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Anna Tuominen: Ladies and gentlemen, I am Anna Tuominen, Head of IR here at Sanoma and it's my pleasure to welcome you to our Q2 event. This time, we'll have the audio combined with the presentation on our website, a bit of a change, other than that, it will be like before. So we will first hear the presentation from our CEO and President, Susan Duinhoven, and then from CFO and COO, Markus Holm. After that, there will be time for your questions. Susan, please go ahead.

Susan Duinhoven: Thank you very much. A warm welcome from my end as well with this Q2 presentation of our results. And the second quarter went fully in line with expectations. Our operational EBIT was stable at EUR 79 million adjusted for the SBS divestments. There were two components in that – strongly improved profitability both in Media Finland and in our print and online business in Holland. And compensating that increased costs in Learning in order to produce our new learning methods in the – for the Polish market where there is a full curriculum change. Our reported operational EBIT was slightly down at EUR 82 million coming from 87 last year and that was then due to the SBS business.

Organic sales close to stable, EUR 382 million versus 388 last year again adjusted for SBS. And operational EPS went up with over 20% to €0.35. As I've already mentioned, the divestment of SBS took place. The closing of that deal was on the 19th of July and you will therefore see the SBS business into our reported figures for the full second quarter. But from the beginning of the third quarter, we will take that out of our numbers.

The closing went fully in line with the earlier announcement and the earlier expectations. And all the regulatory approvals were obtained without any change. The outlook, therefore, for the full year is also unchanged. Net sales, adjusted of course for structural changes is expected to be stable and the operational EBIT margin will be above 10%.

So all in all, a good quarter in line with expectations, and that you see here then as well. Let me focus a little bit on the graph. You there see EUR 4 million increase in profitability in the Belgium and Dutch business. So really, from a percentage perspective, you know, a very nice growth in profitability. Media Finland, even though the advertising market was a bit tougher in the second quarter, also EUR 4 million uplift in profitability.

And then as indicated, spending in learning, specifically in our Polish market that caused the decrease in this second quarter. And that is, as we have indicated at the Capital Markets Day, we are spending in order for future growth there.

The “Other” costs, which are the head office costs, partially impacted by allocations to the business have slightly improved.

If we then talk about the advertising markets, you see both the Dutch and the Finnish market and you see the markets continue to be under some pressure. The overall Dutch market is expected still to show a positive trend, but if you look at the individual segments, both magazine and TV, they are negative. The online segment is the segment that grows, an online segment in which we have a very sizeable position ourselves as well. So, that’s where you see the mix in the development.

The Finnish market, slightly down in the second quarter and a little bit of a surprise, specifically on TV, a slightly stronger increase [rate of decline] than expected. Newspapers, magazines. And, online grew there only in the measured market with only 1%. Here, the benefit is that the SMF, the Media Finland business, our business grew in online with 14% and that’s why you see that even with this slightly under pressure advertising market, the media business, our media business in Finland, had a very good quarter with EUR 4 million uplift in profitability.

If we then go a little bit in more detail on each of the businesses, Media business Holland and Belgium, specifically print and online, very good profitability increase. Organic sales were about stable, a slight decrease with 1%. Operational EBIT going up with 15%, basically due to cost innovations. So constantly changing, working practices, approaches and streamlining the organisation.

We also saw that in the online space, NU.nl, which is our largest reach platform and actually the largest reach news platform in the Dutch market reached an all-time high in May with 7.2 million users on the platform. And we got recognised also with the AMMA award which is a media industry and media and communication industry award where we were, by a jury of our peers, were voted the best media company in the Netherlands.

In the graph, you clearly see the large reach that we have. So, with Sanoma SBS specifically in the online space, NU.nl is creating the large reach together with Startpagina and you see that the magazine portfolio is creating a clear number one magazine company in the Netherlands. So overall, a strong portfolio also after the divestment of SBS.

If we then look into Media in Finland, continued improved profitability. Organic sales decreased slightly by 2%, but subscription sales were performing very well and especially the number of digital users increased. And I think in the graph, you also clearly see that Helsingin Sanomat is continuing on its strong path of constantly increasing its digital readership with now over 200,000 paying subscribers. So that is 8% up from last year.

