

Corporation:	Sanoma Oyj
Title:	Interim Report 2020 Q1
Speakers:	Susan Duinhoven President and CEO Markus Holm CFO & COO Sanna Sandvall, Financial Communications Manager
Date:	29.4.2020
Duration:	00:29:12

Sanna Sandvall: Good morning ladies and gentlemen. And welcome to Sanoma's Q1 2020 results webcast and teleconference. My name is Sanna Sandvall. I'm the Financial Communications Manager at Sanoma and today I have here with me our president and CEO Susan Duinhoven and our CFO and COO Markus Holm who will present the results. After the presentation we will have a Q&A session over the telephone line. With this, I would like to hand over to Susan to start the presentation. Please.

Susan Duinhoven: Thank you Sanna. Good morning everyone. We are doing the webcast for the first quarter results of Sanoma and we had a solid start to the year. Even in these extraordinary times we also see that our long-term priorities and targets are unchanged. And the first quarter, these first months of 2020, where quite some changes took place. Last week we closed the divestment of the media business in the Netherlands and we divested that to DPG Media on April 20th. The acquisition of Alma Media's regional news business, that is going to happen tomorrow. It was announced on February 11th and rapidly approved by the Finnish authorities. At the same time, on February 11th we also indicated that we are going to evaluate the strategic options of our Finnish classified business, Oikotie, and that process is going as planned and quite well. On March 24th we withdrew our outlook for the full year due to the Corona virus pandemic. That is expected to have significant impact on our media business in Finland, both of the B2B and all the events sales. But all in all, after all these changes we see two strong businesses: our European learning business and media business in Finland ready for future growth. And we have 400 million of financial headroom coming from the divestment of the media business in the Netherlands and we remained fully committed to our long-term financial targets. So with that as a preview I would like to go now into the specifics of the first quarter.

As I said, a solid first quarter net sales growing to 188 million coming from 163. And that was due to learning and mostly due to the acquisitions. The sales in media Finland was stable throughout the quarter. Even the comparable net sales grew with 2% versus -3 last year, and that was largely due to a slight shift in orders in the Dutch learning business. If we then look at the operational EBIT, a slightly decline versus last year. And that was due to the fact that the media business in Finland did some planned investments in TV and in marketing expenses for newly launched products. If we then look at the free cashflow, -60 million. As always, the first quarter is a loss making in our business due to the strong learning part of the business. Free cash flow, slightly more loss-making I would say than last year. And that was due to higher working capital, both working capital required in the newly acquired learning businesses as well as some timing differences with our media business in Finland. If we then look at the leverage, that was at the end of the quarter at three and that is slightly higher than our long-term target. And our equity ratio was also a little bit lower than our long-term target. But both of those have been resolved now that the media business in the Netherlands has been divested. The AGM decided on a dividend of 50 cents per share. Decided that it would be split into two instalments. The first instalment of 25 cents was already paid on April 3rd and the second instalment of 25 cents will be paid

in November. And that is decided. The only thing that will happen is that the board will do its confirmation that the liquidity is there, according to Finnish corporate law. But that's the only thing that will still need to be confirmed. But then the 25 cents in November is solid.

If we then look at earnings, slight improvement in learning, different phasing of the cost in media Finland. So in learning you see a slight improvement that is just due to that comparable sales increase in the Netherlands but that you should see as a shift between quarters. If you look at media Finland there the earnings declined and that was planned due to TV investments and also investment in new product, specifically Supla+ which is our audio on demand platform that now also has a paid subscription possibility. And those marketing expenses logically had to fall into Q1 in order to benefit from those new products for the full year. You also see a slightly higher other cost increase but that is more around in a slight shift between the quarters. That will not be reflected on the full year basis.

