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Speakers:	Susan Duinhoven, President & CEO Markus Holm, CFO & COO
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PRESENTATION

Kaisa Uurasmaa

Good morning, ladies and gentlemen, and welcome to Sanoma's first quarter 2021 results presentation. My name is Kaisa Uurasmaa, I'm heading investor relations at Sanoma. And today at the webcast studio, we have the President and CEO, Susan Duinhoven; and the CFO and COO, Markus Holm, who will present the result.

We had a good start to the year, driven by acquisitions and organic growth.

And after the presentation, we will have a Q&A session. We will first take questions from the telephone line, and then, through the chat function of the web cast. And the event will be recorded, and the recording will be available on our website soon after the end of the event.

And with this short introduction, I would now like to hand over to the studio for Susan to start the presentation, please.

Susan Duinhoven

Thank you, Kaisa, for this start of first quarter results presentation. A warm welcome also from my end. And as Kaisa indicated, we had a good start of the year. Our net sales grew both on a comparable basis and as a result of acquisitions, and specifically, regional news in Finland, and the Santillana business in Spain. So, net sales came to 210 million, which is, of course, a small amount, a small quarter, typically, in the first quarter in the Learning business.

Our operational EBIT, excluding PPA, was -10 compared to last year; -8. The EBIT improved in Media Finland, but with a growing Learning business, you also have a typically more loss-making first and fourth quarter. And that's normal with a growing Learning business, and our acquisition of Santillana, therefore, added to the loss in the first quarter.

Free cash flow improved, and that was driven not as much by the growing Learning business, because that decreased the cash flow, but because in the comparable year in 2020, we still owned the media business in the Netherlands, and that has typically in the first four months a negative cash flow. So, therefore, by comparison, an improved free cash flow.

The leverage remains stable above compared to last year: the same quarter end, but also towards year end. In March, we also updated our sustainability strategy that is focused around six key themes, and we'll come back to that at the end of the presentation because we will go into a bit more in-depth presentation later in the year.

Our outlook for 2021 is unchanged.

Now, if we go into the Learning business in a bit more detail, it's a small quarter, and that's typical seasonable. But in that small quarter, a very solid performance for the whole of the business. Net sales increased with 10 million to 68 million, and that was due to two courses: the one was some orders shifting from the second quarter into the first quarter in some of our larger countries, and then, of course, we also added the net sales from Santillana. If we then look at the operational EBIT, excluding PPA, as explained, that became more loss-making due to the growth of the business with the acquisition of Santillana.

When we now look forward, knowing that in the second and the third quarter, of course, we typically make our revenue and our profits, it is important to realise that, with the addition of the Spanish business, the seasonality of our business will be more towards the third quarter; so, more than we were used to in the past years. And on top of that, we see that in the Corona times, the ordering, in specifically the Netherlands and Belgium, will probably be a bit more piecemeal, and therefore, some shifts from the second to the third quarter are expected there. So, that is looking forward on the Learning business, but overall solid start of the year.

If we then look at Media Finland, there, we grew the business to 142 million, and that was the effect of the acquisition of the regional news, and the divestment of Oikotie. So, the net effect was that 12 million increase in net sales. But we were overall very happy to see again, also, this quarter that the subscription sales continue to grow; and Helsinki Sanoma had a particularly good quarter with six percent year-on-year increase in number of subscribers, but also Ruutu+ grew significantly.

At that nicely compensated, the comparable advertising sales decline that was 4%, which was considerably better than the market, which declined with 9%. And we need to realise that it is actually a pretty OK performance, given the fact that we compare against a pre-pandemic start of 2020. So, there, if you remember, January, February were particularly strong months, and also March where only the second part of March, we got to see impact from Corona. So, against that relatively solid comparable quarter, we see that as a good performance and specifically pleased that the gain in market share was in the domestic online market.

So, growing net sales then also led to improvement in earnings to 11 million this quarter. And that came from a number of effects, some of them compensating each other. The synergies from the regional news business are clearly coming in. We are, of course, still in a Corona way of operating. So, therefore, some cost mitigations of the lower advertising sales we see in a lower cost base. And we also benefit from some lower paper prices. And that is, then, partially compensated by some investments that we are doing in both our digital development and in personnel cost to make these product innovations possible.

Yesterday, we communicated a rather surprising decision from the Finnish Tax Adjustment Board, where they indicated that they have accepted a 20 million claim, and that's 20 million, excluding potential penalties and interest, made by the Finnish Tax Ombudsman. Now this concerns our distribution of our magazines, which are typically printed all through Europe in order to find the most cost-efficient way of printing and find the good capacities. But they need to be aggregated in one place, addressed, and then distributed throughout Finland to the households, and for that aggregation we typically use, as many in our industry, we use an aggregator. And that aggregator is based in Norway.