But also, our digital advertising sales as I already said even though the market was quite stable, we grew by 14%. And then, you know, the balance of that was of course that the print and the TV advertising sales was a little bit more under pressure but that was then largely compensated as indicated by the subscription sales and the online sales.

Operational EBIT, 19% up so very happy with this quarter in Finland. And that's mostly due to cost innovations, changing of our practices on a continuous basis.

As we indicated – in April, Sanoma Baltics was divested as that was the only business that we had in that geographic territory. We sold that to management.

In the graph, you see a little bit of our claim to fame from last year – the increase in market share in the TV viewing market. And you see that in the last month, we managed to maintain that sharp increase. And we did that in a quite cost-efficient manner. Of course in May, in the second quarter, you always see a little bit of a dip due to the Hockey World Championships but in June, we recovered that share again.

If we then look at Learning in the second quarter, that was really a quarter centred around anticipating and preparing for the Polish curriculum reform. And just to give you a feel for the magnitude of that, all the school systems are changing there and therefore, all the methods have to be redone. So we have redone in this quarter 46 methods that have been completely refurbished but also had to be sold and marketed to all the schools at the same time.

Now, sales increased 3%, strong performance in Finland. The consolidation of De Boeck of course played into this. Slightly lower sales in the Netherlands and in Sweden, expected to be partially recovered in Q3. But take for example in Sweden, last year, there was a big influx of new Swedes into the Swedish market and that was an uplift that was one-off that we did also not expect to happen again this year. So therefore, only a part of the decrease will be recovered in Q3.

The operational EBIT decreased, you know, again as expected. Two main parts: Costs that we made in order to prepare for that curriculum change, the 46 new methods, but also the marketing and sales effort. But also increased depreciation and amortisation. As we have explained with

the Capital Markets Day, Learning is on a long cycle and that means that when you prepare for new methods, you make the cost of course, but only once you start selling those new methods do you start the depreciation and amortisation and you don't have all the revenue in yet. So that's where you see in the first year for example in Finland with the new curriculum and the new methods, you see a higher depreciation and amortisation. So, all expected trends.

The positive element for us was the strong performance, operational performance in the Finnish market. So we're happy with that. And as I've already indicated, all newly developed methods have now also been approved by the education ministry in Poland. You need that approval in order to be able to start deliveries. So, with that approval, we will be able in Q3 to start delivering to all the schools.

And I think in the chart, you see something that we're particularly proud of in Learning, a 30% increase in usage of our digital platforms which shows that after the roll out of for example Bingel in the Finnish and the Swedish market, you see more and more schools picking up and using it very actively.

So with that, the quarter went as expected and in line with how we like it to see – outlook being unchanged, net sales adjusted for the structural changes to be stable and an operational EBIT margin above 10%.

And with that, I'll hand over for Markus to give us some more details on the financials.

Markus Holm: Thank you, Susan. I will start my part by analysing our first half performance. And for the sake of clarity, we have presented both the figures including and excluding SBS TV.

If we start by the net sales adjusted for SBS, this was in the first half EUR 679 million, down by 2% compared to last year. Net sales, EUR 785 million also down 2% to last year. Operational

EBIT adjusted for SBS in the first half was EUR 95 million, up by EUR 10 million last year. Operational EBIT EUR 93 million, up by EUR 4 million last year.

The cash flow from operations adjusted for SBS, EUR 43 million negative in the first half which is a EUR 6 million improvement on last year. Operational EPS adjusted for SBS, €0.35, which is €0.07 improvement compared to 2016.

If we then look on the first half, comparable operational EBIT adjusted for the SBS transaction by business unit. Media BeNe improved by EUR 6 million, Media Finland – and reported EUR 39 million EBIT; Media Finland reported EUR 42 million in the first half, up by EUR 12 million compared to last year. Here, it's good to remember that in the first quarter, we had some one-offs related to accounting estimates of some EUR 4 million so the underlying improvement was roughly EUR 8 million in the first half in Media Finland. In Learning, the first half was at EUR 19 million, down EUR 11 million and I will come back to this in the second quarter analysis. Other, negative EUR 4 million, which is a EUR 4 million improvement on 2016 first half.

