Conference Title: **Sanoma - Full-Year Result 2016**

Moderator: **Susan Duinhoven**

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Anna Tuominen: Good morning ladies and gentlemen. I'm Anna Tuominen, head of IR here at Sanoma. And warmly welcome to hear our Full-Year 2016 results. With me, I have our President and CEO, Susan Duinhoven, and CFO, Kim Ignatius. We will start with the presentation from Susan and Kim and afterwards there's time for questions. Susan, please go ahead.

Susan Duinhoven: Yes, thank you very much. Welcome to our Full-Year 2016 Results presentation. And I'm happy to say that we're, as a company, back on track and I think our full-year results show that. If we look at the first quarter, you see an EBIT improvement of close to €10 million, very much in line with the good results of the previous quarters. And Kim will show in more detail the financials of the fourth quarter. I will focus in the remainder of the presentation on the full-year 2016 results.

If we then look at the EBIT for the full-year, you see a doubling to €168 million and an organic net sales that is stable across the year. Coming from that, then the deleveraging which was a key priority for us in 2016. Deleveraging continued as planned and we landed on a leverage of 3.2 being the net debt of the adjusted EBITDA, coming from 5.1 last year. And this was after the redemption of the hybrid loan in December.

We then look at the outlook for 2017, we estimate that the sales will continue to be stable and the EBIT margin around 10%. The board will propose a dividend for the 2016 of €0.20, which is double a dividend compared to last year. And a new dividend policy from 2017 onwards will be proposed. And that is an increasing dividend equal to 40% to 60% of the annual cash flow from operations minus capex. So that is in order to establish ourselves as a solid dividend stock.

The improvement went faster than expected. We basically had expected to come to the 10% margin point in two years' time. And actually, already got there after the first year. And I think the positive of that is as well, that it came from an improvement across all business units. Most prominently of course, Media Finland, which showed a very marked increase from €13 million last year to €50 million in 2016. But also, the other units improved significantly and I'll go into a bit of detail on that later on. You also see here 'other', and that is, the activities that have been sold and that is a big part for the explanation for the significant improvement. As well as a reduction in overhead cost. That also contributed to the results of '16.

If you then look at our composition of our net sales in '16, you see that over a third of our sales is advertising related and therefore it's always quite important to look at what the advertising market development is.

If we look at the Netherlands, we see that, overall, the market developed positively, with plus 3% on full-year '16. But if you look then into the details, you see that TV has decreased across the year with a positive, still a growth in Q1, but ending in a decline in Q4, and overall for the year, a minus 2% development.

On the contrast, magazines performed a little bit better than the year before.

If you look at Finland, after years of decline, this was a year with a modest growth. And if we look at segments where we're active in, you also see a positive development there.

If we then go a little bit into the details of the three businesses. Media in Belgium and Netherlands; good improvement, 34% up in operational EBIT driven by organic sales growth and specifically also cost innovations. As you remember, we integrated the digital business into the media business and made that one entity and also strong synergies between the Belgium back office and the Dutch back office for the magazines. And those were key drivers of the cost innovations.

Organic net sales were stable, and specifically there, the print and the online portfolio performed well. TV sales were stable which was already quite a performance in an event year where in Holland we had both the European Championships of soccer and of course the Olympics, which were played on the wrong channels, so to say.

The non-print sales increased to 54% of the total. The solid market position that we have, we typically indicate there the magazines but I think what is sometimes forgotten is that Sanoma is also in, as an online publisher, the number one local publisher, with a reach of over two-thirds of the population every month online.

Innovations, specifically the LINDA brand, very active, the Mercurs award for brands it has gotten this year and the brand innovation award for LINDA.tv.

So overall I think a good performance of the media business in a market that is still, you know, under some pressure, specifically TV as we've shown before. You see that for the full-year, a decline in viewing time that impacts the market as a whole and therefore also our results.

If we then look at Media Finland, as I already indicated, a market increase in EBIT up to €50 million. All business within Media Finland contributing to that and I think the good thing, both top line and bottom line, improvements impacting.

Of course, the Suunta initiatives they will continue into 2017. We've had quite a bit of the early wins already in ‘16. In ‘17 and ‘18 this will continue but we also see that in ‘17 we will have some of the cost impacting the results to bring the process and system improvements that are needed for that growing profitability.

The organic net sales were stable specifically I think TV performed very well, but also online. In TV market share increase contributed quite strongly and overall the non-print sales grew to 42% and we do need to, of course, identify that market remains challenging. A 1% growth, is not yet significant. And therefore, very strong dependence will continue to be on the economic and the advertising market development in Finland. But overall, market position improved to 28% of the Finnish ad market.

If we then look at learning, always – fourth quarter is of course a small and of a loss-making quarter but over the full year, solid net sales. And a very significant profitability improvement also there, 27% up, driven by cost innovations. A little bit of benefit from the different schedule in amortisation of the pre-publication cost but also the De Boeck in Belgium contributed. And the De Boeck, we've indicated before strongly synergetic acquisition and the restructuring that is needed for that has now been agreed with unions so that will flow into the 2017 results.

