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Sanoma Oyj (SANOMA.FI)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

Alex Green
Chief Financial Officer, Sanoma Oyj

OTHER PARTICIPANTS

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)

Sanna Perälä
Analyst, Nordea Bank Abp (Finland)

MANAGEMENT DISCUSSION SECTION

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

Goodafternoon everyone, and welcome to Sanoma's Third Quarter Results Presentation. My name is Kaisa Uurasmaa. I'm heading Investor Relations and Sustainability at Sonoma.

We had a solid quarter and it supported our improved operational EBIT for the beginning of the year. And today, President and CEO, Rob Kolkman; and CFO, Alex Green, will present you the results. After the presentation, we will have a Q&A session. We will first take questions from the audience here at Sanoma House. Please use the microphone. We will then hand over to the telephone line and you can also use the chat function in the webcast platform. The full event, including the Q&A, will be recorded and the recording will be available on our website shortly after the event.

With this, I would like to invite Rob on stage, please.

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

Thank you very much, Kaisa. And good afternoon, everybody. It's my pleasure to present the quarterly results to you today. And they were indeed solid results. And let me highlight a few of the key points first, and then as usual, zoom in to the different parts of the business. On the sales side, what really played out in quarter three is what we also indicated before, which is on the Learning, the impact of the planned discontinuation of the low value distribution contracts in the Netherlands was partly offset by the growth in the Learning content sales.

And in Media Finland, we saw lower advertising sales, which was also partially offset by the continued growth in digital subscriptions. We're very pleased that for the first nine months the operational EBIT improved in both businesses and also our free cash flow continues to improve and that's driven by those higher earnings and a lower financing costs and Alex will, later on, go a little bit deeper into that as well.

As a result of that, our deleveraging continues to progress well, with our leverage now improved to 2.0x compared to 2.4x same period last year. And there were two key decisions that I would like to highlight to you. One is on the Learning side, and there we decided to not participate in multiyear low-value distribution tenders in the Dutch market, and we took the impairment for that in quarter three. And this really is a continuation of our view on the Dutch market that it is changing more and more to dealing directly from a publisher with the schools. So, that's what's reflected there. And again, Alex will talk a bit more on the technicalities also on the financial side.

That does mean that we expect for 2026 to have about €40 million year-on-year less revenue for the distribution part, but with no impact on the earnings. So, logically speaking, that also means if you think about this, we're working towards the 23% margin, that as a result of this slightly lower top-line, but absolute profit expected to be the same, the margin is now going to be clearly in our expectation above 23%.

The second one decision that we took difficult but we think is also an important one, is on the Media Finland side. And we already announced that earlier in the quarter, which is the expected closure of the Tampere printing plant, which really supports a well-established practices for these continuous efficiency improvements, and also there, the impairment of €30 million and the restructuring expenses. We took that in quarter three.

And as a result of these solid results, we have also now narrowed our outlook for the year, which is now between €1.29 billion and €1.31 billion on the sales and the operational EBIT at the higher end of our original guidance being €180 million to €190 million.

And before I do my usual slides on Learning and Media, just something to bring to life to you how important a quarter three for us is, if you see what's happening across the business. And that really is reflected I think quite nicely here. So, on the one hand, we continuously look for the longer term growth profile of our business. How can we improve that further?And I'm very happy with the agreement we closed with Cambridge to have a partnership in the Spanish market to really try to improve English language across the Spanish schools, and that is going to be one of our growth drivers as well in the Spanish market going forward.

And in Poland, great example of, when we talk about blended learning, what does that mean specifically in this case in Poland? And that is the launch we did there of something called the SMARTbook, which really combines textbook, workbook, notes, exercises, multimedia all into one format for the kids in Poland. And that is the start of also a rollout that we will do as part of also the curriculum change just going forward in Poland.

The Netherlands, key growth driver for us for many years already and continues to be also has, of course, contineous new releases when you think about our blended content there. And the one I wanted to highlight here is line three, which is really the blended content for early literacy education in the Netherlands, and that is now used at the start of this school year in about 2,000 schools across the Netherlands, just as one example.