Then to the second quarter comparable operations – comparable EBIT and this was stable adjusted for SBS. Media BeNe – in Media BeNe, we saw an improvement of roughly EUR 3 million on last year. Cost innovations in print and online contributing positively and then slightly lower print sales somewhat offsetting that.

In Media Finland, we saw a EUR 3.5 million improvement in the second quarter helped by cost innovations for instance in distribution. Also, the growth in digital sales had a positive contribution.

In Learning, we were EUR 7 million down versus prior year. We saw an improved performance in Finland and Belgium offset to some extent by the lower sales in Netherlands and Sweden. And then, as Susan mentioned, the higher costs related creating new methods in Poland and the

higher depreciation and amortisation related to earlier investments. This combined the new methods and the higher depreciation, amortisation were roughly EUR 5 million out of the EUR 7 million. So clearly, the development costs were heavier now in the second quarter compared to the first quarter.

In Other, the changes in internal allocation has changed. So, we have been pushing more costs into the operating units and therefore the other items are becoming smaller. Here, we have guided in the Capital Markets Day that the annual total would be roughly EUR 16 million. Now we see that this will improve to some EUR 12 million. So looking on the second half field, the other items will be higher than in the first half but the total around EUR 12 million.

Then to the cash flow in the second quarter, this is reported free cash flow and that is the operational cash flow less the capital expenditure. Here, we also adjust for the capital loss related to the SBS transaction as that is a non-cash item. And you can see that the biggest factors were net working capital, taxes and financial items.

On the net working capital which – where we saw a negative effect of EUR 19 million compared to last year, there, over two-thirds of that is explained by short-term incentives that we paid this year after a very successful 2016. This magnitude of incentives, we didn't have the prior year.

Taxes, somewhat up this year. And financial items, here, a EUR 17 million improvement of which EUR 12 million is explained by the redemption of the bond in 2016. And in addition to this, we had a EUR 5 million impact also of the US dollars still in SBS, US dollar payables in SBS, that had a EUR million negative impact on the working capital, net working capital but then a positive impact on net financial items.

Then to the financial impacts of the SBS TV transaction, one could conclude on this one that it went pretty much as we expected. So, we said that we expect a capital loss of the magnitude of

EUR 313 million negative and the actual was EUR 308 million negative.

Here you can see in the picture the bridge and including the adjustment related to discontinuation of the amortisation, the total impact on our net result was EUR 286 million negative.

Our equity ratio was 29% compared to 41.7% last year, this due to the write-off related to SBS asset held for sale classification in quarter one. And as we have said, the lower equity ratio now, we see that that will recover during next year that we will come back to our guided range of 35 to 45% equity ratio next year.

Financing costs are coming down nicely. In March, we repaid EUR 200 million bond using commercial paper and bank financing. Our net financial items year-to-date were EUR 11 million compared to EUR 18 million roughly in 2016 first half. Our average interest rate during the first half was down now to 2.0% so a nice reduction also there compared to the 2.8% in 2016. And the proceeds now from the SBS divestment of EUR 237 million will be used to repay commercial paper debt and bilateral loans.

Deleveraging continues. You see here in the picture our net debt development and the leverage development. Net debt to EBITDA adjusted was at 3.6 times now. Net debt, EUR 847 million compared to EUR 855 million last year. The divestment of SBS will improve the leverage ratio going forward clearly. And the continued improvement of cash flows and deleveraging will have a positive effect on our EPS also going forward.

This concludes my part of the presentation. Thank you.

Anna Tuominen: Thank you, Markus and Susan. We have now time for your questions. Do we have questions here at the room?

Jesse Kinnunen: Yeah, this is Jesse Kinnunen from Inderes. One question about Learning, do you still expect cost from this educational reform in Poland in quarter three or are there, you know, things done now for it?

Susan Duinhoven: No, we do expect still continuing costs in Q3 because the sales process to the schools continues really. The schools there start in September so July and August are very much heavy months.

