Deco Media Oy

Moderator: Olli Turunen
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Olli Turunen: Good morning, ladies and gentlemen, and welcome to Sanoma's Second Quarter Result Publication. My name is Olli Turunen and I am responsible for Sanoma's Investor Relations. Today's agenda is the following -- first, our President and CEO, Harri-Pekka Kaukonen, will go through main topics of the second quarter; and then, our CFO, Kim Ignatius, will cover the financials. After the presentation, you will have a chance to ask questions here in the studio and also over the phone. Harri-Pekka, please go ahead.

Harri-Pekka Kaukonen: Thank you, Olli. Welcome also, on my half, to our Q2 session. Second quarter -- during the second quarter, we made really good and steady progress in implementing our transformation strategy. First of all, even though it is only one quarter, I'm particularly happy about the improvement in the organic growth rates. On a comparable basis, Sanoma's revenues declined by 1 percent, which is a clear step up compared to, for example, Q1 and all of last year.

This is -- if we split this organic growth into the different units, Poland was pretty much flat, the Finnish media business was some 3 percent to 4 percent decline, and then Learning showed some growth. We also continued to grow in our new media sales at a somewhat lower rate than Q1, but still a good 7 percent improvement.

A couple of other positives regarding the strategy implementation, SBS has steadily -- slowly but steadily grown its viewing share all through the spring. And especially, when you look at it, you need to take into account that this is a year with major events; that means that we had the Olympics in February and then, obviously, the football championships that then have a significant impact on the viewing share of commercial TV broadcasters. In May, actually, we had the biggest viewing share in almost three years with SBS with more than 22 percent viewing share in the relevant target group.

We communicated last October that we will radically streamline our magazine portfolio in Holland. This is the so-called focus strategy and I'm very happy that we have taken -- basically, we have implemented the structural part of it by selling 22 titles during Q1. And in that sense also, the cost improvement initiatives associated are proceeding ahead of schedule. What you can see when you analyze the market in Holland is that the focus titles are clearly performing better than the non-focused titles, and that gives clearly proof points that we are on the right path and the choice was a correct one.

In Finland, in the media, the environment is still very challenging. What I'm particularly happy about in Finland is that the cost savings are coming ahead of schedule here as well and are supporting the difficult market environment, in particular, the drop in print. We also had a good quarter for Learning. And as we stated in all the reports, please take into account that there's a significant time shift in the Learning revenues and Learning performance.

So, clearly we're seeing signs of improving operating performance, mindful of that this is just one quarter, but at least a good basis to grow from and good basis to continue the work. The other key element is really around costs and the divestments. And the cost savings program is also moving according to plan. We are currently halfway in terms of run rate. We also made a big deal with Wipro that covers all of our IT infrastructure. That's a major deal, and which will also then contribute in a good way to the cost savings program during H2 already.

As you've noticed, there's been a steady stream of announcements from Sanoma during Q2 as well on the divestment front. We actually closed Hungary in July. We announced the sales of De Vijver Media. And then, also already mentioned the magazines, that also include four titles in Finland. So, all in all, a good quarter in terms of strategy implementation.

Then, a few words about the business environment. What we see -- what we've seen during the last two quarter is an ongoing improvement in the Dutch business environment. And you can see it clearly in the numbers of the total ad market, where the last two quarters have been 4 percent to 5 percent growth in Holland. And that obviously is good news for us, where about half of our revenues come from advertising and media. And that has also supported SBS, which has [saw] about 6 percent revenue growth for us.

In Finland, unfortunately, the story is still quite bleak. We've had close to two-and-a-half years of steady decline in the advertising market, and Q2 was not an improvement. A gradual improvement, but still a decline in the total market. And as you can been -- I'm sure have been aware in reading in the papers, there's really no improvement in sight. It seems like the time of the turnaround just keeps being moved ahead quarter-by-quarter, but hopefully towards the end of the year we can also see some gradual improvement in the advertising markets.

Then, as customary, a few words still about the strategy implementation. The first thing to mention is where are we in terms of the transformation? And the key measure we use is new media sales. This is simply non-print, including TV. And on a yearly, 12-month running rate, we're currently at 39 percent of new media sales in our consumer and media businesses in Finland and Holland. Actually, the number in Q2 was 42 percent.

