

FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

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Sanoma Corporation - CEO

Kim Ignatius

Sanoma Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Andrea Beneventi

Exane - Analyst

Alexander Wisch

S&P Equity Research - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sanoma first quarter results 2010 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Hannu Syrjanen, CEO. Please go ahead, sir.

Hannu Syrjanen - *Sanoma Corporation - CEO*

Okay, thank you very much. Good afternoon, ladies and gentlemen, and also on my behalf, welcome to our first quarter 2010 conference call. As said, my name is Hannu Syrjanen, I'm CEO of Sanoma Corporation. And I have here with me also CFO Kim Ignatius and Kare Laukkanen from our IR team.

I'll cover -- I'll briefly cover the key issues regarding the first quarter results. And after that, of course, we have time for questions and discussion as normally. And the slides that I'm using is available on our IR website.

In the first quarter, efficiency measures and systematic cost control helped us to increase our operating profit significantly, you can say. Also our cost base decreased further. Total expenses were down by 2% and personnel costs by 4%. Paper costs came down even more. Our cash flow also was very strong during the first quarter of the year.

Even though our profitability is improving, so our topline remained quite flat. Advertising markets were very quiet in January and February, but the situation changed a bit in March. For example, here in Finland, total advertising markets grew by 6%, newspapers by 5% and online by 22%, and our growth in these segments was even stronger.

However, I want to point out that it is still too early to say whether this was a turnaround or just one good month in the market. The visibility so is still very low and there is a lot of uncertainty in the air.

So this year we are focusing on maintaining a good cash flow and improving efficiency. Online operations will also have an important role in our agenda.

In the first quarter, our consumer online media sale already grew by 24%. We have also started the projects to significantly change our culture to more support innovation.

A few words about our key events during the first quarter, slide number 3. As we have said earlier, so we want to focus our businesses more. And in the first quarter we executed this strategy by divesting two small non-core assets, picture agency



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Lehtikuva and multivolume book publisher Bertmark's Norwegian businesses. Also Bertmark's Swedish operations were reorganized.

We also have to invest for future growth. In this year, we have expanded our Learning and Language businesses to Russia and China. I believe that our partnership with Russia's largest educational partnership Prosveshcheniye is a great bridge to this very attractive market.

Our broadband and cable television operator Welho launched a new set of broadband products. With its 200 megabits per second connection, Welho has clearly the fastest broadband offering here in Finland.

I'm also very proud of the awards we received in the first quarter. Our Finnish media sales won the top three places in the annual survey. Sanoma Magazines became number one for the second year in a row. Malmberg, on the other hand, was awarded for its innovative e-learning solution. As said, innovation management is one of our strategic objectives also in the whole Sanoma Group level.

Number -- slide number 4. In the first quarter, our net sales were flat, totaling EUR638 million. However, our operating profit excluding non-recurring items improved more than 50% to EUR36 million.

The cost-cutting measures executed in 2009 has [exhibited] the results as said earlier; divisionally, with developments in more detail in the next slide. Also our cash flow was very strong, as I said in the beginning, thanks to significantly better operational results, lower reference rates and taxes paid. In the end of March, we had 430 employees less than at the yearend sheet.

In the slide number 5, you can see the impact of each division as I promised. As you can see, operating profits improved in all divisions except in Sanoma Trade. Sanoma Trade suffered from the effects of new opening hours of other retailers to kiosk operations in Finland. Also the restructuring of the Russian and the Estonia operations (inaudible) profitability.

In Sanoma Magazines, profitability grew in all businesses and especially in Sanoma Magazines Netherlands and in Sanoma Magazines Finland. Main reason was the efficiency improvements started in the second quarter of 2009. In Sanoma News, in addition to cost-cutting, the growing advertising sales improved the results.

Sanoma Entertainment continued its good performance. Division sales developed well, especially in broadband and pay TV operations. Also Sanoma Learning and Literature improved its results, thanks to efficiency improvements, especially in learning and language services and timing differences in learning.

Next, some points regarding our financial position. As I have many times said in this conference call, Sanoma's financial position remains solid. Our balance sheet totaled some EUR3.1 billion. Equity rates increased to 43% and it's well in line with our target to keep the ratio between 35% to 45%.

Our net debt decreased to under EUR1 billion and our net-debt-to-EBITDA ratio was 2.4, which is also well below our long-term target of 3.5.

Without compromising our financial position, we can easily make acquisitions with a size of some hundreds of millions. If bigger acquisition opportunities arise, we can of course sell some of our assets to finance the acquisitions.