And on the Media side, very happy to see the continued good growth on Ruutu+ subscriptions driven by the attractive entertainment package we have there and also the sports content. So, just a few examples to bring to life what an important quarter it is and how that also drives both the results now, but also sets us up for the growth going forward.

Let me now zoom in on Learning specifically, top line first and then profit. So, on the top line, you see the point that the growth in our other learning content businesses, we're actually more than offsetting the last year of the lower cycle in Spain and Poland. The Netherlands, I mentioned it already. We see continued strong growth there in the Learning content sales, new product launches, but also continue to improve even further our market position.

In Poland, although it's the lower end of the cycle, if you purely think from a curriculum point of view, we continue to see really good momentum around our digital platform sales, particularly also selling directly to parents and students. And again, that is a basis for further growth in the years to come. And then the impact this year of the discontinuation of the low value distribution contracts in the Netherlands was about €19 million on the top line.

So, with all that, the result in profit is an improved operational earnings for Learning for the first nine months. And the key elements, as you can see here, so the higher share of Learning content sales versus the low value distribution going down that has a positive impact on our margins. Also, slightly more digital sales mix.

Solar continues to start to show the impacts in our P&L as well. We already, of course saw it for some time in the cash and that is expected to continue. And of course, we also see here the benefits of all the efforts we've done on the paper and printing, and that continues to come down as well. And that results in the picture you see on the right, which clearly indicates we're on that trajectory to get towards the 23%. And as I've highlighted before, a big step up is, of course, in 2016, when then also the volumes on the Learning content sales are expected to go up significantly.

Let me now go to the Media side of the business. There, we actually see the trends continuing, which is good growth on the subscription sales and that was driven by what I already mentioned, good growth in in Ruutu+. And then, we still see a challenging market on the advertising side and there, overall, it was lower advertising sales driven by TV was a big part of that is also around the third-party advertising reselling [ph] that tops (00:14:32) this year, and a bit in the newsprint as well. I'm very pleased to see how Pia Kalsta and the team have continued to manage this business so well that, although there is this top line pressure, we do see a further improvement on the profitability and on the margins. That is driven, of course by the growth in digital subscription sales, but it is also this continuous focus on improving the performance of the business overall.

So, the lower paper, printing, distribution costs, volume driven had an impact there too. And also the lower TV programming cost. So, overall, instill a tough advertising market, really solid results on the Media side for the quarter.

Then just briefly, coming back to the outlook, we've narrowed it in line with what I said, which is also reflected here on the slides on the higher end of the EBIT guidance between €180 million and €190 million now. The underlying assumptions are actually the same, which is the demand for the Learning content, relatively stable this year across the group's main operating markets, the remaining part, just as a reminder, in quarter four, is still a bit on uncertainty around returns, particularly in countries like Italy and Spain. And then the advertising market in Finland, relatively stable, so plus or minus a few percentage point. Of course, there, we still see the pressure, but we factored that in to our narrowed guidance that you see here.

So, with that said, I would like to hand over to Alex, who can go a bit deeper into the financials.

Alex Green

Chief Financial Officer, Sanoma Oyj

Thank you, Rob, and great to be here again with you. Let's start off, as usual, with the Q3 operational EBIT. So you can see here an improvement in operational EBIT year-on-year driven by Media Finland. In the Learning business, we have stable operating EBIT with the lower net sales being offset by a higher proportion – the impact of a higher proportion of Learning content and also the lower expenses around paper and printing.

For the Media Finland, the – as Rob just said, the growing digital subscription sales and the lower programming costs, the lower cost as well, offsetting the – offset slightly by the declining advertising sales but netting to a positive too.

Moving to the key income statement related items, you can see here that the improved performance leads to a higher operational EPS, but on the overall EBIT and in the IACs, you can see the impacts of our two recent strategic decisions in terms of the impairments.

So, first, in terms of the Dutch distribution market, the €48 million impairment, if you remember this time last year, we booked a €27 million impairment. At that point, although we were still participating in tenders, our expectation of winning those tenders had come down and therefore, reduced our expected revenue streams leading to that €27 million impairment.

