



Transcription

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PRESENTATION

Kaisa Uurasmaa

Welcome to the Sanoma Q1 2022 result presentation. My name is Kaisa Uurasmaa. I'm head of Investor Relations and Sustainability at Sanoma. And today we have the management - CEO Susan Duinhoven, and our new CFO, Alex Green - who will present the results. After the presentation, we will have a Q&A session. And we are lucky after the two years period of remote and webcasting only, we also have audience here at Sanoma House today, so we will first take questions from here at Sanoma House. Please wait for the microphone before you ask your question. After that, we will hand over to the telephone line. And thirdly, you can also use the chat function on the webcast. The webcast and the Q&A will be recorded, and the recording will be available on our website soon after the event.

With this, I would now like to hand over to Susan to start the presentation. Please.

Susan Duinhoven

Thank you very much, Kaisa. A very good morning and a warm welcome also from my end. Very happy to see people here at Sanomatalo again after two years. We had a good, solid start of the year. So, all in all, sales being stable at 211 million this quarter, 1% comparable sales growth, same level in both businesses. Operational EBIT excluding PPA at -10 million, and that is the same as last year. And it's typical for our learning business to be loss-making in the first quarter because typically the revenue comes in with the back-to-school in Q2 and Q3.

The free cash flow improved versus last year at -39 million, also seasonally negative, and leverage improved to 2.6, which is well below our long-term target of being below three. Our outlook for the full year 2022 remains unchanged.

Now, if I go into a bit of detail on the learning business. There, we see a typical small quarter, but a good performance as net sales, 69 million, a little bit up from last year, but what we now see in this business is that in the Netherlands and Finland, which are highly digital businesses, we see already some more revenue recognition throughout the year and because the digital business is then recognised on a month-by-month and not only at the school start.

Operational EBIT excluding PPA stable at -20 million, and there we see two compensating effects that very much resemble what we later in the year will see on revenue. We see an increase in marketing and sales costs in Spain, and that is ahead of the new curriculum that is launched in September 2022. And we see a decrease in marketing and sales cost in Poland, where the last curriculum renewal ended in the autumn of last year. So, where the revenues we will see the same in Spain going up this year and then in Poland going down, and we see the marketing and sales expenses in line with that.

We are now well-prepared for the high season, which is Q2 and Q3, and particularly, I must say, Q3, and Spain is there the main new element, with the new curriculum starting this autumn. And we now expect that 12 out of the 17 regions will implement a new curriculum in 2022 and that means that the remainder will be done in 2023. Those 12 provinces represent about half of the market volume. This is our latest expectation and still some decisions need to be taken on that regional level. So we'll update you when more becomes known.



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If we then look at Media Finland. There, rapid changes in the operating environment, but again a good solid quarter and a good start of the year. Sales stable at 142 million, where we see the subscription sales declining slightly and that is due to the high that we had during the Corona that is now coming down to a little bit more normal level. But we also saw particularly with Helsingin Sanomat some distribution issues, heavy winter together with the Corona pandemic for distributors and their quarantine regulations making that there was a shortage of distribution capacity in the start of the year. So that has led to some compensations and therefore a slight decline in the revenues. But overall, the total number of subscriptions and specifically the digital subscriptions continuing to grow.

Advertising sales for us was stable. And that was a growth in digital and radio as it was in the last couple of years, but TV a bit slower; and that is expected, the Olympics and the heavy news intensity drew viewers away from us. That news intensity was, of course, due to the war in the Ukraine, and that also had some impact on the advertising demand in March, but we see that as a temporary delay. April and May already show that the recovery is quite complete from the delay in March. So overall, for the full year, we expect advertising markets to be stable, certainly in the segments in which we are active.

Operational EBIT excluding PPA declined slightly to 10 million, and that was due to some inflationary pressures, some higher personnel cost, some higher pension costs, part of which was the delay of the pension that we could postpone during Corona and that now kicks in in 2022 and 2023. But also the expected paper cost increases came through in the first quarter.

Now, we're also looking forward to our high season, let's say, on the media side, high season in events, and I think with us, the whole of Finland is looking forward to that summer full of events, so we're ready for that. We see ticket sales developing quite nicely, so we're hoping for a nice first post-Corona summer.

If we then come to the Ukrainian war. Of course, the world has changed since February 24th and we are shocked with the rest of the world and appalled by the Russian invasion, the atrocities, all that is happening there. We stand with the Ukrainian people.

