

FINAL TRANSCRIPT

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SAA1V.HE - Q3 2010 Sanoma Corporation Earnings Conference Call

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Deutsche Bank - Analyst

Andrea Beneventi

- Analyst

Alex Wisch

S&P Equity Research - Analyst

PRESENTATION

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Good afternoon, ladies and gentlemen, and welcome to Sanoma's third-quarter 2010 conference call. And my name is Hannu Syrjanen as you heard and I'm President and CEO of Sanoma Corporation. And I have here our CFO, Kim Ignatius, and Kare Laukkanen and Anna Tuominen from our IR team also present with me.

So as always before, I will briefly go through the key issues regarding our third quarter result and then we are ready to answer your questions and again, the slides that I am referring to is available on our IR website.

In the third quarter, our net sales adjusted for changes in the Group structure continued to grow, especially advertising sales grew and our short-term visibility in the market increased which is natural because only few weeks to go this year.

Our operating profit, excluding non-recurring, items improved clearly by 12%. Our costs were under control, but the market recovery can also be seen in our own advertising and marketing expenses. These expenses increased by 10% and are expected to increase also in the last quarter.

Next slide number three, so I am very proud of our strong cash flow from operations during the first nine months. Our businesses are doing well and the uncertainty regarding the market development has decreased, so we were able to upgrade our EBIT guidance on Group level and on some of the divisions as well.

Before I go to our financials, I would like to briefly comment on how the situation looks like in our main markets. In general, it can be said that the Western countries are back on the growth path again, but such a high growth rate can't continue forever as we all know. I believe on slow growth period in Europe in general.

Starting from Finland, consumer confidence is at all-time high. Also the unemployment rate estimates for 2010 and '11 look better. Advertising markets continue to grow strongly also in September. Online and job advertising led the way. One important aspect to note is that job advertising grew strongly also in the printed newspapers not only online, so bringing this field going strong. During the third quarter, we were able to increase our market share in most of our businesses here in Finland.

In Q4, we will increase our own investments to sales and marketing a bit more to ensure a good performance also in the future. On the negative side, the Opening Hours Act still affecting customer volumes and sales mix of our kiosk products and kiosk business.



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Then I jump to Holland. Consumer confidence continues to improve also in the Netherlands and in Finland the unemployment rate estimates look all-time better. Advertising markets grew also in the Netherlands even though the official statistics are not that reliable as here in Finland. Slight growth in consumer magazines while the reported online market was slightly down. Sanoma outperforms the market development clearly.

Then to Russia, which is always interesting. So economic fundamentals are improving also in Russia and advertising markets are growing strongly at least on short term. So, however, there is still some way to go through it, the '08 level, because of the drop of '09 which was huge.

In CEE countries, the picture is more mixed. Economic fundamentals are still weak in most of the CEE countries. In several countries, there are severe government measures to reduce budget deficits -- budget deficits, sorry. This has led to tax increases, reduction of investments and salaries, and very low consumer confidence. Recovery of these countries has not started yet and it will take time before it begins to in my opinion.

Then a few words about our numbers. All in all, the third quarter continued the strong performance of two preceding quarters. Our net sales were slightly down, but if we adjust the figures for changes in the Group structure, basically Welho and Humo transactions, then our net sales grew by 1% and our advertising sales in the third quarter grew by 12% and online advertising sales by 22%.

Our operating profit, excluding non-recurring items, improved clearly by 12% to EUR95 million. The result improved thanks to our efficiency measures as well as growing advertising sales and good performance in Learning.

Our nine-month cumulative cash flow from operations improved significantly thanks to a clearly better operational result. Also lower interest costs and positive development of net working capital improved the cash flow. At the end of September, we had some 1,100 employees less than a year ago.

Now a few words about the divisional result development, the slide number seven, so it is the contribution of each division to our operating profit excluding non-recurring items in third quarter. In Magazines efficiency improvements, good advertising sales development improved results. However, results were burdened by the increased marketing activities that I mentioned earlier which will continue also in Q4.

In News, efficiency improvements and good sales development increased result significantly by 33% and like I mentioned earlier also printed newspapers are still going strong with both advertising and circulation sales increased. In Entertainment, the divestment of Welho decreased the figures of course. What should be highlighted, however, is the fact that the existing broadcasting operations are performing extremely well. Their profitability improved significantly.