If we then look in more detail in learning. Good start of the year as indicated, net sales growing to 58 million and the majority of that came from acquisitions. And from those acquisitions Iddink was of course the largest one acquired in September 2019 and performing well in line with our expectations. On top of the acquisition, there was a slight comparable sales growth in the Netherlands due to orders moving from the second into the first quarter. And the first quarter always being such a small one, that's one or two orders moving already gives an increase in sales. What we of course saw specifically in the second half of March was an enormous uplift in the usage of our digital platforms. And just to take one example of Bingel which was tripling the number of unique users in that period. And we see also all the other platforms increasing the usage and specifically the time spent on the platforms very significantly. And that is of course a very interesting move towards digitalization for which we are fully prepared and can now take full benefits from. Operational EBIT excluding PPA improved slightly just in line with the comparable sales growth, which of course then reflected on the margins. But all in all, good solid start of the year for the learning business.

If we then look at Media Finland there also stable net sales, investments in TV and marketing. And if we look a bit more detail into the sales there you saw that the advertising sales was really very strong in January and February and even with the slight decline in the second half of March that still ended with a very good overall performance. So you saw that Sanoma decreased with 3% overall in the quarter, where the total market decreased with 7%. So slight market share gain in that first quarter. Overall specifically on TV, an increase in market share that led to sales growth. And in radio, there we saw the benefits of the new channels and the new frequencies that were acquired in 2019. If we then look at the other part of the business, the subscription business we see continued strong increase and specifically Helsingin Sanomat, Ruutu+ continued on their good paths of growth also in this first quarter. Operational EBIT as indicated declined to 10 million planned TV investments that were taken in the first quarter and the marketing cost of the introduction of Supla+ to get it with a slightly lower advertising sales at the end of March had that combined effect on the earnings. We did see a positive impact on the other hand from the lower cost of paper. And as I said we're now looking forward to tomorrow where we will close the acquisition of Alma Media's regional news business and we're very much looking forward to welcome nearly 400 new colleagues to our business. So very much looking forward to the day of tomorrow.

If we then go back to the outlook 2020. On March 24th we announced that we had to temporarily withdraw our outlook given the significant impact that we expect from the corona virus pandemic, and the fact that we can at this moment, and we still cannot estimate the extent of that impact. So we only expect during the year to be able to come back to you and to give you a renewed outlook for the full year.

If I'm now going into a bit more detail on what the corona virus pandemic, what impact it has had on our business. And let me first say that as a business as an operational business we have gone through the

switch from working in the office to remote working very well. And I really want to compliment our teams with the agility and flexibility that they have shown. And we have had the main benefits from our IT investments in the past year and a half, of our journey to cloud, where it was now possible to work remotely from home, from different locations, without any disruption in the business. So operationally the business is performing is performing well. We see of course also that in the overall Sanoma group business we have now some mitigation coming from the fact that we have a diverse business portfolio, with a significant part in learning.

And the learning business specifically we do not expect major impact neither on sales nor on profitability from this pandemic. And the reason for that is that what we see so far is that the sales processes and decision processes in schools are going well and as normal and that the renewal of the curricula are also proceeding as planned. So overall the learning business it will have some impact here and there where face to face trainings cannot be given but that is very small part of the overall business.

If we then look at Media Finland, there we also need to make a distinction between two types of businesses and two types of revenue sources: the subscriptions and the consumer income which represents roughly half of our total sales. It is not expected to be impacted significantly. Of course, unless now the situation would worse than or would really prolong much more. But we see there even a slight uplift as there is of course a strong demand for news and for entertainment. So these media types are actually also benefiting a little bit from increased subscription rate. Where the impact is clearly on is the B2B advertising business. That is representing about 250 million last year in our total sales and it will have material impact. There is a big variation between customer categories, between media types and the size of that impact will very much depend on the links of the crisis and that will be, and is still, very hard to forecast. And the pace of the recovery, the pace by which now the restrictions on society will be lifted, will be impacting then the response, the economic activity in Finland, the business activities in the different sectors and that will then reflect into the advertising. And therefore, at this moment it would only be speculation to give any indication of the size of that impact. We do keep in the back of our minds that the 2008–2009 financial crisis had an impact of around 17% on both the market and on Sanoma. And we still think that is an applicable comparison.

