



Transcription

Sanoma Q3 / 2021 interim report event

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PRESENTATION

Kaisa Uurasmaa

Good morning, ladies and gentlemen, and welcome to Sanoma's third quarter 2021 interim results presentation.

My name is Kaisa Uurasmaa, Head of Investor Relations at Sanoma. Today for the first time in 18 months, we also have audience here at Sanoma House and at the webcast as well. And today's presentation will be held by our President and CEO, Susan Duinhoven, and CFO and COO Markus Holm.

After the presentation we will have a Q&A session. We will first take questions from the telephone line, then through the chat function of the webcast and then finally from the audience here at Sanoma. And the webcast will be recorded, and the recording will be available on our website shortly after the event.

With this short introduction, I would like to hand over to Susan, to start the presentation please.

Susan Duinhoven

Thank you very much Kaisa, and also from my end a warm welcome to this Q3 results presentation and it was a good quarter, strong net sales growth and operational earnings growth in both of our business.

If we look at now, the first three quarters of this year then we see a total net sales of close to a billion. 20% up from last year when it was 834 million. And that came both out of learning and out of media. In learning the Santillana acquisition added strongly to our business, but also strong organic growth of 6%.

In Media Finland, the acquisition of the regional news business in April last year added to these first three quarters and then the organic growth of 10% driven basically by all parts of the business: the advertising, the events, and the subscription sales.

If we then look at the overall group to comparable third sales that we think is very strong with an 8% in total. Operational EBIT then followed that net sales growth and improved with 28% to 203 million coming up from 158 last year. And as a result, then also the free cash flow improved to 85 million coming up from 65 last year.

The leverage is then 2.5 and that is down from the level in June, which is normal in the seasonality of our business and specifically the learning business, and it's of course up from the level of last year and that is due to the Santillana acquisition. But the good thing is that even close after the Santillana acquisition, the leverage is already below our long-term target of below 3.

If we then look at the outlook, we updated that yesterday and we indicated that the EBIT, excluding PPA, will be this year, around 15.5%. The net sales outlook has been unchanged and indicates 1.2 to 1.3 billion in sales for the full year.



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So let me then go into a bit of detail in both of the businesses, starting with learning. Learning had truly strong sales growth, and as you know, the third quarter is our high season, so we have now done most of the year and we increased to 549 million from 433 last year. The net sales of Santillana contributed 90 million to that, but also strong comparable growth. And that growth of 6% that came both out of the content businesses, the learning materials businesses, and out of the digital platform business.

In the learning materials you saw that we had the benefit of the ongoing curriculum renewals in Poland and in Finland, and the benefit of market share gains due to the shift in subscription model in the Netherlands. And that shift has gone particularly well. The share of subscriptions in our sales of learning materials has now increased to above 60% in the Dutch market at the end of Q3. And if you compare, by the end of the year 2020, that was 55%. So, the trend really continues nicely. But also increased sales in the digital platforms, and that was particularly due to new customers, so customer acquisition being strong in several territories.

Then following that strong sales growth, we had the earnings improvement also of significant magnitude. 155 million EBIT, excluding PPA in the first three quarters compared to 114 last year. And the majority of that, of course, came out of Santillana but also supported with the strong organic growth.

It is good to remind ourselves that with the growing learning business, you see that the second and the third quarter really increase in profitability. But the same is true for the first and the fourth quarter, there the losses increase and that is logical with the growing business. Now in the fourth quarter, there is an additional element to take into account and that is the book returns in the Santillana business. That still creates a little bit of uncertainty in the fourth quarter that you also see are reflected in our outlook. The reason for that is that the distribution chain in the Spanish market involves distributors and bookstores. The start of the school year is at the end of Q3, so you see the returns out of that business chain coming into Q4. Where in other markets for the school year starts a bit earlier and the business chain is a bit shorter, you see that the deliveries and returns match each other in the same quarter.

Now the uncertainty comes a little bit from the curriculum change that is upcoming in Spain. So, when a new curriculum is introduced, of course, you expect a bit more returns and lower value of those returned books. So that has some impact on the fourth quarter. We have of course taken in all the history that is there, but curriculum changes don't happen that often and some of the curriculum change is still uncertain because these are political decisions that have to be taken in every one of the provinces if they will do the change in 22 or in 23. And those decisions are still pending, which is part of the normal process but of course creates a bit of that uncertainty in that return level.

So that for learning strong first three quarters. It's going to be a good year and a fourth quarter still with some of our result to come.

