural improvements in the business. They don't show up immediately, but once they show up, they're there to stay. That's where we're seeing 2026 will be twenty-three percent. Then from that moment on, that is our normal margin level.

Sami Sarkamies: What about the rest of 2023? Will you benefit already from these early cost measures related to Solar?

Alex Green: Most of these cost measures relating to Solar will come in the outer years as Susan says, the 2023 guidance which we've narrowed does not include any benefits from that.

Sami Sarkamies: Do you mean that even next year there will be a limited tailwind from the cost measures?

Alex Green: The cost measures will start to come in next year, but the impact due to the volumes coming down will not show until the volumes sort of ramp up in 2026. The other movements of the business kind of counter the impacts we have. It's also worth saying that some of the measures we're taking have to do with the content creation area, of which a chunk is capitalized in pre-pub and has an impact on the P/L over the following years as well, which helps to sort of move that impact a bit later.

Sami Sarkamies: Can you elaborate on the visibility you have for 2026 regarding these curriculum renewals?

Susan Duinhoven: I think that is something that I would say, the curriculum renewals for 2026 are in our numbers. If you look at our typical what I would call a wave slide. There you see exactly which markets are planned to go up. This will be a central part of our capital markets day. If that's okay with you then I would hold off on that detailed answer to that moment. Then Rob Kolkman can elaborate in more detail on the markets that are going down in between and the markets that are going up predominantly than in 2026.

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

Operator: The next question comes from Pia Rosqvist-Heinsalmi from Carnegie Investment Bank. Please go ahead.

Pia Rosqvist-Heinsalmi: Hi, it's Pia. Thank you for taking my question. I will start with the Solar program. You also mentioned the harmonization of digital platforms, a project which has already started. If I think about the costs related to the program, 45 million to a solar program of 45 million. Can you remind me how many investments have you made and do you plan to put into the harmonization of digital platforms? Should we think of these costs kind of on top of this solar program?

Susan Duinhoven: No. It's exactly for this reason that we have now taken the harmonization of the platforms into the Solar program. Going forward, even though this is a program that has already started, we have already made certain investments, and have already also gotten some benefits out of that harmonization. From now on, we take the harmonization of the platforms as part of the Solar. It is included both in the IAC and in the benefits from now on.

Pia Rosqvist-Heinsalmi: All right. Sorry, just to clarify. The costs you announced in conjunction with the acquisition of the Pearson assets in Italy and Germany, are these already included in this 45 million or are they on top?

Susan Duinhoven: No, those are already spent. That is the program that started on the first of September last year. There might be a little bit still coming, but that integration program is largely rounded off. This is more the bigger scale learning platform harmonization, apart from the immediate integrations and sort of getting out of the Pearson systems, that those are typically quite urgent and immediate elements that need to be done and that harmonization and that integration cost is already taken.

Pia Rosqvist-Heinsalmi: Then you referred to active discontinuation of the lower margin contracts and businesses. Do you here refer to the distribution business also in the future or is there something else you plan to do?

Susan Duinhoven: No. This is mostly a distribution business. In every business, there are also some product lines that are maybe marginal or getting marginal within this period. That's why we broaden the statement a bit also in the internal practices we typically say, "If businesses are not contributing and not on a path to contribute significantly, then we need to decide if they're truly strategically needed." There can be good reasons to keep them, but if not, then we will scale down or work with customers to make them more value-adding and therefore also more profitable.

Pia Rosqvist-Heinsalmi: All right. Thank you. I have another two questions still. With regard to the third quarter and the organic growth in sales in Learning, I think it was nine percent, should I understand here that roughly the five percent is coming from or came from price increases and the rest from volumes then partly shifting from the fourth quarter and 2024?

Susan Duinhoven: I'm looking at the colleagues here.

Alex Green: A seven percent overall in learning, but ten percent from the content businesses.

Susan Duinhoven: That is the year to date. This is now the third quarter. I think that the split between volume and price is a little bit hard to give on a quarter-by-quarter basis because the volume effect of the price increase will also partially be included in the fourth quarter. This is where we have indicated before that our price increases are around six percent different between markets and between products. That is our indication. If then structurally over the whole of the year, this plus ten would sustain, then it would actually mean that we have gained market share and gained volume to the extent of the four. That is a little bit of how I'm looking at it. Typically this type of analysis we can only comfortably make sort of once we have the full year results in hand, I'm sorry to say.