If we look at business impact of the Ukraine war, that is very limited for us. We had no business in Russia, nor in Ukraine. We had some supplies, for example paper out of Russia. We immediately discontinued that and now get that supply out of Central Europe. We expect some impacts but more indirect through the development of the global economy on our operating cost and potentially also on customer demand, but we don't see that yet. So, we see both customer demand and advertising demand in Finland continuing as usual and specifically in learning completely unimpacted by this.

We, of course, support both the people in Ukraine through the humanitarian aid, through the Red Cross, both Sanoma and our employees, but also through our businesses, and specifically, our Polish business is very active on this. They have one day a week paid leave for volunteer work, both volunteer work at the border, but also volunteer work in schools and helping 150,000 Ukrainian children that have now entered the Polish education system, helping them settle in and making sure that to the best of their abilities, the children will not miss a year of education. So we're there supporting teachers in schools and working very closely with the Polish government to make sure that to a large extent students that don't yet speak Polish still can get a Ukrainian language education.



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Itslearning, our digital learning platform, has translated itself into Ukrainian and Russian, so that it also facilitates remote teaching for refugees. But also in Media Finland, digital news on the war and the global geopolitical situation has been put before the paywall. So free for all readers. And Helsingin Sanomat is one of the three Nordic newspapers that has published now a selected number of articles in Russian in order to provide Russian language, independent, high-quality news, as long as that is doable for Russians in Russia to access those sites. So we're trying to do our best to mitigate this horrendous situation. But on our business, we see limited impact so far.

And therefore our outlook for 2022, where we in February indicated that we expect to have a good year with Group's reported net sales between 1.25 billion and 1.3 billion and an operational EBIT margin excluding PPA between 15% and 16%. We expect that outlook to be unchanged and still dependent on, of course, the operating environment. We see two elements there - the Coronavirus pandemic - we expect it to continue in some form or shape, but not having any impact on our business anymore - and the advertising market in Finland to be stable. So even in a bit more volatile and uncertain environment, an unchanged outlook for the full year.

And with that, I want to conclude my remarks and hand over to Alex Green for his first more details on the financials. Alex.

Alex Green

Thank you very much, Susan. And it's wonderful to be here for my first quarter end release. As you know, my name is Alex Green and I joined Sanoma as CFO on the 1st of March, and I come from eBay, where I spent 16 years, the last nine of which as the CFO of eBay's Classifieds Group.

I've got three slides to take you through the more details of the financials. And so we will start off with operational EBIT excluding PPA. As you saw before, a solid overall profitability performance. You can see on the slide there. So, roughly 10 million negative seasonal numbers. But we do see some movements between the business units. So, you see on the learning side, we've slightly higher EBIT mainly because the marketing expense we have in Spain versus the expense we had in Poland last year, the different curriculums, nets to a slightly lower level, so a slightly higher EBIT.

In Media Finland you see lower EBIT this year versus last year, mainly due to the printing costs we talked about and somewhat higher personnel inflation and pension issues – costs rather, and some slightly lower TV productions cost due to phasing offsetting that. At a Group level, we see a decrease in personnel costs largely due to LTI provision changes, but the main thing there is lower technology costs phasing. So, we still expect this line to be roughly the same as last year on a full-year level, but we just have some phasing within the quarters showing here netting to a roughly similar EBITDA to last year.

If I move on to free cash flow, you can see on the chart on the right hand side, I remind you we do have a seasonally negative cash flow due to the nature of our business, our investments and our revenue orders. It's actually a lot lower, or lower negative number than last year, mainly due to working capital and also timing issues. So lower working capital in Media Finland with some lower payables there. Also some positive income tax movements offset a little bit by the higher capital expenditures we are starting. So pretty much timing and phasing issues there.



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As you can see on the line, our line is trending and improving up to 149 million - that's the 12 month rolling free cash flow number going in the right direction. And as a reminder, we paid our first instalment dividend this month earlier - 27 cents a share, and we'll pay the second amount, the 21 dividend, in November.

All this adds up to a healthy balance sheet with headroom for M&A, as you see on the slide, so well within our covenants, net debt over adjusted EBITDA is 2.6. Our equity ratio is bang in the middle of the range, so in a good place. So to summarise, solid performance Q1, we feel good about where we are, healthy balance sheet and ready for the rest of the year, well-placed.

One more item I would like to talk about a save the date for you. So to mention, we are having an event on the 9th of June. This is the first of a short series of deep dives on our learning business. For the first one, we will talk about leveraging our digital learning. I will host this, along with Rob Kolkman, the CEO of the Sanoma Learning business. This is a virtual presentation. There will be an opportunity to ask questions. So, very much looking forward to seeing many of you there online at that event on the 9th June.