If we then look at Media Finland. There, net sales also grew very nicely, 155 million coming from 141 last year and the nice thing was that that growth came out of all the different businesses. Subscription sales grew 1%. The growth rate you see is slowing down a little bit post pandemic. But you see that the number of Helsingin Sanomat subscriptions again this quarter grew 3% year on year. And now overall Helsingin Sanomat you see that 70% of the subscriptions already hold a paying digital component.

If we look at Ruutu+, also their subscriptions continue to grow 8% year on year growth in this quarter.



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But also advertising sales grew 3% year on year. If we then take into account that the second half of last year had already a bit of improvement, but not that much at the start of the second half, so the Q3 was last year still a little bit impacted by corona, you see that the 3% is a good performance, but if you compare to 2019 you see that the advertising sales is 4% below.

For the fourth quarter, we had a very strong comparable year. Last year was a very strong recovery in Finland. So would not be expecting growth year on year to continue.

If we look at events, the net sales in the third quarter were 13 million, basically two thirds roughly off our third quarter in a regular year in 2019. But of course, it compares to zero last year. Last year we were not able to organise any events, we were quite happy that we were able to do so this year, even though the contribution as we have indicated before is break even. So, no contribution significant from that part of the business.

The growth I think shows very interesting trend underneath these figures. What you see here is that when you compare print and digital advertising that in 2019 print advertising still had the majority. If you look now at the first three quarters of 2021, you see that digital advertising has grown so significantly that it is in total 53% and larger than our print advertising. And that becomes increasingly impressive, I would say, if you then think that we have acquired a regional news business with quite a significant print advertising base. And that we have divested Oikotie, which was purely digital advertising. So, in that light, you see that there is strong growth in digital advertising both in display and specifically also in video. So, an underlying increasing quality, I would say, of the revenues that are underneath these growing advertising sales figures.

If we then look at the earnings. Earnings were stable last year, we had a strong comparable quarter with 24 million and we repeated that performance this year, which meant that the positive impact from the sales growth was offset by the normalising of the cost levels post coronavirus pandemic.

The outlook for 2021, we updated that yesterday. You see that we expect the reported net sales to be 1.2 to 1.3 billion and the group's operational EBIT margin, excluding PPA to be around 15.5%. That compares them to 14.7% last year.

Now, if you remember this March, we updated our sustainability strategy and we increased the transparency and reporting on our contribution to society in general through learning and through media and also our impact on, for example, environment and trustworthy data and valued people. So, on those six key parameters, we have reported quite strongly, and we have seen that the ESG ratings have improved with this increased transparency. The MSIE rating AA in a scale of AAA stayed stable, but underneath the parameters improved. Sustainability the risk rating where the lower the better, we went from 12 to 9.8. Upright net impact ratio, which goes from -100 to plus 100%, we're already at 73% and the ISS rating which improves from a D to a C and there is still room for further improvement in the coming years. So, all in all, see that there is more and more recognition of the sustainability strategy that we have updated in March.

So, with that I would like to conclude my part of the presentation and over to Markus Holm to give more insights on the financial details.

Markus Holm

Thank you, Susan. Good morning, everyone.



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Let's start with a brief overview of the third quarter earnings. We saw solid profitability improvement in learning, especially in the third quarter. If you look on the group overall, we had operational EBIT, excluding PPA over 147 million. And in learning we had as positives of the majority, I would say, came from the acquisition of Santillana, naturally. But also, good organic growth across the main market, in particular Poland, but also the Netherlands solid steady growth there and also in Finland.

In Media Finland. It was a mixed picture, both positives and negatives. On one hand, we had the organic growth in B2B business, in B2C and in event business we also saw synergies of the regional media acquisition. Paper costs were positive in the quarter still, but here I would like to add already at this point, that we see now clear indications that paper prices are going up. Early to say, early days, but indication of strong paper price increases. The overall operational expenses, as Susan explained, of course are now going up as we indicated earlier with the increasing activity, especially due to costs related to the production in B2B and so forth.

Also, then some personnel costs there as negative, especially for instance, we had lower bonus accruals in the previous year and also pension payments related to, or the statutory pension scheme that were lower in in 2020 and now on a more normal level.

Then looking at the free cash flow, we saw an improvement from 65 to 85 million year to date. We had an improved EBITDA both in learning and in Media Finland as positive. And good to remember that in 2020 we had a negative of 22 million from the divest in Media Netherlands business, so that is of course an improvement year on year. We had a significant prepayment of the VAT claim that we have mentioned earlier, so as you can see here, 25 million that was paid on the 1st of July that is included in the figures and then we had somewhat higher pre-publication costs and TV programming costs, as well as working capital. Then good to know that although Santillana contributed strongly to the EBIT in the quarter, the cash flow comes later so we will see that impact in the fourth quarter.