Pia Rosqvist-Heinsalmi: Okay, thanks. Then finally, in Learning, you made an impairment of 6 million related to rental book fixed assets. They were slightly lower compared to last year. Can you add details on this? Is this related to the business in the Netherlands and is this something we should expect to continue?

Alex Green: Yes. This does relate to the distribution business in the Netherlands. As you say, it's a rental book's provision that is connected to the discontinuation of loss-making contracts and also reflects the movements in the rental book market there. That's a year-to-date provision, which gets us to the levels that match the business as it goes forward.

Susan Duinhoven: This is a correction that is now taken with a new school year start as a review. The remaining position on the balance sheet is very small. This magnitude is way more sizable than the remaining total value on the balance sheet. We can with certainty say that there will be no similar magnitude of writedowns taking place.

Pia Rosqvist-Heinsalmi: All right. Good. Thank you. That's all for me.

Kaisa Uurasmaa: Thank you, Pia.

Operator: The next question comes from Maria Wikström from SEB. Please go ahead.

Maria Wikström: I also have one question relating to the Solar program and I want to a little bit get the magnitude of how much of these 55 million cost savings is coming from organizational optimization with personnel negotiations or after personal negotiations.

Alex Green: We're not splitting out the 55 million, but the four elements that we talked about on the slide in terms of the organization, in particular in Poland and Spain, in terms of the publishing refocus and then the platform harmonization, and then also overheads and other optimizations. All four of those things have a significant impact on that overall number. As you say a number of those ones do have organization impacts, of which the final cost and the final result are subject to the negotiations with the works councils but it is spread across those four different programs or parts of the programs.

Susan Duinhoven: To add to that and also to give you a bit of a flavor of how we're approaching this, a lot of the process optimizations, you strengthen the processing and lean it up. Most of the processes have external cost-included investments, systems, and personnel and therefore how that exactly will work out, how that exact split between personnel costs and system costs, how that and third party and freelancers and those different cost elements, how that split will exactly end up. We do not know yet. That's where we provide for it. We have the averages we count on. This is why this will also be project per project examined, concluded, and negotiated with works councils. This is not one big restructure where you would say this is the number of staff that we indicate. Process by process, we optimize and for those of you who were there when we did the same thing in Media Finland, it was then called a program Suunta that had exactly the same structure, but also from an analyst perspective, an unfortunate element that it does continue in hindsight. You can say exactly how it's split, but when you start this project we know what will come out, but how exactly that will work at the same with the exact timing of things, that is an ongoing process.

Maria Wikström: Okay, maybe asking a little bit a different way as well because one thing to come to the granularity that how we get to the quite massive profit lived in 2026. Now if I look at the chart, it looks like it will be quite limited in 2024 and 2025 and it's still three years out. What's your confidence level that you will actually reach these 55 million cost savings and they won't be lost elsewhere during these three years?

Susan Duinhoven: I have done these types of processes and major projects several times. My confidence in this is very high. The confidence comes from the fact that we have now done nine months of pre-work on this. This is not something that we now come up with and then go into the organization and explain. This is now nine months, three months at a senior team level, six months in detail in the organization where you, for example, also see that the big part of the kickstart in Poland and in Spain process optimizations. They have already started. We have not waited to announce the overall program with kick-starting elements of it. That all solidified together with the planning, the monitoring, the guidance that we put on this, and the senior resources that we made free to work on this for three years. Let's not forget that we have made several acquisitions in the last couple of years.

When you do these integrations, we have also taken for example, in Media Finland, we have promised at the start and very significant cost reduction coming from the integration and then being able to monitor, report back on that, and conclude that we met it and exceeded that saving by, 1 million or 1.5 million. I think from memory, we promised 13 and we came back with 14.5. It's not even though, of course, such a program has a different name and a different dynamic, but it is very similar to doing the first level of integration. Now we're looking at this more overall. I'm with you and I know the general suspicions about three-year programs. I must say I have good experience with them. We will have it in 2024. The majority of these projects are very well underway.

As Alex just explained in a number of them, they kick in through the investments. They come only out but with certainty, they come out then in the depreciation and with other projects. They will come out once we grow the business again and start using all our publication processes. I think that the certainty that I feel about this is very high. That is up to you to judge.

Maria Wikström: It sounds very promising. Then I have two more questions. The next one is on the free cash flow. You say that you will exceed this 65 million this year. What would be the normalized level of free cash flow if we go into the 2024/2025?

