Transcript

Q1 2025 Result

00:00:00 - 00:01:01
Kaisa Uurasmaa:
Good afternoon, everyone, and welcome to Sanoma's Q1 2025 results presentation. My name is Kaisa Uurasmaa. I'm heading Investor Relations and Sustainability at Sanoma. Q1 is always a seasonally small quarter for Sanoma, but our performance improved, driven by Learning. Today, we have, as usual, President and CEO, Rob Kolkman and CFO, Alex Green telling you more about 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 wait for the microphone. We will then hand over to the telephone line, or you can also use the chat function in the webcast platform. After this event, a recording of the presentation, including the Q&A, will be available on our website. With this, I would like to invite Rob on stage, please.

00:01:03 - 00:01:59
Rob Kolkman:
Thank you, Kaisa. Good afternoon, everybody. It's my pleasure to present the quarter one results to you today. As Kaisa already mentioned, we saw improved performance across the business, but it is in a seasonally small quarter. It's a good start to the year, but of course, still a lot more to come. You see that reflected in the numbers here. The sales were overall stable. The driving factors there were around growth in Learning, particularly in the Netherlands and Poland, and that was offsetting the lower advertising sales in Media Finland. I'll talk later, specifically on media and also on advertising. If you look at the group's operational EBIT, that improved due to Learning, and that is also a result, again, of the net sales growth and the improved cost efficiency. It's stable in Media Finland overall.

00:01:59 - 00:02:46
Rob Kolkman:
It is also good to keep in mind, of course, that this is a small quarter for us and therefore also seasonally loss-making. Our free cash flow continues to improve on a year-on-year basis. That's driven again by the strong performance and also the net working capital improvement. Alex will talk about that more later on. Then, Program Solar, already highlighted in quarter four, the full-year results. Our initiatives there that we have taken, and the decisions, have been mostly completed. Of course, the execution of that continues, but that means that the first impacts are visible in the free cash flow and also in our cost base, and that will only increase more when we go into 2026. It will also benefit them from the growth in our curriculum.

00:02:47 - 00:03:39
Rob Kolkman:
We also saw continued progress in deleveraging the balance sheet, very much the trend that we've seen over the last year as well. Again, Alex will touch on a few specifics there. Clearly, this is a very small quarter. Therefore, our outlook for 2025 is unchanged. I will give a few contexts around that later on. Let me now zoom in on both businesses, starting with the Learning side. In Learning, the net sales increased to 89 million in this seasonally small quarter, driven by the Netherlands, and also driven by the digital platform sales in Poland, which is mainly to do with our student information system, which we have there, and also some exam preparation that is being provided to the students and parents directly.

00:03:40 - 00:04:40
Rob Kolkman:
We also saw an improved operational EBIT. Again, of course, because it's quarter one, it's less loss effectively driven by the growing net sales, but also, the first impacts of Solar are visible in the cost base. That results in the margin development that you see here on the slide as well. A good start on Learning a lot more to come. Also, a reminder for everybody that, of course, the phasing from quarter to quarter, that's both quarter one to quarter two, but also to quarter three, can depend quite a bit on earlier or later ordering from our customers. That's something to keep in mind here as well. Let me now go to the media part. There, we saw overall stable operational earnings, and the trends that we've seen for quite a while now continued, which is growth in the subscription sales, particularly driven by digital Ruutu+.

00:04:40 - 00:05:40
Rob Kolkman:
That's good to see. Also, the advertising sales are still decreasing, particularly around TV, print, and radio. Online continued to grow there. It's also a good reminder that in these numbers we now have the ending of the

third-party TV advertising deal we had. That's no longer in '25 revenue, and it was in '24. It's at a lower profitability level, but it is still there. If you look at the operational EBIT, then that was, of course, supported by the elements that I just mentioned, especially the growing subscription sales. Still lower paper cost. That's mainly driven by lower volumes. The lower advertising sales had obviously an adverse impact on our EBIT. Then Pia and the team, of course, continue to do a really good job when we look at operational efficiencies and keeping the cost, therefore, under control and optimising that even further.

00:05:42 - 00:06:36
Rob Kolkman:
A couple of words around the advertising market. In the broader context, of course, there's a lot going on. If you look at the geopolitical situation, the US tariffs, as I've also highlighted in the quarter one report, are not impacting us directly. However, none of that helps the economic situation here in Finland, nor the sentiment around it. Therefore, we also see that the limited visibility we have in the advertising market that the softness will continue, particularly in quarter two and especially in comparison with quarter two 2024. For the full year, our picture remains the same. We do see that the advertising shifts between the half years might be more than some of the growth that we're seeing, or improvement is more in the second half compared to the first half.

