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| Speakers: | Susan Duinhoven, President and CEO Markus Holm, CFO & COO Kaisa Uurasmaa, Head of Investor Relations |
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Kaisa Uurasmaa: Hello ladies and gentlemen. Welcome to joint Analyst & Investor Conference of Sanoma and Alma Media about today's Sanoma's acquisition of Alma Media's regional news media business. Today we will first start the presentation with Sanoma's story. The presenter is our CEO, Susan Duinhoven, and then take questions to Sanoma. After that, we will hand over to Kai Telanne, CEO of Alma Media, and after Kai's presentation we will take questions through Alma Media. For the questions here at Sanomatalo, please wait for the microphone. And this event will be recorded, and the recording will be available on both company's website after the event. With this, I would now like to invite Susan Duinhoven to start the presentation please.

Susan Duinhoven: Thank you very much Kaisa. Yes. This morning we had good news, the acquisition of Alma Media's regional news business, and also indicated that we will evaluate the strategic options of the online classifieds business in Finland. But let me start with the acquisition.

Sanoma has signed an agreement to acquire the Alma Media's regional news business in Finland with the net sales of 94 million and an EBITDA of 20 million in 2019, and that is pro forma figures that are corrected for the outsourcing agreement that was closed in June this year and will have already full impact in 2020. This is a highly synergistic, bolt-on acquisition for Sanoma with estimated net synergies of around 13 million, and that will be coming into play from 2022 onwards. The agreed enterprise value is 115 million and that represents then a multiple of 5.8 on the pro forma EBITDA, and 3.5 when we also include the synergies. The key driver of this acquisition is growing the digital subscriber base in the Finnish market, and for that digital subscriber base scale is quite important. The efficiency and the shared operations will create the synergies and will then also create a better return on the digital investments going forward. And, those are typically significant in both acquiring the subscriber base, but also the digital content.

This acquisition then also supports, Sanoma Media Finland's, long-term profitability target that we communicated in December. And if you remember the target 12–14%, operational EBIT margin, excluding PPA. It is a clear acquisition in one of the core focus areas of Media Finland's business, the News & Feature. And as a whole we see this acquisition supporting the sustainable future for independent domestic journalism in Finland.

And I think for that, it is also important to realize that how we will continue the operation going forward. And that is, we see this as a portfolio of 15 titles that will be integrated into the portfolio of a News & Feature, which with a number of titles, but each of them will stay completely independent. So each will have their own independent editor-in-chief and will continue catering for their local audiences independently. And so if we look into it then, Alma Media Kustannus, as I said, two leading regional newspapers with long histories, and thirteen smaller papers around the Tampere area and the Western and Central part of Finland. Also included in this acquisition is Alma Manu the top-notch printing facility in Tampere that is currently supporting these titles and also the remaining titles that will remain with Alma Media, and that will continue going forward.

As I said, the acquired business will then be integrated in News & Feature. The News & Feature unit within Sanoma Media Finland has started on the 1st of October and contains the titles of Helsingin Sanomat, Iltasanomat and seven magazine titles.

If we then look in a bit more detail into Alma Media's regional news business, we see a sales of 94 million. As I indicated, an EBITDA of 20 million in 2019, as I said, corrected for the outsourcing agreement that has gone into effect on the first of January. The subscriptions account for roughly 60% of that revenue, the advertising sales about 40%. And you see that the advertising sales in Alma Media regional business has been quite stable and that is typical for regional advertising. That is more stable and less prone to go online, less alternatives for those advertisers makes that they are more loyal to the regional print business. The total of acquired titles have 190,000 subscribers by the end of 2019. Very strong positions in each of their regions with an overall reach of around 90%. 14% of those subscriptions are already digital only. And that grew very significantly in 2019, by 60%. And if we compare that then to Helsingin Sanomat, and that has also seen a good growth in the last year with close to 400,000 subscribers, and a digital only a share of total subscriptions of 27%.

As I've already indicated, Alma Manu will be part of this deal. State of the art printing facility, one of the most recent ones in Finland and even in the Nordics, leased with a book value of 41 million. The total business contains around, 365 FTE. And those will come of course with the business to Sanoma. The shared administrative functions that are at Alma Media, they will stay at Alma Media and not come with.

I already made the comparison with the digital development of Helsingin Sanomat. And it's important to realize that this digital transformation is really the core aim of this acquisition. It is that growth in digital subscriber base that we are looking for and that we have learned recently, how to make that into a success and how to grow that. And I think Aamulehti is showing exactly the same trend with that 60% increase. So that is the driver.