That concludes what I will say, so I will hand back to Kaisa, who will facilitate the Q&A session.



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Q&A

Kaisa Uurasmaa

Thank you, Alex. Thank you, Susan. And now we will start the Q&A session. As said, first questions from here at Sanoma House, and please wait for the microphone before you ask the question.

And we have the first question, please.

Sami Sarkamies

Hi. Sami Sarkamies from Danske Bank. I have a couple of questions. Firstly, starting from the learning business, where you reported the high digital sales in Q1. Is it something that is additional sales or is it then away from other typical seasonally high second and third quarter sales?

Susan Duinhoven

Yeah, it's taking a little bit away from that because we are selling, as you know, a package, a hybrid, both print and digital. When it gets more digital, more of the revenue gets recognised throughout the year. So the total of the year is still the same, but the spread is a bit different.

Sami Sarkamies

Okay. And then as a general question. Can you elaborate on the impact of the digital transformation on your top line and margins at learning? So, how will this behave going forward when the transformation progresses also in other countries?

Susan Duinhoven

Yeah, I think the progression is a slow progression, as in learning, we have an annual sales cycle and what we have indicated - the long-term target -, 2% to 5% autonomous growth, and that is in the mix of both digital and print because we're not making that distinction. We're selling it as a hybrid package. And we're indicating that the margin will be above 23%, where it's now trending around 21%. So we do expect that the combination of digitalisation and scale will improve margins. So, that's the indication that we're giving and that we see year after year playing out.

Sami Sarkamies

Okay then moving on to Media Finland, first question would be on the subscription sales trend that has been pointing downwards since third quarter last year. Can you open up trends within sort of printed subscriptions and then digital subscriptions. Are both experiencing weakness?



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Susan Duinhoven

Yeah, the digital subscriptions grow and continue to grow. The, I would say, a little bit explosive growth in the Corona period and certainly in the start of the Corona period, that is no longer there. So it's a continuous growth on the digital subscriptions. We are roughly a third, a third, a third. The other third is hybrid, so that is digital plus print, and then a third is print. The print component during Corona actually went up a bit because people were working from home. And therefore - and that's our rationalisation why we saw actually an increased attention to print, were at home and therefore enjoyed reading the paper in the morning again. But that also is normalising. So we see that print subscriptions are declining. They have declined throughout the years and have always been compensated and more than compensated by the digital.

So, that trend is continuing, but the print has had, for example, in Helsingin Sanomat, has had a bit of a contraction now with the long winter and the COVID issues on the distribution. So we've had issues in distribution. We don't see it that much in the number of subscribers, but you do see it a bit in the revenue because we then compensate people. If they don't get delivered, they get a longer period for free.

So, that is what you see then in the revenues. That's a temporary effect. Unfortunate, but can't be helped. So that's on the Helsingin Sanomat, which is, of course, a key component, regional news performing well, Ruutu performing well, and actually there we have expected quite a bit of shrinkage post-Corona but that's continues quite nicely to grow.

Sami Sarkamies

Okay. Then regarding the advertising media market, I just wanted to confirm that, was your message that if you think about advertising sales in April and May, we're back to sort of the trend you experienced in January or February, that there's basically no sort of impact from the situation in Ukraine?

Susan Duinhoven

No, that is what we've seen. As you know, visibility on advertising sales always is horribly short so we can't see full of May, but the first weeks of May look good, but April definitely looked good. So, we that that as we saw with Corona, that when certain events happen, particularly on TV, people pull back their campaigns, because the campaigns themselves from a content perspective are also not appropriate. It's not appropriate to have big fun and party type of video content when you have just seen the news. So, this is where you typically see a bit of holding back, and that has now been released again.

Sami Sarkamies

Okay. And then my final question would be on the TV business. Quite recently, Netflix announced that they may introduced partially advertising-funded subscription models. Are you concerned that this could sort of eat into the market shares of the local TV providers?



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Susan Duinhoven

Yeah, it is a bit early days, I'll be honest, because we don't know if that's going to be directed at maybe African or Asian markets or also in more Western European markets. So, we don't know where that's going to be, but we have a pretty solid digital proposition, both in our news and in our entertainment. Good data, of course, underneath it. So we would not see ourselves being heavily disadvantaged. But of course, anyone entering that market, preferably not.

Sami Sarkamies

Okay. Thanks. I don't have any further questions.

Kaisa Uurasmaa

Thank you. And then the next questions, please, Maria.