What this means is that there's a good chance that during this year we'll reach a 50 percent run rate in Holland, which is clearly a milestone that we need to achieve just mathematically to be able to balance print and the non-print. In Finland, the growth particularly well took place in radio and online TV, where Ruutu and also our investment in the hockey league are moving according to plan.

Learning is currently close to the 50 percent mark when you look at -- when you include the digital hybrid sales as well. Obviously, we can have a debate whether that's a relevant measure for us. It is because there, in this digital hybrid solution, the digital component is a key element of the value proposition, particularly to the teachers.

A few words maybe still about funding the journey. I went through most of these things, but what I would like to point out now is that the portfolio restructuring program is getting to the final stages. We have two major assets still where the processes are undergoing; that is Russia and Belgium. And hopefully during Q3 we can learn more about the prospects and then tell you what it looks like. But these processes are undergoing -- or ongoing and obviously the situation now in Russia and Ukraine puts clear challenges into the process in Russia. It also puts quite a lot of pressure in the advertising market for obvious reasons in Russia, whereas in Belgium things are steady and fine and we are keeping our ground and the Belgian business is performing on a good level.

With that, I would like to share a couple of highlights of what I mentioned. The first one is SBS. You can see in this chart on the lighter shade is our viewing share this year and the darker one shows the comparable numbers for 2013. This is a bit of a tricky comparison, as I mentioned, because of the Olympic games and the football championships. And to give you the magnitude of the impact of these special sports events, the nights that Holland played, 75 percent of the viewers attended and watched football. So, there's not much viewing share left to the other players. So, that means also it's very difficult to give you an estimate what it would have been without.

But then, when we look in July, when things have normalized, we are already back into viewing shares that start with two, and so clearly it's a temporary blip. What will be then particularly important for us is H2. It's impossible to predict viewing share development, but what is clear, that gradually we get more steady building blocks into our programming grid, and normally that tends to [declare] stability and predictability in the viewership. But we will then see, because this is not a static market; there's competition who is also active in this space. But good, positive development, we feel, in SBS.

Then, a few words about Learning. Malmberg has been our strongest performing unit this year, and they've made good progress in all fronts. And what is common with this development is that the driver is really our e-learning solutions. It's e-learning solutions that support the teacher; and particularly, that's where our learning organization is particularly good at -- understanding the teachers' needs and providing electronic learning materials and method support that help teachers do their work more effectively and cuts down on unnecessary administration.

The second part is really then building electronic homework materials so that supports teaching and learning at home, and that, combined with modules for the teacher, then enable better tracking of performance and makes the teaching cycle more efficient.

A few words then on vocation education, where we actually have introduced purely digital methods in math and English, and they have been adopted, they are market revolutionary and with strong adoption and where we have captured a bit share of the vocational education share in mathematics and English. So, a good process, and that has led to a 4 percent growth of -- organic growth of Malmberg in Holland. So, very happy about it.

Then, going to our cost savings program, covered most of it already. It seems to be that the run rate and the non-recurring costs go so that it costs about one year together of recurring, one year of savings. That, at least, is our experience. In Q2, we had actual hard, fixed cost savings impact on our P&L of about EUR12 million, and a big part of the savings program is this really targeted at Finland. And it's no surprise, you can just have a look at the Finnish performance and margins to understand why that is the case.

Already mentioned the ICT infrastructure, but we also made a major outsourcing deal of our support functions, the financial shared services, during Q2. So, these are big, transformative events from a cost perspective, but obviously also culture-changing events that lead to a different way of looking at our support processes. And there, we'll go for scalability with our [parts]. And this ICT infrastructure outsourcing will already be providing EBIT improvements during H2; the deal structure is set up in that way.

Just summarizing the operational performance before I hand it over to Kim for a more detailed review of our financials and the outlook, this is the chart that shows our core businesses and the key KPIs that are associated with it. We are now, as I mentioned, a run rate of 39 percent in new media sales; that means we have more than EUR0.5 billion of sales in TV and digital services. And the margin levels in Learning and the Netherlands business are healthy, whereas clearly our biggest challenge today is to turn around the Finnish business, where the 4 percent profit margin is just not acceptable.