Jesse Kinnunen: Thank you.

Anna Tuominen: If we have no more questions here at the room, let's take questions over the phone.

Operator: Thank you, madam. So ladies and gentlemen, if you wish to ask a question at this time, please press star one on your telephone keypad. We do have one question from Panu Laitinmäki from Danske Bank. Please go ahead. Your line is open.

Panu Laitinmäki: Yes, thank you. I would have three questions actually. So the first one on Finland where the margins were strong despite the weak market and lower revenues, would you talk about the sustainability of the margins and what kind of further cost innovation do you see coming through in Finland still?

Susan Duinhoven: We do see very sustainable margins in Finland. So the cost innovations that have been done, these are not one-offs. This is really structural and we're still, as we have indicated before, we're still very much in our Suunta programme. So we're still continuing to change our processes to streamline organisation on various aspects.

And for each of the decisions, we do that within Sanoma Media Finland. We do that with our own pace and our own order of things but that is definitely something that will continue.

Panu Laitinmäki: Okay, thanks. I would have one follow up related to Finland. So last year, the margins in Q3 and Q4 were clearly below those of the first half. So do you think there will be similarities this year or was it just related to last year?

Susan Duinhoven: Yeah, it is at this moment very hard to make predictions on the advertising market. We had not expected this trend in Q2 so I would refrain from really making an estimate on the seasonality let's say for Q3 and Q4.

Panu Laitinmäki: Okay, thank you. My second question was related to Learning. So basically, you said you expect costs to continue in Q3 but how should we look at this from a full-year perspective? You were about EUR 11 million behind last year in the first half EBIT. Is this something to look for the full year or how much of this do you expect to reverse in the latter part of the year with stronger sales for example?

Susan Duinhoven: Yeah, we typically don't give that sort of guidance by business unit. But I would say that the effect that you see in the first half of the year, we clearly do not indicate that that is just a shift between quarters that I think the absence of that statement can give you some guidance. We are investing here and then I'm using a little bit a liberal sense of investing but we're investing here for growth. And we're investing for growth at Poland which is our second largest market. So it's really worthwhile to benefit now fully from this curriculum change.

But also like we've told on the Capital Markets Day, we're also doing investment in professional learning in the Dutch harbour where we're developing both a client base and methods in order to do professional learning.

So – those investments, you see and you see them impacting the result of this year. But we see that, as the right way to go forward for the learning business.

Panu Laitinmäki: Thank you.

Markus Holm: Sorry, Markus here. I would perhaps add to that that it is important to remember of course that quarter three is a strong quarter in Learning. So there, we will have significant deliveries and that's still ahead of us.

Panu Laitinmäki: Great, thanks. My final question was to Markus. You said that costs in the Other EBIT line would be only about 12 million this year which would imply that in the second half, this will be down by as much as 8 million. So I was wondering, where does it come from? Is it like cost savings or is it more like allocating this to divisions as you mentioned like the year-on-year impact?

Markus Holm: It is actually both. So we have both allocated the costs to the business units really as they very much belong to those businesses. And then we have also done costs savings.

Panu Laitinmäki: Okay, thank you. That's all for me.

Operator: Thank you. We will now take our next question from Sami Sarkamies from Nordea. Please go ahead. Your line is open.

Sami Sarkamies: Hi, I have still three questions related to the Learning division. Firstly, you did refer to the deal slippage in the Netherlands and Sweden. Can you quantify the amount that was postponed in the third quarter?

Markus Holm: We don't give any exact guidance in terms of the deal slippage as such. I think you can see a bit on the sales how they developed in Learning. But as said, from what we saw in the first half, it will be recovered but partially in the second half.

Sami Sarkamies: Okay. And then...

Susan Duinhoven: And that's specifically also in Sweden where we'll see little recovery

Markus Holm: And it's good to also note that we had also a compensation by the strong performance in Finland and Belgium. They have performed rather well in the first half.

Sami Sarkamies: Okay. And then if we look at the first half results, they were obviously burdened with high investments in Poland. I think you disclosed that the amount was roughly EUR 4 million in Q2. You said that there will be more in the third quarter. Can you quantify the amount just roughly?