In Learning and Literature, our Learning business continued its excellent performance. However, some costs were postponed to the fourth quarter and there is some risk of delays in tender process, this especially in Hungary in fourth quarter. Also the outlook for the language training business is not yet positive.

In Trade, the sales mix of the Finnish kiosk business and poor economic situation in the Baltic countries burdened the result.

In Q3, Sanoma's financial position strengthened further; our balance sheet totals now some EUR3.3 billion. Our equity ratio is at 44% level, a bit in the high end of our target to keep the ratio between 35% and 45%. Our net debt has decreased by some EUR100 million from the September '09 level.

Our net debt to EBITDA ratio is as low as 1.6 due to the capital gain from the Welho transaction. If needed such a low ratio enables us to take additional debt without compromising our covenant. Also our strong cash flow, growing ad markets and strengthening consumer confidence make us ready for further acquisitions and help us in executing our portfolio strategy.



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About our online sales, slide number nine, our public target is to reach EUR240 million revenues from consumer online media by 2012. In January-September, these revenues grew by 19%. So we are pretty well on track.

Finally our guidance, which has changed a bit, we expect now that this year, 2010, our net sales will be at the previous year's level; earlier they were expected to grow. But our operating profit excluding non-recurring items will improve somewhat. This was [upgraded] earlier; they were expected to improve only slightly. And in the comparable year '09, operating profit excluding non-recurring items was EUR229.5 million.

So this guidance includes the effects of the weekly magazine Humo and the cable TV operator Welho transactions. The estimated negative impact of these transactions on 2010 operating profit excluding non-recurring items is some EUR12 million. And this guidance is based on the assumption that the advertising markets in the Group's main operating countries grow somewhat this year.

So to sum up, our third quarter continued the strong performance as the two previous quarters as well as markets are growing in the main operating countries and this makes us very confident that this year will be a good year for us here in Sanoma.

So this was my short story today. Ladies and gentlemen, thanks for your time and we are ready for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) We'll now take our first question from Mark Barley from Deutsche Bank. Please go ahead.

Mark Barley - Deutsche Bank - Analyst

Yes, good afternoon. I just wanted to ask on the marketing spend, you flagged for both Magazines and for Learning and Literature that the marketing spend will step up in the fourth quarter. In Magazines, can you tell us is that marketing on existing titles or you're actually returning to launching new titles?

And in Learning I just -- I guess, I just want to understand what the marketing spend is in the fourth quarter which presumably is normally seasonally very quiet. So why you're having extra marketing costs in the fourth quarter in the Learning business?

Hannu Syrjanen - Sanoma Corporation - President & CEO

Starting from the last one, so when talking about costs in Learning and Literature we are not basically talking about marketing costs. We are talking about different kind of development costs and so on. As you said, so this is not the season to really spend on marketing. So there we have a other type of investments to keep our good performance on track also in the future.

So in Magazines, we are -- of course, we are not basically launching any major new titles, but of course, this is a period when, for instance, the customers are renewing their subscriptions. So this is the period to market. And we have to bear in mind that last year activities were pretty low -- on low level because of depression or recession. And that's why the change compared to previous year looks pretty big. So -- but no major new issues there, but we are basically coming to normal level in our marketing activities after low activities during the recession.



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Mark Barley - Deutsche Bank - Analyst

Okay. And just one follow-up. You said in the statement that in the Netherlands and in Finland budgets cuts have not yet had an effect on sales. So presumably you are -- are you planning next year on the basis that you are going to see those budget cuts impacting the Netherlands and the Finland in the Learning business? And if so, with the extra marketing goal, the extra development cost that's going in, should we think about margins next year in Learning getting squeezed?

Hannu Syrjanen - Sanoma Corporation - President & CEO

Basically we are not guiding next year yet because so many things still open what comes to 2011. So -- but as I said that to keep, for instance, our subscriptions in Magazines so we have to market and increase our marketing activities, and in Learning and Literature, as I said. So there are different kind of product development and other type of development cost mainly needs to be really postponed because we were -- in the beginning of the year, we were a bit lagging behind our target. And now, as you can see, so our third quarter was extremely good and we have decided to take some actions for next year.

Mark Barley - Deutsche Bank - Analyst

Okay, thank you.

Operator

We'll now take our next question from Andrea Beneventi. Please go ahead.

Andrea Beneventi - Analyst

Yes, good afternoon Mr. Syrjanen and thank you for taking my question.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Good afternoon.