And when I just repeat briefly what we shared with you in December. When you look at the Helsingin Sanomat, the total subscriber base has grown in the last three years, three years in a row. And that is largely due to digital. Two thirds of the subscriptions, already include a digital component. 27% is digital only, but the hybrid is of course a combination of digital and print.

And, we see that that digital experience is specifically interesting for that younger audience that is more demanding on the way they get the news. So in order to attract that younger audience over time, we will need to continue that digital growth. And that is then also the aim with the acquired titles. Currently a shared of 14%, strong growth. We remind ourselves of the fact that the financial returns, by increasing the scale, the financial returns on the investments that we inevitably need to do in that digital development will be higher. And of course, there is also the payback from that because we see that every incremental digital subscriber is more profitable than the incremental print subscriber. As we have discussed before, the success in digital require scale and it is those investments in the digital infrastructure and architecture that benefits from a larger scale that this acquisition will then also bring.

Summarized: the key rationale for the deal increase in subscription news benefits for all the stakeholders, the readers, the advertisers, the employees and the shareholders. I already touched on a number of these points. Increasing efficiency, the bolt-on synergistic acquisition, 13 million of estimated synergies, half of them in the shared overhead functions that we will not take over from Alma, the other half in operational efficiencies, in procurement, in technology, and to a much lesser extent in the content. Expect it to be fully realized by 2022, and improving the returns on the increasing investments in digital development. Sharing the successes between the teams, because we think that we're at the start of this development paths, we're definitely not fully there, continued into joint investments and the developments of the learnings out of that. Sharing the pool of international, national feature content as well as technology and talent. Increased focus on the B2B sales. That's an area that is relatively new to Sanoma and that of course is Alma Media's bread and butter, I would say. That is, the advertising sales that is their strength. And for our employees extending the opportunities of a broader business, the opportunities for professional development.

I repeat here one more time and you'll imagine how important that is specifically also for our internal audiences that the news titles will be kept independently and I think that is not only internal but also to the readers' market that is, essential. Editorially independent editors-in-chief will continue to determine what is published in their titles. Engaging high quality regional and national journalism will be therefore secured for the readers in the future. It will give our teams the ability to fully focus with all their attention, fully focus, on the independent high quality journalism for the generations to come. So we think this is a true support for that sustainable future of independent, domestic journalism in Finland.

And it is of course in the Finnish market. It's a big thing there. There's a lot of discussion around it. If we take the step back and look at the international markets, then you see, and we have indicated here the market shares of the two largest players in each of the markets, you see that many of the Western European countries are already much more consolidated. Much more than Finland is. And we have seen recent deal, for example in Sweden, but also in the Netherlands and Belgium. This is very much the type of deal that has happened before. And I think for those who sometimes worry that this might reduce the diversity of the media landscape in Finland. I just remind everyone there that there are 160 titles and then I'm only counting the titles that have a consumer-paid element to it. So not the free sheets, 160 titles

in Finland. And that number does not reduce due to this acquisition. Each of the titles will stay independently.

So all in all, we think that the diversity is very much guaranteed. And coming back to the deal itself, we think that the valuation of 115 million, including the 42 million of debt, is an attractive evaluation for this highly synergetic bolt-on acquisition. As indicated, 5 million is attributed on top of the pro forma to the delivery outsourcing agreement that was previously signed and has gone into effect on the 1st of January. And then on top of it, we will have 13 million of net synergies and that will impact the financial results from 2022 onwards. As I indicated, half of it coming from a not taking over the overhead, the support functions out of Alma. So being able to leverage Sanoma's overheads on a group level and on a Media Finland level. And the other half comes from sharing operational efficiencies, procurement and specifically the technological infrastructure.

So all in all, funding will be financed from the existing depth facilities. There will be transaction costs and one-off integration costs that will amount to around 6 million euro will be booked as IACs in Sanoma Media Finland's 2020 results. The timing of that of course will depend on when the closing will eventually take place. The transaction is subject to all the normal closing conditions and most pronouncedly, depending on the approval of the Finnish authorities, the FCCA. And we expect that approval to come during 2020. And after the closing, as you would expect, the business will report into the strategic business unit of Sanoma Media Finland.