If we look at the events business, there it is now very clear. Finnish government has on the 22nd of April indicated that all large events are going to be prohibited till the end of July. And that basically means that our festival season is over. Last year the events business was about 35 million with above average profitability. So you should take into account that that business will have no sales and no profitability this year. It is very clear that for us as a company, we have very clear priorities in this crisis and that is to make sure that the health and safety of our employees, the people are working with us as freelancers, our partners, our customers, that health and safety is the first priority. The second priority is very clear to make sure that we help our customers through this crisis because this is impacting everyone: our advertising customers, our readers, but also to our teachers and schools, to help them through these rather extraordinary times. And in that we clearly also see our role in society in providing high quality news, good entertainment and solid methods and learning platforms for schools. Our role in society being even more important in this crisis than ever. So with that, I would like now to handle for to Markus Holm for the financials of Q1.

Markus Holm: Thank you Susan. And good morning everyone. I will start with a snapshot on the quarter one financials. The quarter one operational EBIT excluding PPA was down by roughly 4 million compared to a year ago. And the main part of that was explained by seasonally higher TV and marketing expenses in media Finland, which were offset somewhat by lower paper costs. Learning saw an improvement of roughly 1 million thanks comparable net sales growth. And then we had some other items in our other expenses such as incentive settlements that had a negative 1 million impact.

Looking on the rolling free cash flow, the rolling 12 month free cash flow is on a solid level. However, in the first quarter we saw a decline from 41 million a year ago to 60 million in quarter one. And this is explained by two main factors being the working capital of the acquired Iddink and its learning businesses that now are included the figures and had a negative impact on the first quarter as well as Media Finland where we see also a working capital change compared to last year. Quarter one in 2019 was rather positive and now we have a different pattern in quarter one this year. I want to remind you also of the impacts of the divestment of media Netherlands on this year. Although this as a deal logic is done as a locked box deal, we are of course reporting the free cashflow media Netherlands in our numbers and this will have a significant impact on the first quarter, and had an impact on the first quarter, but we don't have a significant impact on the full year free cash flow. So we expect now that roughly 25 million is the negative impact on the free cash flow this year and the majority of that is in quarter one. For dividend reporting purposes or calculation purposes we adjust for that impact.

Our leverage was temporarily above, and equity ratio below, our long-term target level for quarter one 2020. Net debt to EBITDA was at 3.0 compared to 2.0 a year ago and the equity ratio was 25.2 compared to 35.3 year ago. Both are returning to their target levels after the divestment of media Netherlands which was completed on 20 April. Our net financial expenses have declined significantly to 1 million compared to 5 million a year ago. The average interest rate is now down to 0.7% compared to 2.8% a year ago. And we had some positive items like currency translation from the Norwegian Krone and also some tax receivable settlement that had a minor positive impact on the net financial expenses. That concludes the financial part. And here just as a reminder, our financial reporting dates for the second and third quarter this year. Thank you.

Sanna Sandvall: Thank you, Susan and Markus. We will now head over to the telephone lines for questions.

Operator: Ladies and gentlemen, if you would like to ask any questions it's zero one to register on your keypad and we have one question registered. Your line is now open to ask you a question. Please go ahead.

Sami Sarkamies: Hello. Can you hear me? Yes, it's Sami Sarkamies from Nordea markets. Starting from media Finland. When you look at your advertising media market indicators on a weekly level, have you already seen the bottom or does the situation continue to weaken on the weekly level?