This year, we've made that recent decision not to participate in the multi-year distribution contracts, tenders rather. And that significantly further reduces the revenue expectations, as Rob said, going down €40 million from this year to next and leading to a €48 million impairment booked in Q3. This leaves no material remaining intangible asset connected to the Dutch distribution business.

Looking further down at the net financial items that came down again in Q3, so lower average interest rates, as you can see there, 3.7% versus 4.9% and also lower net debt, helping us in this line. And we can see that lower net debt here on the next slide in terms of deleveraging, so €536 million versus the €615 million last year, taking our leverage to 2x versus 2.4x. And as you can see on the usual trend going into Q4, it'll come down a little bit more from here.

And our equity ratio at the high end of our range up at 43.1%. And the free cash flow improved, as Rob mentioned earlier, €86 million, so up following the higher – primarily the higher earnings and also the lower financing costs offset slightly by some further investments in TV, in the Media Finland business and some working capital movements. And as you can see there, with the 12-month rolling line going upwards, which supports the view that we've said that we expect 2025 cash flow to be increased further from the 2024 total of €145 million.

With that, I'll make a quick mention of the Capital Markets Day whilst welcoming my colleagues back to the stage on Tuesday, 25th of November. We welcome you all to that event and Kaisa will talk more about that in the end.

QUESTION AND ANSWER SECTION

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

A

Thank you, Alex. Thank you, Rob.And we are now ready to take questions as agreed. We will start from here at Sanoma House. So if we can have a microphone first to Sami. Thank you.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

Okay, thanks. I have two questions. Starting from the guidance, the midpoint suggests €5 million higher EBIT for the full year, €8 million ahead after first three quarters. So, what's your thinking on Q4? Why would Q4 be below last year level?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

Yeah, I think the biggest uncertainty remains the advertising market for us in quarter four. So, that's of course, where also the visibility is still the most limited. Right? If you compare it particularly to Learning, where we have a really good feel, of course, it's the advertising side that makes us be also on this kind of range now for the outlook.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

Anything else than the advertising media market?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

No, there is always – I think I briefly mentioned there's always, of course, the returns in Italy and Spain, that can – but that's in the order of magnitude of maybe a couple million. But that's normal business, I would say. It's the advertising. Does the Finnish market now improve, yes or no? That's the key uncertainty.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

But you are expecting Q4 to be somewhat below last year level?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

If you go to the higher end of this, it's somewhat similar. So, it's that pressure that we still see. It's not like we see at the moment in quarter four an improvement in the advertising market.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

Okay. Then secondly, a bit of a housekeeping question. If we think about Iddink. You did now a €48 million impairment. What is kind like the cumulative number on – on impairments front, you have done on Iddink over the years?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

Well, I mentioned the two. So, the €27 million plus the €48 million is €75 million. There was some smaller amounts earlier to do with the rental books business in the previous years, which was €45 million in that sort of range. But as mentioned, there's no remaining intangible assets connected to that business now.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

So, maybe about one-third of the acquisition has been, in a way, written down so far. What is the business – remaining business left? I mean, if we think about next year, you will have €40 million lower distribution revenues. So, what will be the size of Iddink next year?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

So, we're expecting this year to be roughly €50 million and we're talking the Learning materials business, right? So, and that's going down by €40 million to roughly [ph] €10 million (00:22:12). We also – within that original acquisition, we had the what we now call Schoology Care, the – the business that contains Magisto, which is doing well and also small business in Spain as well, which is profitable.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

Okay. And would you still need to do impairments next year related to the business coming down by €40 million? Or was that down now?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

That – so, what we've done now is based on the projections of future revenues as we did last year, but the projections of future revenues last year, we were expecting to win some tenders, but now we're not expecting to win the tenders.So, the balance sheet test is effectively what's the future value that would support the balance sheet intangible asset. So, that's all done now.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

So, you think you don't have to revisit anymore if the book values of it?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

No. As I said, the intangible assets are now gone. The goodwill related to that acquisition is part of the overall goodwill of Sanoma Learning, and that gets tested for impairment. That's not amortized. That gets tested for impairment and really based on the overall results of Sanoma Learning and there is sizable headroom there. So, no concerns there.