And just as a reminder, the VAT claim related, as we've said earlier, this free cash flow for the dividend purposes will be adjusted by this payment amount of 25 million.

Then looking at the leverage, you see an improvement, typically for this season. So, the net debt to EBITDA improved from the 3.1 at the end of June to 2.5 at the end of September. Equity ratio at 38.2 and our net financial expenses increased somewhat to 3 million compared to 2 million a year ago. And that's naturally related to the higher amount of gross debt due to the Santillana acquisition mainly. And a slightly higher interest rate on the external loans.

So that was in very short. Here's a reminder, our full year results will be published on the 11th of February and here you see also the publication dates for 2022.

Thank you.

Kaisa Uurasmaa

Thank you for the presentation, Susan and Markus and will now start the Q&A session. First, I would like to hand over for the telephone line operator, please.



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Q&A

Operator

Thank you, ladies and gentlemen. If you wish to have the question, please press 01 on your telephone keypad. We have a first question Panu Laitinmäki from Danske Bank. So please go ahead.

Panu Laitinmäki

Yes, thank you. I have three questions. Firstly, on Media Finland and on advertising. It seems that your advertising growth was a bit lower than the market growth in Q3. Can you talk about why was that? And then on Q4, I think you mentioned that you don't expect advertising to grow in Q4, but if I look at the current market data, it did decline year on year in Q4. So, to me it doesn't seem that the comms are super strong. So, can you talk about your expectations for that?

Susan Duinhoven

Yeah, let me start with the first one. Yes, our market share in Q3 did decrease a bit. Key reason is that after the corona lockdowns have ended, of course, also categories like cinema and outdoor are coming back into play. So that is our market segments that we're in and therefore logically when they come back, we see a bit of reduction in share. So, the market is supported by the growth in those segments and our sales is not. In addition, I would say that also in the TV business we have seen a slight reduction in market share because we continue to be keen to not over-produce and not put content out there if there is no advertising demand. So, we continue to be prudent, let's say, in managing the balance between demand and supply.

So that's on Q3. Q4 for us last year was a very strong quarter, so I'm now not completely up to date what the market exactly did in Q4 last year, but during the whole of last year we gained quite some market share. And the fourth quarter particularly was for us very strong. So that's why I'm just guiding that those of you who might put the plus three into the spreadsheets and calculate through from our sales, that is not what we do in our spreadsheet. That's all I'm signalling.

Panu Laitinmäki

So, you expect it to be a flat Q4?

Susan Duinhoven

I'm not expecting the 3% growth to continue.

Panu Laitinmäki

Alright, thanks.



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Then I wanted to ask about the subscription sales, the growth slowed to 1%, but then you mentioned that in Helsingin Sanomat it was 3% in terms of number of subscriptions and also enroute to 8%. So why did it slow down? Is the print magazine subscriptions coming down or what's happening?

Susan Duinhoven

The print magazines have typically a bit of a declining trend throughout the years and this year is not an exception, even though they're doing very well and still very significant subscriber base. But it's also good to remember that the growth we report is also revenues, and you see that the growth in Helsingin Sanomat subscriptions is particularly strong in digital. And I just remind that digital subscription is typically half the revenues of a print or a hybrid subscription. That's very logical, but the profitability of a digital subscription is higher, because of course the cost of printing and distributing a paper are also taken away. So that is sort of the mix that you see.

So, you're absolutely correct on the magazine's playing into that, but it also is a different revenue mix between the components.

Panu Laitinmäki

Okay, thanks. And then finally, just to clarify on the comments on Spain. If I understand it correctly that you see more uncertainty on how this kind of book return plays out in your earnings rather than whether the curriculum revival overall is delayed, which will kind of change the outlook for growth for the next two years.

Susan Duinhoven

That's a good thing because I was not completely clear.

We have, we know that the curriculum change will spread itself over 2022 and 2023, so that's a given. Not the whole of Spain will convert in one year. That has never been the case and will also not be the case this year. The only thing I'm saying is we don't know exactly yet which province will take what decision and that we have, of course, good estimates of that, but in the end, it is a political decision. But the curriculum change will take place for a very significant part in 2022, in all expectations at this moment, and then the remainder will take place in 2023. My comment on the uncertainty is more on the return levels. So first of all, you never have heard us talk about return levels before. That is because of that peculiarity of the Spanish market being quite late in the start of school year. So, in other markets we also have returns, but you don't see them because they are within the same quarter. So that's one element.