00:06:36 - 00:07:40
Rob Kolkman:
That links nicely to the outlook, which is unchanged. We continue to say that it is between 1.28 and 1.33bn€ in revenue, clearly with quarter three for learning being the big quarter that will determine that mostly. Already, the link with advertising, as I mentioned. Our operational EBIT is expected to be between 170 and 190m€, compared to the 180m€ from last year, so unchanged. Last comment here. Just linking it back on the Learning side, 2025 is the last year of the lower cycle in, for example, Spain. We see growth particularly happening from '26 onwards. For this year, our expectation is that overall, a relatively stable learning content market. On the media side, we expect the advertising market to be relatively stable. As I highlighted, more of a decline in the first half of the year and a stabilisation more towards the second half of the year. With that said, I would like to hand over to Alex to talk us through some more of the financials.

00:07:42 - 00:08:46
Alex Green:
Thank you, Rob, and great to be with you here today for this Q1 presentation. With the financials let's start, as always, with the Q1 operational EBIT. In Q1, it's similar to what you saw on the previous slide. Operational EBIT is going from -24m€ last year to -19m€. A five million improvement primarily driven by the learning business, with the growth in the content sales in the Netherlands, which is partly driven by earlier ordering and the increased digital platform sales in Poland. Together with, we're seeing some impacts of Solar visible in the cost base. As Rob mentioned, we have substantially completed the tasks to have that programme complete. In Media Finland, we have operational EBIT, a similar level to last year, which is the lower advertising sales being offset by continued growth in Ruutu in the subscription sales, lower paper costs driven by volume, and then the ongoing improvement in operational efficiency to keep the cost managed and to keep the results in a good place.

00:08:46 - 00:09:40
Alex Green:
In terms of other and elimination, this is relatively similar to last year, and for a full-year basis, we expect the '25 total to be the same as the full year '24 costs. If we move on to the financial table on the income statement. First, let's start with the items affecting comparability. The second line. They were 4m€ in the first quarter of this year, versus a credit of one and a half last year. Now, last year we had a capital gain from some divestments of about 5m€. If you exclude that the IACs were relatively similar year on year. The 4m€ this year, about 1m€ of it was related to Solar. In terms of the overall EBIT, that gets the overall EBIT is stable year on year, with the improvement in the operational EBIT that you just saw being offset by the absence of that one-off positive in 2024.

00:09:41 - 00:10:39
Alex Green:
Net financial items are lower due to the lower amount of external debt. Average interest rates are slightly lower, but not that much lower. It's mainly the lower debt that's impacting that, which we can see on the next slide, where we continue to deleverage on a year-on-year basis. You can see their net debt down from 694m€ last year to 617m€, taking the adjusted EBIT leverage from 2.9 down to 2.4. Obviously, it goes up from December due to the fact that the free cash flow in the first quarter is negative. Equity ratio there at roughly 43%, which is at the

higher end of our long-term target range. Then, finally, the strong free cash flow improvement there, you can see the 12-month rolling average increasing up to past the 150m€ mark.

00:10:39 - 00:11:24
Alex Green:
At Q1 2025, we were at -30m€ versus -44m€ last year. We saw the higher operational earnings and lower interest rates, but also continued positive working cash development on the Learning side, optimizing for inventory levels and optimizing for receivables. That gets us to a good, strong cash position for this quarter. We expect having gone up from 105m€ to 145m€ for the total of 2024 free cash, we expect to stay at those high levels and, in fact, be a little bit higher in 2025. With that, I invite my colleagues back with me to do the Q&A.

00:11:30 - 00:11:42
Kaisa Uurasmaa:
Thank you, Alex and Rob. We will now start the Q&A session. First, I would like to ask if there are any questions here at Sanoma House. Samu from Nordea, please.

00:11:43 - 00:12:07
Samu Wilhelmsson:
Hi, and thanks for the presentation. Probably the first question regarding Program Solar, because if I remember correctly, when the program was announced, you said that you would achieve run-rate savings around '26 or by the end of '25. What you describe now that the effects are already to be seen in Q1, so does this mean that you are ahead of your original schedule, or how would you elaborate on that?

00:12:08 - 00:12:54
Rob Kolkman:
Yes. From a business point of view, we showed that the full year last year that we were slightly on track, slightly ahead of the percentages of actions taken. That's one thing to consider. What we're highlighting is that all these decisions, of course, mostly will go into 2026. Alex can elaborate a bit on how that works exactly from a financial point of view. Of course, some elements are already visible. To give you one specific example, if you think about some of the reorganizations we have done, particularly in Spain, that has also resulted in lower people cost. Of course tough decisions, but needed. That is partly reflected as well in the P&L.