Now, there is some debate with the Ombudsman on the treatment of the VAT. We still consider the claim fully unjustified, and we are convinced that we are within all the rules that were applying at that moment. So, we will appeal that decision, and no provisions are made. But we thought it important to let you know, because we might decide to pay the amount in 2021, just in order to make sure that we don't have a risk of accumulating interest payments. But for any cash flow dividend calculation, this payment will be excluded. So, summarising Media Finland, good start of the year, benefits from the acquisition of the regional news, and a very solid continued growth in subscription sales.

If we, then, look at the outlook for 2021, that is unchanged. We had indicated a wider range, accommodating the various scenarios due to Corona. We indicate 1.2 to 1.3 billion sales, up from 1.1 last year, and operational EBIT, excluding PPA, in the range of 14% to 16%.

Now, the operating environment has changed, and we can be a little bit more precise after these three months that we do see potential impact on the events business from the ongoing restrictions. It will, of course, still very much depend on the vaccination rate and the opening up of society in Finland, but we have structured the business and we've done all the effort in order to be able to take the decisions on go/no go for an event as late as possible, and we'll do that on an event-by-event basis. And that's from the starting point that we would love to organise these events, and not only for the participants, for the visitors, but also for the industry as a whole. We are typically having a line-up of Finnish artists and whole industry around in each of the locations. So, we would love to be able to support that and organise these events.

The profitability, one way or the other, of the events business this year will be significantly lower than last year and loss-making to all estimations. The advertising demand will be weighted towards the second half of the year. We see a slow start but all still very much within the range that we have indicated, and we continue to see the Learning business being not significantly impacted by Corona.

So, with that, in summary, unchanged outlook for 2021, even in this still challenging environment. And with that, I would like to hand over to Markus Holm to give you more on the financial details.

Markus Holm

Thank you, Susan, and good morning, everyone. I will, then, give you a brief summary on our first quarter results.

As we know, first quarter is typically quite a small one. However, we had a quite good start of the year. In Learning, we saw the result down by roughly four or five million. That is explained with a positive of comparable net sales growth, with some orders shifting from Q2 to Q1, and then, we had a seasonally negative result of Santillana. And as you know, in the Learning business, typically, the first quarter and the fourth quarter are negative.

In the media business, we saw an improvement of 1.7 million in the quarter positive from synergies related to the acquisition of the regional news media business. Also, continued cost mitigation actions there and lower paper prices affecting positively this. We saw some higher digital development and personnel costs.

In other positive, roughly 1 million improvement that we saw positive from costs related to long-term incentives that were moved from other two to the [? 00:12:40]. The overall level in the neutral effect. Also, some positive from cost containment related to travel office marketing costs.

If you look on the free cash flow, we saw an improvement from -60 million to -48 million. The negative free cash flow is explained, or that ever [ph 00:13:02] was the negative effects in the prior year from the Media Netherlands, and that explains the difference now through to this year. We saw positive from the improved EBITDA, and also, working capital in Media Finland. And then, as mentioned, the seasonally negative free cash flows from Santillana there.

Looking on the leverage, we had a fairly stable leverage. Net debt to EBITDA improved to 2.8 compared to 3.0 a year ago, and equity ratio improved significantly to 37.9.

Our net financial expenses increased to -4. Here, it's good to remember that in the comparison period, the net financial expenses included some positive foreign exchange translation

impacts and also one-time interest income. The interest expenses increased slightly in the first quarter as the maturity of our external loans were extended.

We completed the funding of the Santillana acquisition successfully with the issuance of a 200 million bond. This has a maturity of three years and a fixed interest rate of .625. This was then used to pay down the bridge loan of 200 million that we had taken ahead of the acquisition. The average interest rate of our external loans is 1.1 in the first quarter, compared to 0.7 a year ago.

And you are all warmly welcome to our sustainability day that will be arranged on the 8th of June. It's a one-and-a-half-hour event for investors and analysts, and the executive management team will introduce our six sustainability themes, their targets and KPIs, as well as our road map towards those targets. Invitations will be sent out in due course.

Finally, as a reminder, our reporting calendar. On the 28th of July, we published the half-year report, and 27th October, the third quarter report.

I will, then, hand over to Kaisa. Thank you on my behalf.

Kaisa Uurasmaa

Thank you, Markus. Thank you, Susan. And this concludes the presentation, and we will now open the floor for questions. And I would like to hand over to the telephone line. We start from there.