The other element is because there is a curriculum change you can understand that if you're a small bookstore and there is no curriculum change, you might hold onto the books at the year end and you think like, well, someone might come in spring and have thrown a cup of coffee over their book and need a replacement, I keep that stock. But when there is a curriculum change coming then there will be more of a tendency to return the books. Get the money back which the contract allows. Get the money back and then buy the books again in the New Year. So that trend typically gives a little bit of an uplift in returns, but how much? We have, of course taken an assumption together with management. Management



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has already gone through many curriculum changes, so we count on that. We have taken a little bit of safety there, but we're saying could be a couple of million could be still off.

Panu Laitinmäki

Okay, thanks and the new guidance, I assume it reflects a scenario that you think is the most realistic with maybe limit downside from that, or how should we think about that?

Susan Duinhoven

Exactly, and that's also why we give still a range in the in the guidance that we say it is around 15.5 because of course it can impact your revenues, it can impact your profitability, so how those two will exactly pan out, there is still a bit of uncertainty in that.

And normally I would say you would not make a big deal out of it, but typically our fourth quarter is a small quarter, so we know that a little bit of change can already create, on a percentage basis, some deviations.

Panu Laitinmäki

Alright, that's all from me. Thanks.

Operator

Thank you, next question from Sami Sarkamies from Nordea Markets. Sir, please go ahead.

Sami Sarkamies

Thanks. It's Sami Sarkamies from Nordea Markets here. I actually have only one question left, and it's actually related to the previous topic on full year guidance. Can you open up the difference between a positive and negative scenario related to this book returns at Santillana? So, what it is kind of the delta between high and low scenario, and then did we understand right that the updated guidance is somewhere in the middle of that range?

Markus Holm

Yeah, well as we say, we say around 15.5, if you ask me is it more likely to be between 15.5 and 16 or between 15 and 15.5. I would say yes, it's more likely to be between 15.5 and 16. But as Susan unexplained earlier, there is that uncertainty about 1 to 2 million plus minus related to the returns in Santillana and that is the main uncertainty that we have there so.

Sami Sarkamies

Okay, so your guidance is quite cautious regarding the book return situation and there might be upsides?



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Markus Holm

We base it on the limited information we have at this time point when we have done the guidance. So, the returns are typically coming in in late October and November and even December still. So, the jury is out on that still.

Sami Sarkamies

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

Operator

Thank you. Next question from Pia Rosqvist from Carnegie. Madame, please go ahead.

Pia Rosqvist

Yes hello, it's Pia Rosqvist from Carnegie. So, if I may go back to Santillana Spain, you said the sales of that part of the business was lower year on year. Was it in line with your assumption or was the sales even lower than you had expected?

Susan Duinhoven

Now this was very much in line with our expectations. As you remember, in the beginning of the year, we already indicated that it is typical that on the path towards the curriculum change, the years, and specifically the last year before that curriculum change, is a true low point and I know that we had a bit of Q&A already the last quarter when that didn't show yet, like is that now different? And it is in line with our expectations. It's typical to have lower sales the year before curriculum.

Pia Rosqvist

Okay, thanks.

Then you talked about the curriculum renewal and the uncertainties maybe about the phasing. Do you have any, I mean hard numbers, how many of the provinces kind of are still pending or uncertain or kind of looking at 2023 instead of 2022?

Susan Duinhoven

Yeah, now we don't have that. And you can imagine that there is 550 people in Spain who are quite keen on that information. In order to get all the operations in the final stages for that roll out. I just would say, this is quite typical and normal in learning. If you remember a couple of years back in Poland, we had the Polish Government signing the law that



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guided the curriculum change in January, where the implementation had to be done in September. So, that's a little bit the whims of the political systems that can debate and discuss for quite a long time.

Of course, our teams are in close cooperation already with the different departments in the different provinces to get a feel for where the changes are that they want to make, so that they can prepare a good part of all the editorial materials already ahead of time of the final decisions. But the final decision on the timing, that is something that we will only see it when we see it. The decision needs to be taken quite firm because then of course all the teachers and all the schools also need to start preparing. But the political system is quite different from the business decisions. It's totally out of our hands. So, we're a taker of that information, not a giver.

Pia Rosqvist

Yeah okay, thanks.

Then still on the on the curriculum change in Spain. Does this kind of phasing, does it put strain on your long-term financial targets for learning? Particularly I mean growing the sales by 2 to 5% annually?