And finally, our guidance is still unchanged. So we expect that this year our net debt will grow and our operating profit excluding non-recurring items will improve slightly. And the bigger figure to compare here is EUR229.5 million. The outlook is based on the assumption that the advertising markets remains stable or grows only slightly in the countries we are operating in.



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So to summarize, we can say that the year has started well. And there are several positive signs in the market, but no clear turnaround yet. We have strengthened our market position in several countries and I am very confident that we are well-prepared when the markets eventually pick up.

So this was my story this time. Thanks very much for listening. And now we welcome your questions, please.

QUESTIONS AND ANSWERS

Operator

Thank you very much, sir. (Operator Instructions) Our first question today comes from Andrea Beneventi of Exane. Your line is open. Please go ahead.

Andrea Beneventi - *Exane - Analyst*

Thank you. Good afternoon, everybody. It's Andrea --

Hannu Syrjanen - *Sanoma Corporation - CEO*

Good afternoon. How are you?

Andrea Beneventi - *Exane - Analyst*

Very well, thanks. And I have a couple of questions for you as usual. The first one is on the -- on Sanoma Magazines. I have noticed that you had [close to 30] title closures over the last 12 months, between the end of Q1 '09, and the end of Q1 2010. I would like to know what was the impact on revenues and EBIT of these closures and what was the impact on profitability and were the titles loss-making or not.

And my second question is on the new legislation on the opening hour for the game shops. What do you expect will be the impacts for the year? Could you please give us some more details on this new legislation, please?

Hannu Syrjanen - *Sanoma Corporation - CEO*

If I start from your second question concerning opening hours and then Kim will elaborate a bit the first, with the one concerning those -- these closures in the titles from Sanoma Magazines.

So it's very early to say what is really the impact that -- of course, the situation before the change in the legislation was favorable for us because our kiosks were allowed to be opened also on Sundays, and now basically we have very, very free, very flexible opening hours by law.

So it means that there will be more competition and -- especially on weekends and there is an impact on, of course, the customer flows but also the sales mix. Of course, as you see, that the decline in our EBIT was only EUR900,000. So we are not talking about dramatic change. And maybe it will also even up later when people get used to the new situation that they can go to the shops also on Sundays.

So it's very early to say what these -- the real impacts, but because the trade as such has been pretty low, so retail here in Finland in the beginning of the year, so also the competition had suffered.

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So there is an impact definitely and we, of course, adapt our concept to this new situation by changing the concept, by thinking of price-setting strategies, for instance, and so on and so forth. So we not just sitting and waiting, but we are also going to be very, very active when developing our retail concepts.

Kim Ignatius - Sanoma Corporation - CFO

Hey, Andrea, this is Kim Ignatius. The impact of the closed magazines is very small on our operation. They are not big titles and many of them are or have been loss-making titles. And you could say that it's part of our ongoing business to work on our portfolio and exit some titles and launch new ones. So even in our general discussion, this is not a thing that we feel that has really an impact in comparing the two first quarters.

Andrea Beneventi - Exane - Analyst

Perfect. Thank you very much for your help, gentlemen.

Hannu Syrjanen - Sanoma Corporation - CEO

Thanks.

Operator

Our next question today comes from Alexander Wisch of S&P Equity Research. Please go ahead.

Alexander Wisch - S&P Equity Research - Analyst

Good afternoon, gentlemen, a couple of questions. Actually three questions. One, on Sanoma Trade. The outlook seems to be worsening. Could you provide us more color on that? In particular you had a plan to transform the bookstores and free them to start selling different kinds of things where maybe they could generate more margins.

Second question is in Learning and Literature. It also seems to be weaker than we and the markets were expecting over a very relevant quarter. Do you think they -- the trend will continue throughout the year? And also how much of your both the Learning and Literature come from the state budgets in your view? If you can give us some more idea of how much of that is state.

And third is basically the acquisition strategy in Learning and Literature, whether you can update us on that. For a while we've been expecting an acquisition there. You have a partnership in Russia. Would you consider going in big with that partner in Russia?

And then for -- to finance something big, which assets would you consider selling if needed? Thank you.

Hannu Syrjanen - Sanoma Corporation - CEO

Starting from Trade, as I explained earlier, so the opening -- the new legislation concerning opening hours is one issue impacting us. On the other hand, we are doing a lot in the concept development side. We have some dialogues already out there. So I think -- and still, of course, we have some restructuring cost concerning Russia and also Estonia where we have integrated our trade units. And the third point is that the economies in the Baltic states are still suffering.