Sami Sarkamies
Analyst, Danske Bank A/S (Finland)

Q

Thanks.

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

A

Thank you, Sami. And Nikko, please.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Hello. This is Nikko Ruokangas from SEB. I have also two questions and I'll continue with Netherlands. And you said that you should now be able to reach that 23% margin target next year following this decision to not participate in tenders. So, is it still the case that you would be able to – or you believe that you will be able to reach that even without this decision?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

I can take this one. So, what we are trying to say is the fact that the sales comes down with €40 million year-on-year has no impact on the absolute profit we already predicted. And then logically, of course, and Alex will go into more detail, logically then that means that where we already had the target of 23% margin, that effectively, of course on a lower revenue base means that – that the percentage goes up somewhat, and that's what we're trying to indicate. So, no impact on the bottom line, although it's coming down on the top line.

Alex, anything?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

Yeah. I just to reemphasize right, we would hit the 23% in respective of Iddink and the Iddink drop with no profit actually lifts it above. So, the target of hitting 23% by 2026 is achieved without that Iddink drop.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Yeah. Good. So that you don't need that acquisition, there is, right?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

No. No, that wasn't part of it.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Okay. Thanks.Then on your decision to close the printing facilities in Tampere, can you a bit more open kind of comprehensively that profitability impact to you from that decision?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

Yeah. I mean, we – and just to clear the process around that is still not yet completed. So, however, we expect the savings, if you like, to be roughly in the form of €5 million of – for Media Finland on an annual basis.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

All right. And then cost side?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

So, that I mean, that's the cost savings of around that for year – for the annually related to the – yeah, the lower cost needed for running one plant versus two.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

And the provision for that one, of course, this is book now in Q3.

Alex Green
Chief Financial Officer, Sanoma Oyj

A

Yes. So, the FDI seek provision is in Q3 reflecting primarily the amortization of leased – future lease liabilities for the equipment in the plant, that's already being booked and together with estimates of reorganization cost as well.

Nikko Ruokangas
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

All right, thanks. That's all from me.

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

A

Thank you, Nikko. And over to Pia, please.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)

Q

Yes. Hello. It's Pia Rosqvist from DNB Carnegie. A question regarding the Netherlands. If I looked at the numbers correctly, sales declined by only €6 million in the third quarter. And this is despite you discontinuing, I think you said for €90 million. So, what's happening underlying growth is really strong. What is driving? Is it primary? Is it secondary? Anything specific?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

No, we are very happy with the Learning content sales in the Netherlands. We have a strong position there and that is both in primary and secondary, showing really good growth. And it's partly also why you see, of course, our mix changing somewhat, therefore also the profitability margin.Right? So, that's all, of course, less visible as you highlight on the overviews because of the decline of the low value part. But the underlying core business of content methods gauge off is really strong and we of course see that as one of our key growth drivers also going forward.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)

Q

Thank you. And if I continue. Maybe on the distribution contracts still. So, just to be clear – very clear, so do you have any distribution business left in the Netherlands?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj
A

Yes. So, we're not participating in the future multiyear contracts, but these are multiyear contracts. And so, the ones we've had before are still ongoing for the next year or two. So, as I say, we're going from a €50 million business this year to down by [ph] €14 million (00:27:28) next year, and then those contracts will eventually.

Alex Green
Chief Financial Officer, Sanoma Oyj
A

And maybe to just to add to that, of course, the students are still getting their books. But what – the way that done goes is more directly from publishers, including our own publishing to the schools. So, it's a different way of delivering it.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)
Q

And is this – are you the only one doing this, or is this a broader trend in the markets?