Susan Duinhoven

And we think it is doable within the total portfolio because of course, Spain is not the only country, but it is next year quite a determining factor in our growth. We have of course taken realistic assumptions when we come up with these guidances. We will guide you of course after the fourth quarter for 2022 and let's assume that by that time we have at least more information if not all.

Pia Rosqvist

Okay, good. Then maybe my final question on Media Finland. The outlook for advertising for Q4 was already discussed, but again there are international signs that the supply chain constraints would also impact advertising. Is this something you agree with and is this now taken into account in your guidance?

Susan Duinhoven

Yeah, I think if we talk longer term and if this supply chains shortage and, I would say even more important, maybe raw material price increases, if that continues that will impact of course also the Finnish market and then also indirectly the advertising market. We have taken the current trends, we have taken that in in our guidance and also in my comments on the year on year growth, but we're not yet seeing it in Finland. So, we still see a little bit of I would say post corona exuberance and a little bit of positive coming out of the lockdown restrictions. But undoubtedly over time, this will start impacting the Finnish market and Finnish advertising market as well. If it continues.



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Pia Rosqvist

Okay, good thank you so much. That's all for me.

Operator

Thank you and next question from Jutta Rahikainen from SEB. Madame, please go ahead.

Jutta Rahikainen

Hi, thank you. It's Jutta Rahikainen from SEB. Most of the questions were covered already but a few more. Getting to Santillana and its profitability, you confirm that the sales came down and that we know by now, but how would you say that the profitability moved into the quarter? It seems to be quite good still after all. So, was it kind of as you expect and then how would you compare it to last year?

And then looking forward, is it kind of evident that Santillana's profitability will be improving for Q3 but say full year as well heading into next year? Thanks.

Susan Duinhoven

Now, we typically don't give comments on the profitability of individual SPUs. We comment on the sales, but not on the individual profitability. What I do want to say is that the development of Santillana, the integration and the general performance of both the market and the company are very, very encouraging, and very much in line with our expectations.

Jutta Rahikainen

Okay, good thanks and another one just under the media synergies and integration. If we get an update on that, how is it going? Thanks.

Markus Holm

Yeah, it has gone well. I mean, most of the activities behind and as we said earlier, we see that 30 million of synergies fully in 2022, but most of it already start to be in and positive effects of it already in the quarter.

Jutta Rahikainen

And you think that synergy number is still fully valid? Some think it's high and some think its low but that was one year.



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Markus Holm

Yeah, that's what we've given and that's what we see that we have at least the 13 million. So, it has materialised well.

Jutta Rahikainen

Okay, good. That's all for me, thanks.

Operator

Thank you we have no more questions by phone.

Kaisa Uurasmaa

Okay, thank you operator and thanks everyone on the telephone line for your questions.

I would like to remind the webcast audience about the opportunity to use the chat function for questions, if any and then maybe meanwhile we can wake up the audience here at Sanoma House. So, any questions from here please?

Petri Gostowski

Thank you, Petri Gostowski from Inderes. Continuing on Media Finland, you mentioned that the cost-level was rather low in the comparison period. Can you comment on Q4 comparison period in the cost base?

Markus Holm

Yeah, I think what we're seeing now is the normalising of the levels has happened in the third quarter and I think this kind of level we can expect going forward. So especially the two bigger ones mentioned were that we had because of a low year last year, it was related to accruals of incentives and then also the dual pension that was lower than last year. Things like this that effect that, they are now on a normal level.

Petri Gostowski

Thank you. Then continuing on Media Finland, on paper you said that you've seen price increases, I've seen some comments on the lack of availability. Do you see this as an issue or a risk? Or is it only limited to price increases?

Markus Holm

Yeah, I mean, as we've seen and heard that also in the media, there are clear price increases now out there. We are still in negotiations. So, what really the ultimate prices will be, we can't say. This year looks pretty safe because we have of



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course still the old contracts, we have also done some stocking up of paper for fourth quarter and so forth. But I think it's quite probable that we have higher prices next year.

Petri Gostowski

Thanks.

Kaisa Uurasmaa

Thank you.

Any further questions from the audience here? If not, then we have actually one from the chat function now. So, could you please comment on the M&A pipeline?

Susan Duinhoven

Yes, the M&A pipeline looks solid and the continuing comment I must say from my end, we have good opportunities in different stages of development. So quite happy with that and we will come back, of course, to do that once one of those materialises.

Kaisa Uurasmaa

Thank you.

If no further questions, as it seems now, I would like to conclude this event and thank you all for active participation. And as said already, the recording will be available on our website soon after this event and then of course at Investor Relations, we will be at your service also for future questions. Thank you and have a nice day.