So with that, I would then like to touch base on the other message this morning, and that is our evaluation of the strategic options for Sanoma's online classifieds business. We've decided to evaluate the different options. As you know the classified business in Finland is also still relatively fragmented. And we will see if our online classifieds, both in recruiting and in housing with some add-on surfaces in construction or renovation and in the electricity comparison, how they can go forward in that strategic field. You see in the graph a nicely developing business growth. Also last year after, several years of good growth, 26 million of sales, 10 million of EBITDA and 94 employees. And this evaluation is very much in line with our indicated focus on News & Feature, Entertainment and BtoB marketing solutions in Finland. The divestment of the business is only one of the potential outcomes of this investigation. And we will let you of course know as soon as there are clearer views on where this investigation will lead.

And with that, let me summarize: highly synergetic acquisition aimed to support the growth in digital news subscriptions in Finland. So growing our digital subscriber base is key. That's the driver of this of this deal. Efficiency in the operations creating better returns on those digital investments. It supports our long-term profitability target of 12–14% EBIT margin excluding PPA. It strengthens Media Finland in its core business area, News & Feature. And overall, we think this will create a sustainable future for independent domestic journalism in Finland.

So with that, I would like to conclude my part and take any questions that you might have on more the Sanoma part.

Kaisa Uurasmaa: Thank you, Susan. We now have also CFO and COO, Markus Holm from Sanoma here for the Q & A session. We will first now take questions from here at Sanomatalo. Please wait for the microphone before your question. Please.

Sami Sarkamies: OK, thanks. Sami Sarkamies, Nordea Markets. Are you planning other similar acquisitions in regional media in order to consolidate the landscape in Finland even further?

Susan Duinhoven: I'm always surprised by the speed. We have hardly spoken the last word or we're already looking at the next steps. As you know and as you're used from us, we cannot make any statements on that.

Sami Sarkamies: Then I would ask on the synergy potential, 13 million that you have earmarked. Can you elaborate on this a bit further? For example, are you planning to do revisions in your existing printing facilities? Or will this somehow influence the distribution strategy you've been having in place?

Susan Duinhoven: Yes. No, there are no big elements, let's say, that constitute that 13 million. The 13 million really comes from the overheads, that's sort of half. So the overheads that we will leverage that we already have in place given the fact that we're very much in a similar business. We can reuse a lot of both technology and platforms. And the other part comes from the larger scale creating the efficiencies in the business. And I think very specifically to say that the three printing plants are full at night. So three printing plants is also what is needed for this portfolio. So no changes there. The distribution part, we're very much used to the type of distribution that is currently moved into by Alma Media. So we'll be having a similar type of structured and supplier there. So there also no change to be expected. And I think most importantly under on the content side, we will see some sharing of content, most likely just as there is now within Alma Media and now within Sanoma. So once part of one portfolio, if there is something, but that is not the driver of this deal. So that is not where the majority of the synergies are thought of.

Sami Sarkamies: OK. And then, moving on to online classifieds. I was a bit surprised, you announcing this review. Can you somehow try to justify why it makes sense for Sanoma shareholders to sell this part of your business? And, why don't you believe in your capability to take it further yourself?

Susan Duinhoven: Yes. I think we have not come to that point yet, so we have not come to the point that it will make sense to divest it. So that's the honest. But why has the thought crossed our mind? I think you see in the Finnish markets a quite exceptional situation that there are four players in that market. And typically in classifieds markets, if you look at internationally, then you see that there are maybe one or two. So the thought crosses your mind to see, does that in a smaller market that to Finnish market is, does that make sense going forward? So that is what sparks this evaluation. And, then to look at it, you know, we will of course then look at the evaluation perspective and all the different aspects to decide if this makes sense to divest or maybe even to invest.

Sami Sarkamies: Yes. Then finally, should we assume that the destiny of your online classifieds is somehow tied to this, deal? I mean, are we talking about some kind of package deal with Alma Media?

Susan Duinhoven: No, no. I'll leave that also to Kai to reconfirm. But no, it's not. Then you would have seen of course, quite a different messaging. It is more that with our stated focus on News & Feature, Entertainment and BtoB marketing solutions, we are now strengthening our News & Feature and we do then also take a look at our portfolio also from a perspective of, for example, headroom for growth in Learning. We do look then at the perspective and say are there additional areas where we can increase that focus even more?

Sami Sarkamies: OK. Thank you.

Kaisa Uurasmaa: Thank you. Next please.