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I strongly believe that we are recovering according the -- recovering the market in those countries because we are established, we have been there almost for 20 years, so -- and our market position is very, very strong there. So I do not really see any sort of dramatic changes, but we have been now -- and, of course, the retail asset is also pretty quiet at the moment in most of our operating countries of trade.

So -- but we are coming to really launch new concepts during this year, to really adapt the new situation in the environment, for instance.

So the second one, as you said, so first quarter is very small for our Learning and Literature. So the seasonality within the year is or has always been the same. So the first quarter and the last one are very quiet. And we really make the business during the second and the third quarter.

So it is too early to say anything definite. But we do not have any hesitation that we are doing pretty well with the business. So no major changes. And we have -- for instance, last year we gained a lot of market share in many markets like Poland. And we are also benefiting the situation this year because normally when there is a curriculum change, for instance, so -- and you stay in the first rate, so then normally you also do it on the second and third ones.

Businesses. Of course, so the business dynamics are a bit different in different countries. But of course, in many cases, it's public money who really finance this -- the educational material. So -- but we -- I don't have the exact figure how much comes from government budgets.

Alexander Wisch - *S&P Equity Research - Analyst*

But can I assume something, that at least half of your clients are public institutions or less than half?

Hannu Syrjanen - *Sanoma Corporation - CEO*

More than half. More than half because we are basically -- we are in primary and secondary education. So we are not in university that much, or higher education. So normally we are -- most of our businesses come from primary education and secondary education. And in most countries it's business to government.

Alexander Wisch - *S&P Equity Research - Analyst*

Okay.

Hannu Syrjanen - *Sanoma Corporation - CEO*

Acquisitions, of course, we don't have any detailed list to give to you. With -- basically the corporation we started in Russia is a good example that there are many ways to grow, not only by acquisitions, but also by joint ventures or partnerships. In language service, China is a nice opening as well where we have a local partner.

But as we have said even earlier, so we are looking at all the possibilities, not only in the countries or in the marketplaces we are today actively in, but also having a wider range of marketplaces.

So -- and your last point was that -- what to sell to finance, so -- and I think so that is something we should not tell in advance because then, of course, you are just adding the speculations.

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Alexander Wisch - *S&P Equity Research - Analyst*

Okay. Okay, thank you very much.

Hannu Syrjanen - *Sanoma Corporation - CEO*

Thank you.

Operator

(Operator Instructions) Our next question today comes from Andrea Beneventi of Exane. Please go ahead.

Andrea Beneventi - *Exane - Analyst*

On Welho, I remember the message at the end of Q4 was [five] closures and I also remember that some of your competitors are launching new offers. And now it looks like you're giving an outlook on a more confident tone. So I would like to know if it's due to the new offer and the success of the new Welho offer or something else.

Hannu Syrjanen - *Sanoma Corporation - CEO*

Competition has been quite strong also earlier. So we do not really see any major impacts or change in the impact of competition. Welho is still growing. So we were one -- I think one and only of the operators who really grew during the first quarter of the year.

So, of course, we have to carefully watch the competition and what happens in the market. But no real or no big impacts at this point of time. And then, of course, our offering is pretty nice. We just launched a new faster connection, as I said in my short presentations, of 200 megabytes. So we are now the fastest -- so we have now fastest offering in the market. So -- but competition is heavy.

Andrea Beneventi - *Exane - Analyst*

Thank you very much. And the very last one maybe, most of your competitors [here] in the industry tend to give an outlook for Q2 or least some trading figures from April. Is it something you can do to help us to understand how the advertising markets or magazines is evolving into Q2?

Hannu Syrjanen - *Sanoma Corporation - CEO*

We have never given any guidance concerning one quarter. We are guiding only on yearly basis. So I think that -- so there's more like a feeling that advertising during April -- because I don't have the exact figures yet, and looking at the bookings in May shows that it's improving a bit.

But I said it earlier, so it's too early to make any final conclusions if the turnaround has already happened or was the March only one good month. And let's see what happens in the future.

Andrea Beneventi - *Exane - Analyst*

Okay, thank you very much.

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Hannu Syrjanen - *Sanoma Corporation - CEO*

Thank you.

Operator

As we have no further questions at this point, I would like to turn the call back over to Mr. Hannu Syrjanen for any additional remarks or closing statements. Thank you, sir.

Hannu Syrjanen - *Sanoma Corporation - CEO*

Okay, thanks. Thank you very much for your time, so -- and thanks for good questions and thanks for participating in this conference call this Wednesday afternoon. Have a nice day, ladies and gentlemen. Thanks.

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