Q&A

Operator

Please press 01 on your telephone keypad if you wish to ask an audio question. If you wish to withdraw your question, please press 02 to cancel. Once again, please press 01 on your telephone keypad if you wish to ask an audio question.

There will be a brief pause whilst we wait for questions to be raised.

Our first question comes from Pete from SEB.

Pete-Veikko Kujala

Hi. This is Pete-Veikko Kujala calling from SEB. If we start with Media Finland. From your guidance, you're talking about the advertising market being more H2-weighted, but can you tell a little bit about the expectations here, because at least if we look at the year-over-year comparisons, the Q2 is by far the easiest comparable figure in last year. So, how should we think about this?

Susan Duinhoven

You're absolutely right that the comparison to Q2 will, of course, be heavily impacted by the -40% in last year's development, but what we see is that we are now on a more normal year, but still with a sizeable step down, let's say. So, I think that is where I would take the relative values coming out of '19. I would take those for the typical quarterly development, and then, take into account that the second quarter will still be heavily impacted by Corona. Of course, not as heavy as last year, but where, in the second half of the year, you will see that the comparable was actually quite strong. And there, we take, then, a more optimistic way of comparing again to 2019.

But I think I understand the questions, and the visibility on advertising is still very short. So, in that sense, anything I say will be just an estimate of what we now know, seeing vaccination rate, and opening up of society. But I think the key thing to keep in mind is what we now see is included in the Outlook 2021. So, we have taken these trends that we're now seeing. We have taken that in when we say our outlook is unchanged.

Pete-Veikko Kujala

Yes, thanks. I understand. Then, about the festivals, I understand it's still quite uncertain whether it's possible to hold any events, but have you made any plans to try to move festivals, for example, from Q2 to later in the year? Is this even possible, or an attractive alternative for you?

Susan Duinhoven

It's one of those things, one of these scenarios that we have investigated, and I can say that there are tens of scenarios how to handle this. But there are limitations, both from a business perspective, but also from a consumer interest perspective, conflicting events. So, there is quite a bit that comes about in making that planning. So, we will do our utmost, but do not take that as a very significant trend that we will be able to implement in the business. So basically, you're stuck with the timing of the events, and then, the question is: 'How many visitors can we have? How can we accommodate the safety in such a way that we can still do a sizeable and break-even type of event?'

Pete-Veikko Kujala

Yes, I understand. And as a follow-up to that, if we think about profitability. I understand that if there are full cancellations, we're talking about some single-million EBIT loss for the year. But is it actually possible that EBIT loss would be larger if you hold the events with some limitations or restrictions?

Susan Duinhoven

That is something that we will, of course, put some limits to. We need to see how that will go, but I think you can keep as that assumption that it will not be more than a couple of millions of loss that we will make in that business because, at some point, we of course, also need to say we will not organise events, and then, have massive losses because of them; that's in no-one's interest. So, we will organise the events as much as possible because we think there is an enormous interest and demand, not in the last place, in our own team, but it needs to be financially healthy.

Pete-Veikko Kujala

Yes, I understand. Thanks. And moving onto to Learning. If we look at the Santillana business from last year, is that seasonality between the quarters, is that a good proxy for, also, the seasonality in 2021, this year?

Susan Duinhoven

As far as we know, and this is also where, just like we see in the other countries, there is typically some changes in seasonality because the quarter end has nothing to do with the school start. So, that's where an order one week earlier or one week later doesn't mean anything for a distributor or for a school. So, as we know the business, this will go with the same seasonality, but also with the same shifts between the quarters that I am typically boring you with for at least two or three quarters a year.

Pete-Veikko Kujala

Yes, thank you. Then, if we continue with the Spanish market, there are these reforms taking place in 2022 to '23. Can you go through a bit on your strategy for those reform years, and what different assets does this include? Are we also talking about Clickedu or Bingel when you are trying to expand your business during those years?

Susan Duinhoven

We definitely will look at the full portfolio and that's the benefit, of course, that we have some time to prepare for 2022, and the team is already fully into that preparation, but in the interest of our own success and competitiveness, I will not go into too much detail on how we exactly plan to do that. And the team is, of course, now working with the schools, with the distributors in order to come up with the best possible strategy for 2022 and 2023, which in Spain, is also very much a regional play because there are 17 provinces, and in each of those provinces, they take their own decisions of how and when to implement these curriculum changes. So, it's not one strategy, it is actually 17 strategies that the team is working through. And then, of course, now, with an increased asset base, to a certain extent, that's a [ph 00:23:54] set of tools that they have through the merger of our businesses.