But you will see, as already, we have closed some deals to the other bucket. We'll continue to shrink and obviously we'll be dependent on the processes regarding Belgium and Russia and CE, which are the big remaining businesses in there. But all in all, the portfolio is being streamlined, it's shaping up, it's becoming sharper. And with that focus, we are working hard to also improve margins across the board.

And with that, perhaps I will close my part. But to summarize, particularly the strong performance in terms of implementing the strategy, only one quarter obviously, so too early to draw really broad conclusions about operating performance, but early signs that the strategic steps we're taking are having an impact. And in that sense, a good step forward, but a lot of work still remains ahead.

So, thank you. With that, Kim?

Kim Ignatius: Thank you, Harri-Pekka, and good morning, everybody. I hope you've had a good summer so far. I will now walk through the second quarter financials and also address the first half of the year and try to point out matters that are of interest and can be of interest for you specifically.

And starting with the income statement, we had sales of EUR533 million. As reported, they are 4.5 percent down, but adjusted to structural changes were down only 1 percent, which, as mentioned already, is very pleasing. What I think is good news in this report is the level of EBITDA. Looking at the margins, we are a bit ahead of margin levels compared to last year's Q2 and first half year. It's a combination of many things. Partly, the environment is adjusting to the market trends. Our cost of goods sold went down 8.4 percent. Paper costs clearly down, partly based on volume, partly based on price. Also, distribution services costs coming down.

Then, on the fixed expense level we are down around 5 percent and -- sorry, about 4 percent, and employee benefits, 4.2 percent. All in all, the operating expenses came down by 5 percent, a bit over, so more than the sales decline in the current quarter.

Looking at the TV program rights and the pre-publication rights, pretty stable. There is some time shifts, and that's really here as well between the quarters, and there is going to be some time volatility in the latter half of the year as well. Looking at the first six months, then you see a fairly stable picture, again, for both categories.

EBIT, excluding non-recurring items, at EUR66 million. We are EUR11 million above the consensus level and, as indicated already, there's some time shift in the Learning part of the business. And really, the EUR11 million delta, the majority comes from the Learning business. So, there was a EUR9 million difference on the reported numbers and the consensus numbers on Learning. We believe that roughly EUR5 million from the latter half of the year has been included in our numbers already. And in the Learning business, the majority of the EUR5 million goes through the P&L and impacts the EBIT levels.

On the non-recurring items, we have reported EUR63 million negative non-recurring items. There are two big items in it -- one is the transaction loss on our ownership in De Vijver; media, we are booking a EUR34 million loss on that transaction. And maybe it's good for you to understand that the majority of the equity originally injected into the Company has been in the form of the Humo Magazine, which we are now buying back, and only a smaller portion, around EUR7 million, is actual cash losses. And you could say that keeping the Humo and not putting it into De Vijver you would have, in a way, faced a similar level of write-downs, even having it with Sanoma all the time.

The second, bigger item is Aldipress; that is the Dutch press distribution operation, which we are rearranging, and there we are having an EUR18 million negative impact. Rest of it relates to the EUR100 million savings program and, as already mentioned, quite a bit of restructuring costs are needed to establish a kind of permanently lower cost level for specific functions and operations.

Moving then into the net sales development by SBUs, group level for the first half of the year -- and focusing on the first half because there is time shifts between the quarters and taking a bit longer period here kind of takes care of part of the timing matters. So, for the first half, sales last year at EUR1.28 billion level and now at EUR971 million. Media Netherlands came down around EUR6 million compared to last year's first half. And as discussed already, there is a positive momentum in the Dutch marketplace. We have good growth in TV. The market is growing. We are growing with the market, improving our position there. And also, in online and mobile the development has been very positive.

Naturally, the negative trends in the traditional print, in print advertising and in circulation sales continue, and for the time being the growth in TV and the growth in online and mobile is not totally offsetting yet the decline in the traditional part of the business. In Media Finland, the market situation is tougher. The advertising markets haven't picked up yet, so we see a decline in most of our categories. In some areas, there are positive things. Pay TV is picking up nicely. Naturally, the base is fairly low. And similar picture we have also in the online and mobile operations. All in all, quite a big decline in sales, but, as we will see soon, can be offset with cost reductions.