Markus Holm: A couple of millions more but clearly less than in the first half.

Sami Sarkamies: Okay. And then finally on the second half outlook for Learning, if we look at the first half, operational EBIT was down by 37%. If we think about just the second half outlook, do you think it will be flat year-on-year or even higher or should we expect a further decline also in the second half of the year?

Markus Holm: As Susan said here, we are not guiding on an SBU basis but clearly as we have a strong quarter three ahead of us, there will be some recovery in the second half. But the development costs will somewhat weigh on this year when you compare to last year.

Sami Sarkamies: Okay, thanks.

Operator: Thank you. We will now proceed with our next question from Riikonen from Carnegie.
Please go ahead. Your line is open.

Matti Riikonen: Hi, it's Matti Riikonen with Carnegie. I have a couple of questions. Some of my questions already were answered. But first of all regarding Poland and the investments that you made in there, I just wanted to confirm that you are now talking about costs that are isolated to 2017 and not into later years like 2018. So that's the – that was my first question.

Susan Duinhoven: Yeah. Let me answer that one. The costs are into 2017 and that's why you also see that we take them as costs. So that's why I'm a little bit indicating investments is of course not in the literal financial sense of investments. It's not something that we take on the balance sheet and write off. So these are redoing methods. This is marketing sales effort in order to benefit from the curriculum change.

Matti Riikonen: Okay, thank you. And then my second question is related to the media advertising outlook. Your top line guidance is based on kind of flattish or a similar development that you had in the 2016 advertising in Finland and the Netherlands. Now without the TV business, you probably are going to benefit to some extent from the Netherlands advertising environment because TV has been kind of negative and now in the second half, you will have a greater share of online which has been doing okay. But then on the other hand in Finland, the development has been more negative than in '16.

So, it would be nice to kind of have your thoughts on how sustainable do you think that your basic assumption for the top line still is. Do you see that there's opportunity to improve the first half performance to the second half so that you would be in line with how you guide your top line in the media segment? It would be nice to have your thoughts on that, please.

Susan Duinhoven: Yes. I think it is important to recognise that our guidance is of course an overall guidance. So that is a guidance not only for advertising sales but it is an overall. And the subscription sales is doing both in Holland and Belgium and in Finland doing quite well. So those are compensating factors. That's one element to remark.

I think the advertising market change in Finland is not of that magnitude that we see a need to change our outlook. And you can even see that with the additional growth in online sales, we have been able also on the B2B advertising sales to actually perform reasonably okay given the market conditions. So there is no reason to be overly worried let's say as long as it stays within this range of change.

We, of course, always make this statement because we are as a company exposed to the advertising market. And if there would be, you know, a very dramatic change, not something from minus three to minus five, but really dramatic, then of course it would impact. But at this moment, there is no reason for worry on that end and that's also why we feel very comfortable with our outlook to the market.

Matti Riikonen: Okay. That's very helpful. Thank you.

Operator: Thank you. And as a reminder, ladies and gentlemen, it is star one if you wish to ask a question on today's conference call. We will now take our next question from Rasmus Engberg from SHB. Please go ahead. The line is open.

Rasmus Engberg: Yes, sorry. Good morning. I was wondering – I want to come back to the Capital Markets Day. I think you said that you anticipated the learning business to grow. So are we going to grow organically now in the learning business in the second half of the year or is that sort of something that happens next year?

Susan Duinhoven: Yeah, but I think it's – as you remember back to the Capital Markets Day, you see that learning has two cycles – the short cycle, the cyclical over the quarters and also long cycle. And the long cycle is really – we're developing methods over a period of three years and we then sell them for a period of five to eight years. So there is a long cycle.

And just to elaborate a little bit and drawing back on what we explained on the Capital Markets Day. There we for example indicated that in our key market, the Netherlands, there is the long cycle and the long cycle actually starts kicking up in 2019. So 2017, 2018 for the main methods that we have in our main market, are end-of-cycle years. Now that is sort of very hard to forecast normally because does a school still order a new method or do they wait for one year? Do they hang on, let's say, until the new method comes in?