00:12:54 - 00:13:45
Alex Green:
Yes, indeed. As we stated a couple of years ago, I think at the beginning of 2023, we would basically take the run rate of expenses down by about 55m€, which generates the 23% margin in 2026. Two aspects of that were the reorganisations that Rob just talked about. A lot of the people or the work there, a big part of that was capitalised. Then the savings would come through on lower depreciation over time. That takes time to come through. Secondly, some of the efficiencies or the efficiencies about actually lowering the unit cost so that when the volumes go up, you get a higher margin. We only get that when the volume goes up next year. As Rob says, where we have reorganised and the element of that was going into operating expenses, we're starting to see that obviously lower from now.

00:13:46 - 00:14:15
Samu Wilhelmsson:
All right. Thank you very much. Then perhaps another question regarding acquisitions. Of course, we understand that the new strategy you presented in the last Capital Markets Day, a few years go, but given that sizable acquisitions that at least you have made before, the due diligence processes for those tend to take some time. Probably my question is, do you already know what you're buying, and this is going to happen around 2027 or later on?

00:14:16 - 00:14:31
Rob Kolkman:
The first answer is that we never comment on ongoing M&A. I think it is important to highlight that it is indeed a very important part of our growth story going forward. You're absolutely correct. That means that we are working very hard on that as we speak as well.

00:14:32 - 00:14:33
Samu Wilhelmsson:
All right. Thanks.

00:14:35 - 00:14:43
Kaisa Uurasmaa:
Thank you, Samu. I will now hand over to the operator if there are any questions on the telephone line.

00:14:45 - 00:15:09
Operator:
If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. [silence 00:14:57-00:15:01] The next question comes from Sami Sarkamies from Danske Bank Markets. Please go ahead.

00:15:13 - 00:15:14
Sami Sarkamies:
Hello, can you hear me?

00:15:14 - 00:15:15
Rob Kolkman:
Yes.

00:15:17 - 00:15:33
Sami Sarkamies:
Yes. I have three questions. Firstly, starting from the positive timing impact that you are referring to at learning. Can you be a bit more specific about what you mean by this in Q1?

00:15:34 - 00:15:35
Alex Green:
Sorry?

00:15:35 - 00:15:37
Rob Kolkman:
The specifics of the timing of the ordering.

00:15:37 - 00:16:07
Alex Green:
Oh yes. Indeed. As we say, we have growth, higher sales in the Netherlands, which we're saying is partly due to earlier ordering. Now there isn't any one big particular order that sort of comes into Q1 from Q2. It's harder to tell specifically how much is earlier ordering and how much is growth. You'll only really know that when the season is over. We do see and believe that a reasonable part of what we're seeing is going to be earlier ordering and the other part be growth.

00:16:13 - 00:16:22
Sami Sarkamies:
Then I would ask for your comments on the Finnish macroeconomic situation. What are you seeing at the moment when you look at the latest data points you have?

00:16:23 - 00:16:41
Rob Kolkman:
Yes, I think it's fair to say that it's still a very soft market. We do not see signs of improvement yet in that market overall. Also, if I look at our own performance, which, if you take out the third party deal, is very much aligned with the market overall.

00:16:44 - 00:17:01
Sami Sarkamies:
Thanks for that. Then, finally, regarding the Disney cooperation, I think you're saying that the earnings impact was limited in Q1, but maybe more pronounced later on in the year. Can you be more specific on this one?

00:17:02 - 00:17:41
Alex Green:
Yes. Overall, in terms of the sales in 2024, we had 15m€ to 20m€ in sales there, which we don't have this year. This contract, as a reseller, has lower profitability than the rest of the advertising portfolio. That doesn't go

exactly equally. It's not that much of a difference between quarters, but it's maybe a million between the high and the low in terms of the profitability impact and the different quarters. It was low-impact profitability in Q1. It will be higher in a number of the other quarters.

00:17:44 - 00:17:48
Sami Sarkamies:
It's not that you would book all the results in Q4?

00:17:49 - 00:17:50
Alex Green:
No, no.

00:17:52 - 00:17:54
Sami Sarkamies:
Okay, thanks. I don't have any further questions.

00:17:59 - 00:18:04
Operator:
[silence 00:17:54-00:17:59]
There are no more questions at this time. I hand the conference back to the speakers.