Learning, very small delta, actually, compared to the first half last year. And we have two units -- a small B2B business that was sold in Finland; and then we sold our Hungarian operation, which had annual sales of EUR13 million last year. So, those are things to remember when looking at the Learning performance.

In the other, in elimination category, I would like to mention two things. One is Lehtipiste, which we have saw the impact there, is EUR20 million in the first half of the year. And then, Aldipress, our press distribution operation, naturally, when the Dutch circulation volumes come down it hits our press distribution business as well.

Moving to the EBIT and SBU development there in Netherlands, a positive delta of EUR4.3 million. This is, to a great extent, driven by the TV business. We have lower TV costs for the first half of the year and at the same time we've had higher sales, so this is a major impact on the Dutch business. Some cost efficiency improvement, but then the decline in the print sales, it's a part of the improvements in TV and the cost efficiency, but still leaves a positive delta of EUR4 million.

In media, Finland, all in all, sales have come down a bit over EUR20 million, which naturally hits your profitability. We have a good level of cost savings offsetting a part of it. Then, we have the investment in pay TV, which we have announced, and also the sale and leasebacks that -- and the impact on the rental costs from that transaction hitting our numbers. And the net of all of this is a minus EUR6 million development.

Learning, positive EUR2.7 million. We have the time shift. We also have Hungary, which was last year in our numbers, and had a negative performance during the first quarter. Other, again, the sale of leftipist, then also some investments in the digital transformation.

Moving to the free cash flow, naturally, the free cash flow is a reflection, to a great extent, of the P&L. EBITDA here, you can see pretty close to the levels that we saw for the second quarter and also for the six-month period last year. Some volatility on the paid programming costs and pre-publication costs, but again, on the six-month basis we are pretty much in line with last year.

Change in working capital, negative. This is natural for us. You know that the normal kind of quarterly trends that we have is that we do most of our cash flows during the latter half of the year, and it is quite a lot driven by the Learning business, which does its profits during the second and third quarter and then gets the cash flow during the latter half.

Still, the picture in the working capital is a bit better than what we saw last year. This is impacted by some of the restructuring and redesign projects, so we get non-interest bearing payables into the working capital, but that is then adjusted in the other adjustment line. The Aldipress restructuring, of course, would be the majority of that change, and that was at the level of EUR18 million.

Interest paid coming down, naturally, following the net debt reduction. Taxes paid also at the same level for the six months, where we were last year. CapEx, a bit lower. So, all in all for the six months, the free cash flow currently is minus EUR90 million, EUR10 million better than we were the year before.

Then, just a note, there on the bottom of the page, that the proceeds of the sold operations during the first half amount to close to EUR300 million, which has helped us to improve the balance sheet the way it looks. So, net debt levels at the end of June, EUR950 million, and comparing to last year we are EUR458 million lower, which is very positive and naturally helps us when we move towards 2017, when, according to the maturity profile, which you can see here, we need to have new financing arrangements in place.

The net debt/EBITDA adjusted, 4.2 times. If we look at where we were 2011, it's pretty much the same level. These are not exactly comparable. There has been some IFRS change adjustments, but they don't really change the big picture. So, fairly close to where we were in 2011, but, at the same time, a year ago we were at 5.5. So, our net debt to EBITDA ratio went the wrong direction after the SBS transaction and has then started to improve. And naturally, our target is to improve it going forward.

Average interest rate still at the very good level of 3 percent. Our interest sensitivity, meaning the impact on P&L on an annual basis if the market rates would change with 1 percent, is EUR3 million. Our equity total, EUR1.2 billion, and equity ratio, 40.3 percent. We had some negative impacts on the equity, naturally, from the transaction losses, but also from the IAS19 pension adjustment. So, calculating the pension's liabilities the long-term interest rates, especially Netherlands, continued to come down and the after-tax impact of the pension adjustment adds up to minus EUR30 million. But still a strong equity ratio and also, from the covenant perspective, on a good level.