Susan Duinhoven: It is clear that if you look at the first two weeks of March, there basically you saw that the whole of the market withdrew let's say as much as possible its advertising. It came from advertisers who are in the end proved to be heavily impacted but also those who were not impacted. So there just due to the uncertainty everyone withdrew. So coming from that low point we definitely see some uplift, but it is of course volatile and it differs very much by sector. It differs by media type, so the impact in that sense is significant and hard to estimate for a full the year.

Sami Sarkamies: OK. So what you're saying is that certain weeks in March were actually weaker than sort of the recent weeks in April?

Susan Duinhoven: I think you see, and you also see that in the Kantar results, you see that that the last two weeks of March were very heavily hit. And that is at least a little bit recovering if we can call that now a stepwise recovery, we cannot say. It is too volatile and too short a period for that.

Sami Sarkamies: OK. And then I would continue on the events business. I think you said that you're not expecting to book any profits this year. You have earlier commented that you have a duty insurance cover. Should we now assess that you will not benefit from this insurance cover now?

Susan Duinhoven: We will to a certain extent benefit from it by the fact that our costs that we have already made will be covered.

Sami Sarkamies: OK. But you will not get the anticipated margin for those events?

Susan Duinhoven: No, we will not get up to that level. Let's say that we that we had last year. No. So you should take that both the sales and the EBIT margin from the events business are both zero this year. That's our current assumption. And of course you know the government decision has been recent and the discussions now with the insurance companies need to take place in order to get that fully clarified. But that's our clear assumption at this moment.

Sami Sarkamies: OK. Then moving on to learning business, you touched this already in the presentation but just like to come back to the topic. We have seen substantial shifts in learning methods over the recent months in some of the operating countries. Can you elaborate on the financial implications? Have you seen for example add-on digital sales or are you faced with additional development needs like digital offering for instance?

Susan Duinhoven: That's a very good question. We see a massive uptake in usage and of course even those teachers and schools who had been hesitant to go digital now are really benefiting from that. We're also bringing schools on steam who had not taken up the digital methods before. We do that in most cases free of charge at this moment. Just in order to make sure that everyone can do distance learning in the best possible way. We will see over time most likely that more and more schools will take this up into their normal way of operation. But as you remember, we sell the packages typically as full, as complete packages. So hybrid: both print teacher materials, whiteboard materials and digital learning materials. So for us it is a total package, and therefore the uptake of one or the other is not having a significant financial impact. There are of course add-on product take now for example our recent acquisition of its learning, there we for example see that a city of Dusseldorf taking this application up in high speed for all their schools. So we do see, but that is smaller. And as you know the learning decision processes are typically longer-term processes. Will we see this as a very positive experience that our customers now have with the digital tools, but it will not have an immediate or a fast financial uplift.

Sami Sarkamies: OK. Then another question on learning. You will be able to close both pending transactions by the end of April. Any comment on the M&A pipeline? Should we expect anything in the near-term or should we anticipate next moves towards the year end or even next year?

Susan Duinhoven: We know of both what the answer to that one is: that I cannot comment on ongoing M&A. We have a good pipeline. That pipeline is also solid because these are strategic acquisitions that we're thinking about. The learning business as a whole is not significantly impacted by this pandemic. So all in all we will proceed with full attention on that M&A trajectory, and as you say now having the financial headroom to do so, it makes that of course even more attractive.

Sami Sarkamies: OK. Thank you. I don't have any further questions.

Susan Duinhoven: Thank you.

Operator: Do we have any further questions from the telephone line?

Operator: It seems like we have no more questions on the telephone lines. Just as a reminder it is a zero one to register and if there were no more questions, I'll hand back to our speakers.

Susan Duinhoven: Thank you very much.

Sanna Sandvall: Thank you everyone for participating today and also for the questions, and we are more than happy to answer your questions also afterwards. So for that please contact us at IR by phone or by email. And I would also like to remind you that we will be arranging our own virtual road show on 13th of May. With this I will conclude the presentation and wish you all a very nice 1st of May and we hope you all stay safe and healthy. Thank you.