Maria Wikström

Yes, thank you. Maria Wikström from SEB. I mean, first of all, I mean, it's quite a clear quarter, so thanks for that. So, just a few questions. Which one is for the paper cost? And you announced that in Q4, you said the inflation you are looking is 5 million to 10 million. Now, of course, you need to reroute some of your sourcing outside Russia, which I would think increases the cost somewhat. So, is this still the guidance of 5 to 10 you are looking for? How should we think about that?

Susan Duinhoven

Yeah, what we indicated was around 10 million, and then 5 million in learning, and 5 million in Media Finland. And you're absolutely correct in your analysis that that will be exceeded slightly because at the end of the year we did not foresee, of course, February 24th. But we also see that we are economising in clever ways, that the business is finding cost innovations in other areas, but also in efficiency and paper use.

We have indicated, and that is still very much our view on it, that these inflationary effects, they will have a temporary effect on the margin in 2022 because the price increases that normally coincide with these cost increases, they take a bit of time to kick in. We're active in consumer markets. So you can't make these steps in big steps, but in smaller steps we will of course adapt pricing both in learning and in Media Finland to the new cost levels.

Maria Wikström

And then a very detailed question, but I would like to learn more about the printing in learning, so in the school books. Where is that currently done? And is there any issues that now we have some problems like mainly in China with the COVID virus and all the transportation and logistics? So maybe if you can a little bit educate me on that subject, please.



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Susan Duinhoven

Yeah, we're printing. Most of our usage of the books in Europe, so we're always taking logistics costs and printing costs as one element. We're printing some further away, when it concerns, for example, large runs or very special products that can only be produced in certain printing plants. So, we have a widespread sourcing across Europe and even you could say a bit across the world.

The procurement team is constantly tuning in on these changes. And China has, of course, been on and off and with very high logistics costs already last year. So we have pulled back from that area already quite significantly. So, this is dynamic sourcing. But the interesting thing, of course, with learning is that you have quite a peak, and that's a peak that is not identical, for example, to peaks in reading books, in normal books. So we are using also a little bit of the free capacity here and there. That's it.

So, this is an active field where you are constantly optimising and the books – only a very limited set of books have very specific specifications. You can imagine in primary education first classes, there things need to pop out of the paper and need to be exciting. So, there you have very specific printing plants, but the rest is quite common.

Maria Wikström

Okay. And then maybe a bit of an update on the M&A. That was clearly stated, still in the agenda, 300 million to 400 million. But maybe now when you meet with the potential targets and talk with the owners, has there been any kind of change since the negotiations that they were before the February 24th?

Susan Duinhoven

Of course, we have a full pipeline in different stages of discussions. And, of course, the war is a key phenomenon in the whole of the world. But I would not say that this has changed our M&A outlook or the discussions ongoing or our pipeline in a material way, no.

Maria Wikström

And what about pricing? Is there any feeling that if because the stock market has, of course, sold down that if there is any change in the pricing that we're looking at?

Susan Duinhoven

Not yet visible but we're always looking, of course, for decreasing pricing. But this is not a market, let's say, with hundreds of targets. So that's where we also in honesty don't have the statistics to say if they are up or downward trends. These are very individual discussions that we're having.



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Maria Wikström

And then my final question relates to, I mean, you set up a new local editorial team in Turku. So I think this is kind of an alternative of making an acquisition in the area. I mean, you kind of strengthen with adding the local content to Helsingin Sanomat. So is this kind of a pilot that you are testing? And if it's successful, you take it further out to the other cities as well. Or how would you think about this?.

Susan Duinhoven

Yeah, I mean, I think that when we acquired the regional news business from Alma, that of course was an acquisition in itself, but also getting to know how the regional journalism works and how that interaction works with Helsingin Sanomat. And we're very happy with how that works. So, we see that there are very interesting articles coming out the Satakunta area, out of the Pirkanmaa area, out of Tampere, coming into also Helsingin Sanomat. So that's where there is a clear – and digital, of course, we can exactly follow what is read, how much it's read. So how interesting that is. So we see very good readership from that.

And then once you see that, then you also see that therefore makes sense in, an important city and an important area like the Turku area, to have local journalists on the ground there as well. So that's more the consequence of it. And when there are other areas with good economic activity, then we might consider to do that same thing. We'll now experience this, let's say, in Turku and then we'll take it from there. But we're very clear that this is coming out of the good experiences from the regional news reporting and that integration into Helsingin Sanomat.

Kaisa Uurasmaa

Thank you, Maria, and then we have Petri here for next questions, please.

Petri Gostowski

Thank you. I think we're looking at a pretty good season for the festival business. So can you just remind us of what you would expect in terms of profitability? It's been two tough years.