Pete-Veikko Kujala

Yes, thank you. I understand. Then, last one from me relating to your leverage. Can you comment a little bit on to what level can you push your leverage in the short term if you see opportunities in the market? Basically, to what level can you increase your leverage, if you can see, in the future, a time where you can reach your long-term target?

Susan Duinhoven

Yes, I think what we have, of course, in our business is there is a seasonal pattern, and therefore, also a seasonal pattern in our leverage during the year. So, what we typically will aim for is that we are back on our long-term target. That means below three on the leverage by the year end. So, the year end is the point for us. If we do an acquisition like we, for example, did with Santillana at the year end, if you do an acquisition, then it means that, during the first two quarters, the leverage goes up. The leverage might, then, end slightly above three, but then, our target will be that, by the year end, it is back at three or below three. And this is not a precision level of 0.1, but that's the concept of where we want to stay.

Pete-Veikko Kujala

All right. Many thanks. That's all from me. Thank you.

Operator

Thank you. Our next question comes from Sami Sarkamies from Nordea. Please go ahead.

Sami Sarkamies

I have a couple of questions left starting from the Learning business. Just curious, you are flagging that due to COVID-19, we might be in for timing shifts from second quarter into third quarter. Can you talk about magnitude? Could it be similar to what happened now in Q1, or bigger?

Markus Holm

It is roughly that magnitude, say, around 5 million or so of sales.

Sami Sarkamies

OK. And then, moving onto Media Finland. We did discuss the advertising media outlook already earlier. But still trying to understand what to think of Q2. Would it be a good way to think that, I think, in March, the advertising media market was about 15% below the 2019 level? Would that be a good estimate, going into Q2, where the current demand level is, in comparison to 2019 level?

Susan Duinhoven

I think the complexity increases, even if you take the full market and try to make those estimates. I think I'm going to be careful there, and not to be evasive, but we saw, for example, that in April, there was quite a bit of impact from this uncertainty that came about of, 'Are we going to go into **further** lockdown? Are there going to be more restrictions?' And the first thing that happens in a matter of uncertainty is that advertisers say, 'Let me hold back my budget because once society opens up, I want to have the full ability to benefit and to compete and to draw consumers in.' So, we see that holding back.

Now, if we have another one of those moves or scares, which can easily happen, that could create another one. So, at this moment, it is going to be highly uncertain, short visibility. The only thing that we think is that after summer, seeing the vaccination rates as they are going at the moment, seeing that after summer, we expect at this moment a further opening up, and therefore, actually, there could, of course, be quite a bit of advertising market. That's the one thing that I, at least, feel comfortable of guiding you on. Where exactly we're going to be in Q2, it is going to be quite uncertain. So, I think the only thing we can jointly do is watch the counter month by month on this.

Sami Sarkamies

OK. And then, finally, on events that we also discussed earlier. I think Finnish government is planning some support for the events that will be cancelled. When you were talking about loss-making events business this year, were you assuming that you will get that support that has been discussed?

Susan Duinhoven

We have not seen the full text of that. So, therefore, we have not yet taken that into account. We are also not knowing if we, then, if that package is defined, if we will apply or will be invited to apply. So, that uncertainty is still there. When we are giving off these estimates at this moment, this is as **far** as we know it, and also where we think, as a business, it makes sense to organise these events.

Sami Sarkamies

OK. Thank you very much. I don't have any further questions.

Operator

Thanks. Our next call comes from Panu Laitinmäki from Danske Bank. Please go ahead.

Panu Laitinmäki

Thank you. I have two questions. Firstly, on the events business and the insurance compensation. Can you remind us what was it last year, and which quarter was it booked? And is it so that you are not getting it this year if it looks like that most of the events will be cancelled?

Markus Holm

If I recall, it was split in between the quarters last year; the second and third quarter. And roughly, a magnitude of, was it, 6-7 million or so. And this year, we are not having that insurance compensation.

Panu Laitinmäki

OK, thanks. So, 3 million for each quarter?

Markus Holm

I recall that that was roughly the impact.

Panu Laitinmäki

OK. Thank you. Second question also on Media Finland. On the synergies related to the Alma Media acquisition. Can you give an update, what was that number, or how much did they contribute in Q1? How much is still left? And what is the timing? Will you see the full amount this year, or something left even for the next?

Susan Duinhoven

If you recall, when we announced that acquisition, we indicated 13 million as total synergies, and we are well underway in that, and confirm that amount of total synergies. The split in those synergies is half of that is coming from sharing systems and sharing support functions. So, that is roughly half, and that was accomplished, and the transitional service agreement was ended in December last year. So, that part of the synergies we will have for the full year and is, of course, allocated with the revenues of that business over the quarters.