Andrea Beneventi - Analyst

I have three of them, actually. The first one is regarding the change in the revenue guidance. Is it fully related to the outlook for Trade or is it also related to Magazines? What is the reason behind this change?

And my second question is on the growth rate of Sanoma Magazines that you reported. What would it be without the -- I mean, net of title closures and ForEx? If I understand well, the reason why the rate of growth is negative is because you closed quite a lot of titles in the past. So what would be the net rate of growth?

And my third question is what is the reason behind the EUR6 million impairment of Sanoma Magazines in the net allowance please?

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Hannu Syrjanen - Sanoma Corporation - President & CEO

Again starting from the last one, this impairment write-downs, there are basically two of those, one [Schulbank] is an online service. It is -- I would say that the business model of Schulbank, which was based on subscriptions, is not functioning any more. So that's why there was or it was necessary to make an impairment write-off there.

Aldipress we see which is our distribution company, press distribution company there, it was -- there was an organizational change from Trade Organization to Sanoma Magazines. And that's why that impairment loss is in Trade figures and it is -- it's based on -- it's more technical issue, but based in the change in the business model of Aldipress and it's more like a service business for our own publishing company and some other publishing companies there.

So that's about the impairments. What comes to the -- your second question, there are no big changes in our Magazine portfolio. So no real impact on title closures and of course, Humo, which we sold out from our Belgium portfolio. So, of course, it -- there is an impact of this also, what comes to our sales figures. So -- but the changes in the portfolio are not really the reasons. And your first question was about the --

Andrea Beneventi -- Analyst

Guidance.

Hannu Syrjanen - Sanoma Corporation - President & CEO

-- the guidance in our sales. So it's not based on Trade alone. So there are -- because as we see we have not grown very fast during the first nine months and we have had these changes to Welho, for instance, our cable network is out of our portfolio; Humo, as I mentioned. There are many changes and that's why we see that our top line will be pretty flat this year.

Andrea Beneventi -- Analyst

Perfect, thanks a lot Mr. Syrjanen.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Thank you.

Operator

We will now take our next question from Alex Wisch from S&P Equity Research. Please go ahead.

Alex Wisch - S&P Equity Research - Analyst

Hi, good evening.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Hello.

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Alex Wisch - S&P Equity Research - Analyst

Just a couple of questions. One is on the -- an extension of the previous question on the restructuring charges. Going forward, can we expect further restructuring taking place since -- and more or less, if you could provide us with a number or at least the areas in which the restructuring will take place in terms of amounts or businesses that could be written down. In particular, I'm interested in the -- in Trade which seems to be the area that you are targeting the most in terms of where you need more of management action.

And the other question is the -- we'd seen a drop in personnel expenses. That's related to the Welho transaction, but also the third quarter is always as the seasonal low in terms of personnel expenses. Going forward, do you think the reduction that we've seen in the third quarter is representative of the new entity? Thank you.

Hannu Syrjanen - Sanoma Corporation - President & CEO

First all of, what comes to structural changes or restructuring our portfolios, Of course, it's too early to say anything what's -- concerning what is coming to happen in the future. But in general I can say that we have been in the focus -- in the mood of focusing our portfolio for sometime already and we have done a small divestment because although we have these five divisions, so it's easy to see that we are at least in 15 business and we constantly make the question to ourselves that what businesses we would like to be in the future.

And the natural answer is that we should focus our portfolio. And Welho, of course, is a good example and we have done a lot during the last couple of years. We have sold our printing facilities, printing mills; we have sold our restaurants, we had sold this and that. So this trend definitely will continue, but of course it's too early to say anything more specific.

About personnel expenses, so it's not only Welho, of course, because the many cost-cutting measures we made last year, '09, so they are paying off this year because for instance, what comes to restructuring in Belgium, is all of the people left the organization in September. So we see the impact only this year. And, of course, it depends, very much depends on what happens in the market. So you will always have to adapt your costs to a situation what your earnings are. So I think this is normal going-concern type of measures that the management have to be ready to take all of this when it's necessary.

Alex Wisch - S&P Equity Research - Analyst

Thank you.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Thank you.

Operator

(Operator Instructions). There appears to be no further questions in the queue at this time, sir.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Okay. Then I'm happy to thank you all for participating in our conference call this afternoon. Thank you very much and have a nice rest of the week. Thanks a lot.

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Operator

Thank you. That concludes today's conference call. Thank you for your participation. You may now disconnect.

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