Susan Duinhoven

Yes, we have indicated that this is a business that pre-Corona did 30-35 million in sales with about average profitability that you also see in Media Finland. So that is still what we expect. And then, of course, we are hoping for an exuberant audience and weather because the weather is a not to be mistaken element still in a festival season. So, that is a bit what you can expect.



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Petri Gostowski

Thank you. Then just to clarify on the higher personnel costs. Is this just wage inflation and no growth in headcount?

Susan Duinhoven

Yeah, it is mostly wage inflation. The headcount changes are just normal headcount changes. And even a little bit of what we are all experiencing, a little bit of shortage of personnel, so temporary vacancies.

Petri Gostowski

That's all for me. Thank you.

Kaisa Uurasmaa

Thank you. And if we don't further questions from the audience, I would like to hand over to the operator for the telephone line, please.

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Currently, we have one question lined up so far. That's from Pia Rosqvist of Carnegie. Please go ahead.

Pia Rosqvist

Yes. Hello. Can you hear me?

Susan Duinhoven

Yes.

Pia Rosqvist

Yes, good. All right. Thanks a lot. So a few questions. One, with regards to the Group costs. You say the low level in Q1 was partly explained by a phasing between quarters. So I'm just trying to understand the changes during the year. Should we now expect Q2, and maybe particularly Q3 to see higher costs as revenues also are higher?



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Alex Green

Yes, thank you for the question. So, as I said, full year, we expect that the Group costs you see there to be in line with last year. So, we start off a little bit behind, as I say, due to the phasing of the tech costs. So, yes, we will see an acceleration in that line as we go into Q2 and Q3, yes.

Pia Rosqvist

Okay. Thanks. And then a detailed question on the income taxes. They were positive. Can you please just open up what's behind these deferred tax assets in learning which you booked.

Alex Green

Yes. So that deferred tax asset relates to Santillana in Spain, and it was not booked at this time last year in Q1 2021, it was booked slightly after and is therefore showing in the comparison and is giving us a benefit in that comparison for this quarter.

Pia Rosqvist

Okay. Thanks. Then I think you quite clearly signalled that you're ready to move on with acquisitions. So, is there anything specific you can share in terms of the M&A market in learning currently? Do you feel it is becoming harder to close deals compared to, say, two years ago? And are there any news on your focus areas? Are you still tilted towards content or are you also looking for acquisitions in, say, EdTech?

Susan Duinhoven

Yeah. Let me start with the last one. Our focus is very clear: K12. And within K12 we feel well-equipped from a platform perspective. So, the focus will be on content. So, no changes there. And also, I must say, that in the environment, not anything recent in changes, but we do see a quite active market and quite a good pipeline with good opportunities of different magnitude. So, we're continuing on this path, but M&A, it's like a good wine, it takes a bit of time to ripen to the right level. It's always a pity if you try to open the bottle too quickly.

Pia Rosqvist

Yes. Thanks. That's very clear. Thank you. That's all from me.

Operator

Thank you. And there are currently no further questions from the phones at this time.



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Kaisa Uurasmaa

Okay. Thank you, operator, and we have two questions on the chat and the first one is about free cash flow. And for the quarter, it was slightly better than last year, although negative, but how do you see now the full-year cash flow?

Alex Green

Yes, good question. So full-year, we expect the cash flow to be a little bit lower than we saw last year because we are investing quite a significant amount into our digital platforms this year connected with our strategy and what Susan's been talking about. So, lower full-year free cash flow, despite being in a better position in Q1.

Kaisa Uurasmaa

Thank you. And then I think the final question also to you, Alex. You have now been here two months. What are the first thoughts and expressions you would like to share?

Alex Green

Thank you. That's a great question. So, no, it feels fantastic to be here. I've had a very intense, but in positive way, two months. I've learnt a hell of a lot. I've met a lot of people and they've been incredibly friendly and helpful to me. And I also call out my predecessor, Markus Holm, who's been very generous with his time. So, I feel pretty good about where we are. And then as a CFO, coming into a situation where we have a healthy balance sheet, we have headroom for M&A, a strong team and a great opportunity and outlook, and really excited to be here and to be on this journey with Susan and the team.

Kaisa Uurasmaa

Thank you. And thank you to the audience also for listening and for active questions. We of course continue to be available for further discussions and questions. And then as final reminder, I would like to remind of the 9th June when we host the virtual learning deep dive, and the invitations will be sent out shortly. So stay tuned with that and have a nice weekend. Thank you.

Alex Green

Thank you.

Susan Duinhoven

Thank you.