

Werner Söderström Corporation

Jorma Kaimio

President, WSOY

Capital Markets Day

14 May 2003

Book publishing and "cultural deduction"

2

Is it true that there is a "cultural deduction" in the market cap of a book publisher?

Y:Kalvol/kokous03/CMD/Kaimio

The Finnish book market 2001

- EUR 300 million (publisher's prices), estimated growth 2–3%
- WSOY's market share 36% in 2002; Otava ranks second, 18–19%
- 4,172 new (commercial) titles
- 28.5 million copies sold (5.6 copies per capita)
- Special features compared with international market
 - strong domestic fiction, otherwise Anglo-American dominance
 - no literary agents; publishers do their job, no huge advance payments
 - no government subsidies
 - Finns are avid readers – 19 public library loans per capita – and books are much appreciated

WSOY's structure 2002

- Publishing: Revenues EUR 143.5 million; 18% of this from abroad, 13% from "new media"
- Printing: EUR 62.7 million, of which 28% in-house (SanomaWSOY) printing and 30% export
- Calendars: EUR 34.5 million, of which 48% from abroad
- After eliminations these yielded net sales of EUR 215.9 million and EBIT of EUR 12.4 million (with associated companies EUR 20.5 million)
- Publishing: EBIT at Publishing EUR 11.7 million or 8.2% in spite of heavy new media development costs and losses
- So it can be concluded that "cultural publishing" was quite profitable

Publishing of fiction is profitable

- In a small language market, you can be a big book publisher only by having all book segments in your portfolio
- This also gives much internal support, but for WSOY's reputation and image, fiction is the most significant publishing segment
- Both fiction as a whole and especially original (Finnish) fiction have year after year shown two-digit EBIT figures
- WSOY publishes 50–60 new original fiction titles annually; about 10 of these are collections of poems
- 3–7 debutants are needed each year to keep the publisher's "stable" fresh and with a good outlook
- The debutants are selected from among the roughly one thousand fiction manuscripts annually sent to WSOY
- While many of the titles are economically insignificant or even unprofitable, one bestseller can bring EUR 0.5–1.0 million in revenues with a very high profitability level

Y:Kalvol/kokous03/CMD/Kaimio

Why could WSOY not publish just bestselling authors?

- Every best-selling author has once been a debutant; most of them have remained faithful to their first publisher
- Just a few best-selling debutants (Heikki Turunen, Anja Kauranen)
- Kari Hotakainen, whose last novel "Juoksuhaudantie" published last autumn has sold close to 100,000 copies, made his debut in 1982 with a poetry collection
- His first novel was published nine years and three more poem collections later

Publisher's attractiveness is in reputation

- A publisher's capital is mainly intellectual; it is not even in the intangible assets of the balance sheet, and the main part of it is outside its offices
- Long-term profitability is much dependent on its ability to attract more intellectual capital: authors, editors, manuscripts, ideas, personnel, managers, international agents
- This attractiveness is connected with the publisher's reputation, history and size, but even more with its list of titles; "Do I want to be included in this list?"

Market drivers of WSOY

- The traditional book, calendar and printing markets are considered rather stable
- On the other hand, the book market can be surprising
- The pocketbook market in Sweden tripled in a few years; signs of the same development in Finland
- Multi-volumes have, after years of decline, returned to a growth path
- The threat of new technology to printed books and calendars has receded; on the other hand, new business opportunities connected with it have not yet materialised
- Clear growth indications in eLearning in Europe, where WSOY is in good positions

Profit drivers of WSOY

- To achieve its profit target, WSOY needs
 - a normal trade cycle
 - no more losses in the new media; some of the start-ups to the target level
 - preservation of (in some cases return to) the profit level in traditional businesses
- But the times can become even harder before they start improving
- That would require further cost cuttings but without endangering our reputation and attractiveness

What WSOY wants to be?

- Not only the market leader, but also the attractiveness and intellectual leader in Finnish publishing
- A remarkable European player in eLearning and educational publishing
- The best prepared Finnish publisher for changes in publishing technology
- The most profitable and one of the largest book printers in Scandinavia, thus giving additional value for the publisher
- EBIT level raiser in SanomaWSOY