Alex Green: As I say, yes, we will be a bit above the 65 million we say. We're not here at this point again to announce a sort of soft guidance for 2024. We'll come back and do that once we see where we land and where we have the full year completed.

Maria Wikström: Maybe if I ask it the other way. Is there anything special on the free cash flow this year that I should take into account when I do the estimate for 2024?

Alex Green: Well, as we've announced, we talked about the Solar-related I see. 15 are already booked this year and then the 30 next year. They will be cash. That difference is something you can factor in and we've also, I think the refinancing of the bond will be because the actual original bond is at a very advantageous rate. In refinancing, we will have an increase in financing costs to the tune of about five or six million so that also is a factor in next year as well.

Susan Duinhoven: I think generally speaking, I would also invite you here for a Capital Markets Day, but also very specifically for the full year result, because that's when we do the guidance for the next year. There is also the logic between the results and the cash flow projection.

Maria Wikström: I think you Alex already answered my third question, which would be a little bit on the guidance. What you are paying for the new loan, if I got it right, you said the final cost will be five to six million higher next year given this refinance of the bond. I think I can calculate from there if that is what you said.

Alex Green: Yes. That's fully and rough estimated data.

Maria Wikström: Okay. Thank you so much. I have no further questions at this point.

Kaisa Uurasmaa: Thank you, Maria. I believe we don't have any further questions on the telephone line. I think that many of the questions in the chat, which are quite plenty at this time, I think many of them have been answered. I will try to group a few topics where I think that we have a few new questions. The first one I think relates to Spain. Was there some market share gain in Spain during the curriculum renewal?

Susan Duinhoven: That's a very good question. This is something that is always hard to estimate. We typically get in the new year some analysis out of different markets with different precision levels, to be honest, on how the market share has then developed in the year before. We don't know yet. We do know that also, the competitors in Spain have also invested quite heavily in this curriculum renewal because it has been so massive and so important across all school types. If you didn't invest at this time, you were almost out of business. Normally, you can sort of say, "I pass on this little reform and I stay in that but here everything had to be renewed." We don't expect major market share gains. This is something that is now also to follow up on in the coming years based on the strong and positive response that we have gotten.

Kaisa Uurasmaa: The next topic I think goes around solar and development from 2024 to 2026 time. First of all, kind of thinking about 2024 to 2026 and then the 55 million savings and then inflation or deflation of different cost elements. Has that been taken into account, and how should one kind of look at that?

Alex Green: Yes. In terms of the savings, the savings that we calculate are 2026 versus 2023. They do include, like all our forecasts now are sort of element of inflation now that we're in an inflation world. They do but not estimating to come down in a little bit in the outer years.

Susan Duinhoven: It is important to realize that we're forecasting a margin of twenty-three percent. The sales element as well is in there. This is where speaking and it is fully modelled from the core of the business processes.

Kaisa Uurasmaa: There was one question that related to kind of the top-line development particularly in 2024/2025. That takes into account the kind of expected continuing price increases also.

Susan Duinhoven: Absolutely.

Kaisa Uurasmaa: Maybe that was on solar or more or less. The final topic would be the dividend. The dividend was cut by roughly thirty percent for 2022. How would you now describe the Board's commitment to this level? Is this considered some kind of floor where we continue or something else?

Susan Duinhoven: Our dividend policy is quite clear. The dividend policy is in that sense unchanged. We have a range of forty to sixty percent of free cash flow that we indicate as the dividend level. Dividend is an important part of our equity story, but it will be on the board. The second part of our dividend strategy also specifies that the board will always take into account the economic circumstances and capital needs of the company. It takes that all in balance if it were to deviate from that range. That is where I think we stand at this moment. To give any further clarity would be premature because the dividend always is announced at the presentation of the full-year results when we then can also see what the total result for the year has been.

Kaisa Uurasmaa: Thank you. We have some questions from the media in the chat as well. Our practice has been to come back to those one to one after this event. We will do that now as well. I think that concludes actually the questions. If somebody feels that your question in the chat was missed, I think that we have covered them in one way or another. Definitely, we at Investor Relations remain at your disposal for the afternoon. We will come back into discussions. I would like to thank all participants here at Sanoma House and online for their active participation in this webcast. I wish you a nice day and hope to talk to you again soon and see you at our Capital Markets Day. Thank you.