Alex Green
Chief Financial Officer, Sanoma Oyj
A

Well, the market has been, of course, difficult in this area for quite a number of years. But there is a few other players there and they need to make their own decisions on this.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)
Q

All right. Thank you. Then maybe to Media Finland, if I can continue. On the solid performance in Ruutu+. So, the subscription revenue growth, is this driven by price increases or is vol – are volumes also growing?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj
A

Volumes are also growing. And I think what – it's very encouraging to see there, is that the offering we have, the combination that I mentioned of entertainment and the sport package is the right kind of mix there is also driving the growth. So, it's both that and of course also the value in the way of pricing.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)
Q

Thank you. And then you mentioned lower TV programming costs, supporting profitability. Was this kind of isolated in Q3 or should we expect them to be lower in the future or normalized in Q4? And on [indiscernible] (00:28:48).

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj
A

This is – the level we have is actually – the reason it's lower year-on-year, we actually had slightly higher costs the previous year due to some timing of some write-offs of TV programming. So, the actual amount we had this year is a more normal level.

Pia Rosqvist-Heinsalmi
Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. I think that's all for me. Thank you.

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

A

Thank you, Pia. Any further questions from the audience. If not, do we have any questions on the telephone line? We have one. So I would to...

Operator: [Operator Instructions] The next question comes from Sanna Perälä from Nordea. Please go ahead.

Sanna Perälä
Analyst, Nordea Bank Abp (Finland)

Q

Hi. Sanna Perälä from Nordea. I have a couple of quite detailed questions. Sorry, if I missed this. If you mentioned this earlier, but these contracts you chose not to apply for or participate in tenders. So, did I interpret correctly that you have been the chosen distributor for those deliveries before? And for how long have you delivered this? How long have these been part of your revenue, if so?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

And the contracts that we are talking about, are tend to be a mix of what we already did and also sometimes from our competitors. But the impact for us is the impact that we highlighted around €40 million year-on-year on the top line with no impact on earnings.

Sanna Perälä
Analyst, Nordea Bank Abp (Finland)

Q

All right. Thank you. One, perhaps touching, Learning a little bit more. How did the digital platform sales in Poland developed during Q3? I know there was a lower cycle otherwise in Poland, but what was the magnitude of the digital platform sales?

Rob Kolkman
President & Chief Executive Officer, Sanoma Oyj

A

Yeah, we don't disclose the exact amount there, but it continues to grow.Well, you saw that in the smaller quarter two already and effectively that continued in quarter three as well. So, it's a really good base also for future growth. And then as you also highlighted correctly, of course, because of the lower cycle, that growth in itself is less visible in quarter three, but it's still there and continues to be really good.

Sanna Perälä
Analyst, Nordea Bank Abp (Finland)

Q

All right. Thanks. Then how much did Edita contribute to Q3 growth? Meaning like what was the organic growth in Learning or perhaps in Finland, if you like to mention that?

Alex Green
Chief Financial Officer, Sanoma Oyj

A

So, we don't – I mean, we're not disclosing the individual details of that within the Finnish Learning content business. But safe to say that, that was a sort of minor acquisition that's in integrated well, is doing fine and is contributing, because it was in decently to the growth in that market.

Sanna Perälä
Analyst, Nordea Bank Abp (Finland)

Q

All right. Thanks. Then, my question about the Media Finland subscription sound was already asked. So, I have no further question at this stage.

Kaisa Uurasmaa
Head-Investor Relations & Susainability, Sanoma Oyj

Thankyou, Sanna. And if no – if there are no further questions at the telephone line, there are actually no questions on the chat at this time. So, we have quite a big audience at Sanoma House. So, I think that's one of the reasons. So, before we conclude, as said, Capital Markets Day will be held on the 25th of November. We will start in the morning. You are most well – mostly welcome live in Helsinki and in addition to Rob and Alex. And then of course, Pia Kalsta, CEO of Media Finland. We also have several members of the Learning and Media Finland management teams participating at the event.

And next week we will be sending the actual invitations and the registration will start. And in the event we will elaborate more on the growth path, especially on the learning side with the upcoming curriculum renewals and the growth outlook for 2026. So, we are looking forward to seeing many of you there.

And this concludes the presentation. Thank you all. And we will be happy to be in touch with at IR in the afternoon with any further questions. Thank you.