Then, moving to the balance of the year and our outlook. I'll finalize with the outlook, but before that, just some reminders of the -- for the balance of the year. First, in media, Finland, we've done the sale and leaseback arrangement, as you very well know, and that will add operating expenses at the level of EUR5 million for the balance of the year, so EUR2.5 million per quarter in Learning. And we have the timing shifts and, as mentioned already, we believe that around EUR5 million of sales has been shifted from the latter half of the year into the first six months.

Then, the Hungarian operations, as fairly typical for Learning business, they made their profits last year in the latter half, so EUR4 million in Q3, actually -- EUR4 million in Q3, and this will not be there this year, so it will impact the coming quarter.

And then, other, we've done multiple divestments, some small acquisitions, and the EBIT impact of those will be EUR5 million. So, this for Q3. For the full year, there is really no change in the Group outlook, not for the ongoing year or the [long return] 2016 change. There is only one item we want to point out, and that is that [up] to date we have sold investments that have an annual sales impact of minus EUR120 million.

This ends my part of the presentation and I'll hand back to Olli for the questions.

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Olli Turunen: Thank you. We are now ready to take your questions. First, please wait for the microphone. And if it sounds like it's not on, it is on. It's for the webcast. First, Sami.

Sami Sarkamies: Okay, thank you. Sami Sarkamies, Nordea Markets. I have one question regarding the EBIT margin guidance for this year. So, you've been guiding a lower EBIT margin. If we now look at the situation after first half, you're basically in line with last year, at that 6.4 percent. There are obviously several factors, but those have also been playing a role in the first half, to a large extent. Consensus is expecting 100 basis points lower margin for the full year. Would you say it's justified to assume that the operating margin will be rather close to last year level, even if somewhat below?

Kim Ignatius: Well, Sami, I will not give a new guidance. We'll stick to the guidance that we have given earlier. But naturally, your math works in the right way, so sticking to the guidance means that kind of the performance cannot be as well -- as good compared to last year as it was in H1, and we are trying to [port] some of the items, the time shifts in Learning, the Hungarian business that has been sold and so on. So, we are sticking the guidance that we've given.

Sami Sarkamies: Thanks.

Olli Turunen: Panu?

Panu Laitinmaki: Thank you. Panu Laitinmaki, Danske Bank. I have two questions related to your costs. Firstly, on TV programming, I was wondering if they were lower in Q2, if you knew that they were watching football anyway. And secondly, on these increased investments to growth that you have said will have EUR20 million impact on EBIT, what is the timeline of those? How much have you seen already so far? Thank you.

Harri-Pekka Kaukonen: I think I'll take this. The football championships didn't come as a surprise, so we knew that. And we actually spent a little bit more than we anticipated because of the pick-up in the market during Q2. So, say we're in line, maybe a little bit above what we had planned in TV programming. And for the rest of the year, there's no change in what we have told you before. We stated the plan, it has seemed to be working. We hope and believe it will work during H2 as well. So, there's no change -- no reason to adjust the plan.

The other question was around the investments into growth. Those, as well, are -- we haven't pulled back any of them, so none of what you've seen is because of us kind of releasing those funds. We're sticking to it. Kim mentioned some increases in the Group level, so we continued recruiting on data and analytics program. We have investments going on across the front in new services and also have a development of the underlying platforms and infrastructure.

And it is pretty evenly distributed, these programs that are ongoing. So, we're sticking to that, so the number we've given is rather accurate at this moment.

Panu Laitinmaki: Thank you.

Olli Turunen: Kimmo?

Kimmo Stenvall: Kimmo Stenvall, Pohjola Markets. About Media Netherlands, as you mentioned, the media market is picking up and your sales is flat year-on-year, but the EBIT is coming down on a comparable basis. Can you give some color on that? What is behind the EBIT decline in Netherlands? You should have some kind of lower cost structure.

Harri-Pekka Kaukonen: Yes. We have a lower cost structure, and really it's, to make things simple, it's really within print. So, there's a decline in both single copy and then in the magazine advertising is bigger than what we can have been able to adjust for. So, our TV operations are improving performance the gap delta comes from our print operations.

Kimmo Stenvall: Okay, thanks. And then, a follow-up on the cost savings program. You now have announced a EUR50 million mark on the achieved savings. How much do you see that you're in the bank of the decisions made to reach that EUR100 million target?