So, that is one. The other half is coming from more working process improvements, further integrations, and product developments, and that is something that will be coming in during 2021, and we have indicated that only the full synergies will be there by 2022.

Very happy with how the synergies are coming about and the integration of the business. It's a very nice business, and the team is doing a truly great job. So, we're very happy with it.

Panu Laitinmäki

All right. Thank you. That's all from me.

Operator

Thank you. Just as a quick reminder, if you wish to ask a question, please press 01 on your telephone keypad. Once again, that's 01 on your telephone keypad if you wish to ask an audio question.

Our next question comes from Pia Rosqvist-Heinsalmi. Please go ahead. Your line is now open.

Pia Rosqvist-Heinsalmi

Hello, It's Pia from Carnegie. I have a question regarding your guidance. I understand we are only three months into this year, but you still keep your guidance unchanged at this point. And I'm trying to understand now, it sounds like you are a tad more cautious than when releasing the Q4 results. Or am I wrong here? I'm trying now to understand the levers for you reaching the upper end of that guided range.

Susan Duinhoven

I think when we announced the outlook, we clearly indicated what the midpoint was, without saying that that is the midpoint, that is the most realistic scenario. But we have indicated that in that midpoint, for example, we assumed that the events would be coming into play with only modest restrictions [? 00:33:54]. On that events business, we now see three months in that the vaccination and the opening up is a bit slower than we had anticipated, and therefore we might have more impact on that events business than the midpoint indicated. So, that, I think, is fair to say.

Overall, I must say that I'm still thinking that the range is a good range and that there are, of course, downside opportunities, there are upside opportunities. Going forward, the visibility is still limited. There is no other way of saying it - specifically. also, on the advertising. But I would not say that I'm, in any way, less optimistic or less positive about the business as a whole, because you can also look at it and say, 'We had a good first quarter.' That's already three months under the belt in changing times. So, actually, with an increase in subscription sales compensating a decrease in advertising sales, I'm quite OK. So, that's how it might feel a little bit because we're, of course, focusing quite a bit on that, but let's also say it is only a couple of million of potential loss in an events business on a company our size, with 70% of the contribution coming from Learning.

Pia Rosqvist-Heinsalmi

OK. Thanks. Then, just a technical question, If I may. The depreciation level now for Q1, is that representative for the remainder of this year?

Markus Holm

Sorry, I didn't quite get your question.

Pia Rosqvist-Heinsalmi

The depreciation in Q1, is that representative of a quarterly level for the full year?

Markus Holm

I don't see a bigger change there necessarily. We have some, say, pre-publications, for instance, that we, then, typically, can start capitalising, then, towards the sales season, and then, it starts from that. So, it could be some pick-up related to capitalisation of pre-publications for instance, but I don't see a significant change there.

Pia Rosqvist-Heinsalmi

OK. Thank you. That's all from me. Thank you.

Operator

Thank you. There appear to be no further questions registered, so I will now hand you back to the speakers.

Kaisa Uurasmaa

OK. Thank you for all the questions from the telephone line, and we continue with a few from the chat. And the first one actually related to the seasonality of Santillana, and in particular, the importance of the third quarter. And there, I actually already replied in writing that in 2020, the third quarter net sales represented 60% of the full year. So, that gives us a guideline for this year as well, but as Susan mentioned, years are not always completely even with each other.

And then still on the events business, on the decisions on cancelling the events, and have we made any particular decisions already? And there, also, no we are not there yet; they will be made event-by-event basis closer to the dates of the events, but well in advance. And on the EBIT of the event business, the question is what is the difference between our best and worst-case scenario on the EBIT level?

Susan Duinhoven

We are now giving off a worst-case scenario, and it could go up a little bit. But there, I want to warn a bit for overly optimistic, because the number of visitors need to go significantly up before something really comes as sizeable profits. So, this is now our realistic estimate. If some later events might, for example, have a bit more visitors, and earlier ones, a bit less, that's all going to be a bit of a wash. It would require now a real speeding-up of vaccination and freedom to organise large-scale events for this to really make a sizeable difference, for me to stand here

in July and to say, 'Those worries after first quarter where were unfounded.' So, I think, this is where the difference between good scenarios and worst scenarios, they're not that big, realistically speaking.

Kaisa Uurasmaa

OK. Thank you. And that actually concludes the questions from the chat as well. Thank you, all participants, for our questions, and naturally, also after the webcast we are happy to help you at Investor Relations. So, please be in touch. And virtually, we will next time meet in June in the Sanoma sustainability day, and then, in July with the first half-year results.

Thank you, all, and enjoy the weekend. Bye-bye.