So, that is always a bit of uncertainty at the end of the cycle and that's what you're seeing. So you cannot expect sort of the quarter-by-quarter growth when we see learning is as business one of our growth areas. I think there you need to see that we are doing the investments when it comes to Poland and when it comes to, for example harbour project, the professional learning. And we're in each of the markets doing the development of the methods to the highest possible standard and specifically also the digital ones, so that we – every time when schools need to switch and need to change methods that we grab a little bit of share.

But in the learning market, you can never expect big swings fast. So that's my honest guidance on this sort of, you know, if you expect this to mean that there is a fast growth and that it will be in every quarter, it won't be because in every one of these markets, you have these cycles that all have their own rhythm. So, where that exactly ends up on every quarter, yeah, it depends. This quarter for example on Learning was totally expected. This quarter in Learning just to give you as a background is performing above budget. So, that gives you a feel of where we are and what we expect and that we expect sometimes there will be quarters where there is a steep decline.

Rasmus Engberg: And in terms of the new curriculum in Poland, when would that be a benefit to your sales do you think?

Susan Duinhoven: Well, the first hopeful expectations are of course for this year already. But some of the schools will transform and will go immediately, some of them might wait a bit. So how that exactly pans out, don't know, but, you know, this is now really a market share game and that's why we have focused and invested so much on sort of being prepared because mind you, the law to change this educational system was only signed beginning of January. So, there was only a very short period to prepare and that's why you see all these costs coming in now. But of course, we're in a competitive battle there with our other commercial publishers hoping to gain share in the market like we have done for the last years.

Rasmus Engberg: Okay, thank you.

Susan Duinhoven: And so my – it will pan out this year, next year and then once you have that share, of course it will continue going forward.

Rasmus Engberg: I had a numbers question also. Your run rate for depreciation going forward, how will that look post-SBS?

Markus Holm: Yes, if you look under depreciation here, there was some impact and it will increase somewhat – depreciation and amortisation, if I recall, was for the full year we expect to be roughly some 6 million higher this year versus last year on Learning.

Rasmus Engberg: For the overall group, I meant, actually.

Markus Holm: For the overall, I don't have the exact figure now in my head.

Rasmus Engberg: Okay. All right, thanks.

Operator: Thank you. We will now take our next question from Dolf Rogmans from Villamedia.
Please go ahead. The line is open.

Dolf Rogmans: Yes, thank you. I have a question for Susan Duinhoven. I believe in April you stated that rumours are false, that Sanoma will leave the Netherlands completely after selling SBS. But I noticed that since then, the rumours continue to even increase. So, what is the position of Sanoma at the moment, concerning the Holland activities?

Susan Duinhoven: Yeah, I couldn't catch your whole question but I think your question is on the – sort of the Sanoma Media Netherlands position. I'm very much with the statement that we made in April and that is that we're fully focused on that market. We have, as you've seen in the presentation, a very strong position there. And we're keen to progress both in online and in magazines. So there's no change there.

Dolf Rogmans: Okay. Will there be more investments in the Netherlands?

Susan Duinhoven: We're constantly investing. So we're developing both digital propositions and online – in the magazine business, you see quite a number of interesting product extensions along the brand strategy. So that will definitely continue and if you look for example in the last year where we worked with Scoupy, Kortingsleuk, increased our share in those and connected them very strongly into the core of our business. So that approach will definitely continue.

Dolf Rogmans: Okay. Do you also see the rumours in the markets or you don't hear them?

Susan Duinhoven: Yeah, of course. But you know, this is an analyst meeting. We're not going into rumours in markets because then we would be spending the whole day.

Dolf Rogmans: Of course, yeah, but sometimes – okay. Great, thank you.

Operator: Thank you. We do not have any further questions so at this point I'll turn the call back to your presenter for any additional or closing remarks. Thank you.

Anna Tuominen: Thank you. Do we still have some questions here at the room? If not, I thank you for your attention and hope to – hope you to be present also in Q3 when we come out with the next result update. Thank you.