00:18:06 - 00:18:38
Kaisa Uurasmaa:
Thank you. The discussion has been lively on the chat, so we will continue with a few more questions. They are basically around three topics, some of them already touched, but maybe I can start with the ones related to Solar. Indeed, we already discussed that a bit, but would you like to quantify the impact in Q1, and do you expect a similar impact in the coming quarters, too?

00:18:40 - 00:19:13
Alex Green:
I won't put an exact, precise number on it. As I said before, at the end of the year, we'd finished 80% of the tasks, were now above 95%. It's starting to show in, you know, as Rob mentioned, the restructures we've seen. We have a certain impact in Q1. We expect it to be in all quarters and growing slightly as we go into the end of the year, so that we have the full impact that we set out to have in 2026. It will accumulate.

00:19:15 - 00:19:38
Kaisa Uurasmaa:
Thank you. The other two topics are basically the advertising market in Media Finland and the learning business. If I continue with Learning. Sales in other regions, including, for example, Sweden, was weak now in the small quarter of Q1. Why was that?

00:19:38 - 00:20:09
Rob Kolkman:
Yes. This is actually a good example of where phasing can also go the other way. This was actually mainly the Swedish market, where we saw phasing differently. From that point of view, this comes back to the overall point that these are small quarters. That also still counts for quarter two, as I mentioned, to maybe even phasing into quarter three. It is all relatively small numbers, where you can then see these changes. There's nothing from my perspective that can be read into that for the overall performance for the year. We are firmly on track with that.

00:20:10 - 00:20:21
Kaisa Uurasmaa:
Yes. Good. Then, still one question on the phasing in Learning. Was it also elsewhere than in the Netherlands?

00:20:21 - 00:20:28
Alex Green:
No, it was primarily in the Netherlands that we saw the growth coming from earlier ordering.

00:20:31 - 00:20:51
Kaisa Uurasmaa:

The final one is on Poland, where the higher digital platform sales in the B2C channel drove growth. Could you please elaborate on that a bit? What are the products and services offered, and do these sales contain recurring revenue items?

00:20:51 - 00:21:38
Rob Kolkman:
Yes. If you look at what happens in the Polish market, you see that the share of parents paying for certain services is increasing, which is partly a reflection of slightly different funding from the government. In other words, parents pay more. In this particular case, keeping in mind again that it's a small quarter, it is also around student information systems or parents getting access to certain things, paying for that, but also with regard to exam preparation materials and things like that. It's a variety of things, but it's around the point of actually selling directly to the parents and the students. Maybe to add to the point if it's recurring or not; of course, this is towards parents, so there is an element of if that is the right kind of service for them, that is recurring.

00:21:39 - 00:21:59
Kaisa Uurasmaa:
Very good. Then moving forward to the advertising market in Finland. The advertising market in Finland has been quite weak for a longer period of time. What makes you think that it could improve in H2, and what does it look like in Q2?

00:22:00 - 00:22:44
Rob Kolkman:
Yes, I mean, let's be very clear on the fact that the visibility of all this is very limited, right. Even in the quarter two, there is still quite a bit of uncertainty if you go more towards June, for example. So that is a big caveat to make. If we look at it, I mentioned quarter two being one where you also have slightly higher comparables compared to 2024, which is, of course, also to do with the fact that we've seen a certain phasing of our advertising revenue in 2024. If we then look at what we now expect for '25, we do expect a slightly different phasing. In this particular case, maybe more towards quarter three and quarter four. If the point is around, do we already see a real improvement in the Finnish economy? No, we don't see that yet.

00:22:46 - 00:22:55
Kaisa Uurasmaa:
Were the advertising sales in Q1 in line with your expectations?

00:22:56 - 00:23:14
Rob Kolkman:
Mostly, yes. They were maybe a little bit on the softer side if you look at some elements of it. Overall, the trends, as I highlighted as well on the digital growth and the decline in print, were the same overall. We don't see the improvement yet that, of course, everybody would like to see, but that's not the case yet.

00:23:16 - 00:24:36
Kaisa Uurasmaa:
I think this concludes the questions on the chat unless somebody still has more to come. Nothing on the platform yet. Nothing from here. With this, we would like to conclude the presentation by reminding you that the next quarterly report will be published at the end of July. Also, as a reminder, we held our AGM this morning, and the recording of the presentation from there by Rob, but also by Pia Kalsta, CEO of Media Finland, and Kirsi Harra-Vauhkonen, Managing Director of Sanoma Learning Nordics, is available on our website at the moment. It also covers aspects, for example, what comes to AI in our businesses. As said, the recording of this presentation will also shortly become available on our website, and we continue to remain at your disposal at IR. Please contact us if you have any further questions. Thanks for your participation, and I'm wishing you a good afternoon.