Harri-Pekka Kaukonen: Let me sort of not give you a number, but to phrase that I'm very relaxed about the EUR100 million program. We obviously have made decisions that are -- that it's a number which is higher than the EUR50 million because EUR50 million is the run rate. And give you an example, the ICT outsourcing is one example of a decision made which is not visible in the run rate yet.

And during the second half, there's a number of steps where we -- that are very hard and well defined that we'll be implementing. So, that's a part of our transformation program that feels quite good at the moment.

Kimmo Stenvall: Okay, thank you.

Olli Turunen: Do we have any further questions here in the studio? Operator, do we have any questions over the phone?

Operator: There are currently no questions via the phone lines. Oh, you do have a question. It's from the line of Mikko Ervasti from Evli Bank. Please ask your question.

Mikko Ervasti: Thanks. Good morning. So, for quite some time now the print advertising has been in a double-digit decline and in your comments you state that the recovery has still not yet happened. So, what keeps you believing that the print advertising decline is just temporary and not a bigger change in these advertising dynamics towards more attractable digital advertising also in the long-term? That's my first question. Thanks.

Harri-Pekka Kaukonen: Then maybe there's -- maybe I wasn't clear on what I wanted to say. I'm not -- I didn't intend to say that we're expecting print advertising to turn around. What I referred to is that the total advertising market in Finland has been on continuous decline, and that's particularly important for us in Finland because we're by far the biggest player in media sales and our market share actually in online and TV is higher than our average share. So, if the advertising market would turn around, you would actually, with that logic, count that we would be a net gainer of that.

So, it's good you asked, because if that was the impression then, then it was a miscommunication. There's no evidence that print advertising is going to turn; I don't believe it will. And that's an assumption on which we are basing our transformation program. What matters for us is our total share of the total advertising pie and the total marketing budget, and that's what we are trying to -- that's what we're going after and that's why we're working so hard with advertising solutions and enabling infrastructure and capabilities behind it.

Mikko Ervasti: Okay, thanks. And then, a second thing, this timing shift was, of course, communicated today, but for the first time in a while you're quite specific in your written comments about the structural changes that impact the second half. So, is it your understanding that the analysts have been expecting too high EBIT for H2? Because you very openly want to specify this EUR17 million of lost EBIT.

Harri-Pekka Kaukonen: Well, I think that it's just to remind you that you don't forget about it, that, as Kim mentioned [out], the first half mathematically looks pretty much like last year. But we wanted to remind you the guidance and then give you a bit of color to the reasons why that is, so on a stand-alone and comparable basis you need to take those items away to then basically re-establish or re-base your view on the underlying operations.

So, it was more to remind and make sure that there is no miscommunication about the true underlying direction and performance that we're heading towards.

Mikko Ervasti: Okay, thanks. That's clear.

Olli Turunen: Do we have further questions over the phone?

Operator: Yes, sir. Your next question comes from the line of Rasmus Engberg. Please ask your question.

Rasmus Engberg: Yes. Hi, good morning. I wanted to ask you about the other division, which is probably the most challenging to forecast. What do you anticipate there in terms of EBIT for the second half of the year, broadly speaking?

Kim Ignatius: I would refer to the slide which was part of Harri-Pekka's presentation, where we showed the total other category with an EBIT margin of 4 percent. Those are the last 12-month numbers, but that probably gives you the best guidance for the profitability level.

Rasmus Engberg: Okay, thank you. And just -- I didn't quite understand, but with the time shift of EUR5 million, is that on EBIT or on sales?

Kim Ignatius: It's on sales. But naturally, the impact on EBIT is close to the same level.

Rasmus Engberg: Yes, yes. Good, thanks.

Operator: Thank you. There are no further questions at this time. (Operator Instructions).

Olli Turunen: Meanwhile, are there any further questions in the studio? Let's wait for a couple of seconds. There are no further questions over the phone, so this concludes the complete event. Thank you for your participation and have a good weekend.

Harri-Pekka Kaukonen: Yes. Thanks for your attention.

Kim Ignatius: Thank you.

Harri-Pekka Kaukonen: Thank you.

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