Pete-Veikko Kujala: Yes. Pete-Veikko Kujala from SEB. A few questions. First about the digital subscription growth. Can you explain a bit more how this transaction is going to boost digital subscriptions in the businesses versus being separate?

Susan Duinhoven: Yes. Yes, of course. This is more a matter of learning together and seeing what works in one title. See how that can influence another title and spark those ideas. As I said, we are very much at the start of this curve and we see that with the, let's say the stat articles, leading us through the digital paywall. That is a matter of learning which articles do that trick. We have seen, as we discussed in December, that for example feature articles are quite effective in that. Now sharing those feature articles and making that accessible and available for all titles, like we have now done for the Sanoma titles, that would be one of those potential ideas. If that works. I don't know, we will need to find that out and learn together. But we do think that with the technology and the thought process behind both the subscription management and the content that doing debt on a larger scale with teams fully focused on it, that that will spark those best practices and will create that growth.

Pete-Veikko Kujala: Yes. Then then another one regarding Oikotie. Does this include Netwheels, your ownership of that business?

Susan Duinhoven: It could be part, but it is not as stated at this moment as being part of this deal. Logically, you would then also evaluate the options and know how to go forward on Netwheels.

Pete-Veikko Kujala: Thanks.

Kaisa Uurasmaa: Thank you. Further questions from Sanomatalo, please.

Participant: Hello. I've got to ask you about the acquisition and how do you think that the Finnish, the domestic news market will develop after this acquisition? Also, the market growth. And, do you think that this acquisition will have some kind of impact on the markets?

Susan Duinhoven: Yes. I think that if you look at the market, we need to define then which market. If we look at the readers' market, then we think that the digital subscription growth will definitely create a benefit from this, will create further growth. We're also very much aiming towards that younger audience that is more demanding, let's say, in their digital consumption. To make sure that we can satisfy them and will be helped by these joint investments in digital architecture and digital user interface. So on the reader's market, we definitely would hope that this creates a sort of a continuation of change that we're seeing. If we're looking at the advertising market, we think that that is pretty much two complimentary products. So I don't expect there, a lot of change. If you look at the diversity, let's say of the Finnish journalism and the media landscape, then we very much believe that this deal will not make that much of a change. Because, the titles will stay independent, the teams will stay reporting into their own editor-in-chiefs. So I don't see there a lot of change happening.

Kaisa Uurasmaa: Thank you. Further questions from Sanomatalo? Please.

Petri Aho: Petri Aho, Inderes. About the competition authorities. You showed us the international comparison, but have you had any sort of preliminary discussions with the competition authorities?

Susan Duinhoven: Yes, we have had, initial discussions. These things work with a notification that will be done, and that can only be done, once the publicity is out in the open. So that will be done shortly as is the normal process, and then the authorities will take their opinion on the various markets. And we have of course considered this carefully. I mean, it's not a new phenomena. It is in the international markets. It is well known and many precedents. So, we look at that with comfort.

Petri Aho: So as you probably know well the international markets examples, can you say anything about what kind of restrictions have the competitive authorities given to these companies there?

Susan Duinhoven: Yes. Well, the closest of course I know always on the Dutch market when a similar deal happened 5-6 years ago. I was then the CEO of the regional newspaper company that actually merged in a similar deal. Restrictions were in that situation a little bit centered around printing, but that had very specific background in the Dutch market. Further, no restrictions. In Sweden you saw this very recently being approved very fast. We don't expect it to go that fast given the fact that it's the first time of this magnitude here. So, you know, many examples always a little bit I think, but no significant mitigations let's say. No significant issues.

Petri Aho: OK. Then one question to CFO about the sort of cash flow generation of this new business. Can we assume that this, EBITDA multiple is pretty much that sort of cash flow based multiple as well? This deal would generate the cash flow back in five to six years?

Markus Holm: Yes. Pretty much so. Yes, it is quite equal. The EBITDA quite equal to cash flow.

Kaisa Uurasmaa: Thank you. Any further questions from Sanomatalo? If not, we will hand over to the telephone line.

Operator: Thank you. If you do wish to ask a question, please press zero one on your telephone keypad. And just as a reminder, that was zero one on your telephone keypad now. And there seems to be no questions on the phone so I'm heading back to the speakers.

Kaisa Uurasmaa: OK. Thank you. With this, we would like to conclude Sanoma's part of the presentation. And thank you, Susan. Thank you, Markus. And I would now like to hand over to Kai Telanne, CEO of Alma Media ,please.