Overall, net sales grew 8% in Western Europe due to the curriculum changes, the successful roll out of the digital offering and also the Bingel offering, both in Sweden and Finland, really contributing. And of course, the acquisition of De Boeck contributed to that growth as well.

As discussed before, in Poland the market declined quite strongly, but our market position has further improved. And that is particularly interesting now that the new reform has been signed into law on January 9th in Poland, which will have a positive impact for commercial publishers in the Polish market. So now from this stronger market position we can actually benefit more from that new change. And overall, you then see that in learning also there the net print – the non-print sales has increased to 54% from 50% last year.

The deleveraging, as I indicated in the beginning, was an important focus point for us in 2016. Cash flow from operations increased strongly to €190 million compared to minus €30 million last year. And that cash has been used to redeem the hybrid bond which was an expensive financing instrument for us.

The net debt decreased to €786 million so slightly below, while last year, and with that, our leverage is 3.2 times, coming down from 5.1 after the redemption of the hybrid, and if we would not have redeemed the hybrid, it would have been 2.8 times.

Equity ratio, 41% year-end, and we see of course that the projected continuing improvement of the cash flow and the deleveraging and thus reducing the financing cost will have a significant positive effect on our operational EPS going forward.

So overall, the deleveraging, successful in 2016 and it will remain important. In line with the good results, also an increase in dividend will be proposed by the board to the AGM in April, I'm sorry, end of March. And dividend will be double that from last year, that is €0.20 per share. The dividend policy from 2017 onwards will be supporting the positioning of a solid dividend stock and Sanoma aims therefore to pay an increasing dividend, equal to 40-60% of the annual cash flow from operations minus capex.

Given the fact that we're now at a leverage of 3.2 and therefore below our old target and basically have met our old target. We do see that deleveraging continues to be an important focus point for us as a company. We have therefore renewed our long-term financial target and indicate that we aim to bring our leverage, that is our net debt over adjusted EBITDA below 2.5. That is in line with companies of a similar composition.

Our equity ratio will remain between 35% and 45%, so that is an unchanged financial target.

As I indicated, the outlook for 2017 is that our net sales adjusted for any structural changes will be stable and our operational EBIT margin will be around 10% and this is of course under the assumption that the advertising markets remain in line with what we have seen in 2016.

So with that I want to conclude my part of the presentation and hand over to Kim for more details on the fourth quarter.

Kim Ignatius: Thank you Susan. Good morning everybody and a very warm welcome also on my behalf. I will now walk through the financials summarising some of the key points for both the last quarter of the year as well as for the full-year of 2016.

The net sales trend that we saw in Q4 is pretty much in line with the previous quarters during this year. The reported decline in sales was minus 2.7% for the full year it was minus 4.5%. And this is solely driven by the strategic decisions that we had made to let some of our assets go. As mentioned, adjusted to structural changes both the quarter and full-year sales are stable, meaning flat versus last year.

Looking at the operational EBITDA margin for the full-year, a great improvement from 22.7% to 27.6%. The last quarter actually is flat. Two items impacting it, one is that the performance already in the previous years in Q4 was picking up nicely. And the other matter is that we did not provide for short-term incentive plans for 2015 because of the performance during that year. This year, naturally, the performance is at a very much higher level and therefore there is around €13 million delta between releasing provisions last year and booking provisions this year.

Then I would like to point out the TV programming rights for the full-year, we are below last year's level, this year €180 million, last year €186 million. It is good to remind that in the other amortisations here we had last year €15 million worth of additional impairments of that programme rights inventory. That is partly reflecting also the lower levels that we have in the regular programme rights for the year.

Our Q4 operational EBIT ended up at the level of €1.4 million, close to €10 million better than what we had in 2015. If you – if one wants to summarise it into the four big items. First one is the difference in the employee remuneration cost which I just walked through. The other positive comes from the cost innovations. The efforts that we done throughout the year in different areas around €16 million improvement from the cost innovations. Naturally the fact that we didn't have any additional impairments on programme rights gives the positive delta of €15 million.

So the remuneration was a negative one and another negative one is then that we have provided for office spaces, cost for office spaces that we believe will stay unused during the balance of the lease periods that we have in our different locations.

Still coming back to the cost structure, on the right-hand side you see the structure of our P&L: the variable cost, the fixed cost, depreciation and amortisation and then naturally the profit that is remaining for the period. It is good to see that the variable costs do adjust to the changes in the market. And actually, when volumes go down, the costs go down but also the price that was for paper cost etc. is adjusting to market condition and this is what we've seen throughout the years actually.

Amortisation and depreciation is coming down, we are exiting – we have been exiting some of the businesses also the capex levels during the last few years have been lower than in the past. But clearly the biggest category here, coming down, is the operational fixed costs. On the right – left hand side you see the graph showing the different categories for the costs and you could say that in all of them you see improving performance. In the other categories, going from travel and use of consultancy etc., improved usage of office premises. Also office and IT cost coming down, advertising spending is at a lower level, and naturally the restructuring efforts that we have taken have had a big impact on the employee benefit costs.

Going into the SBU, strategic business unit, performance levels in Media BeNe, we have an improvement from roughly €11 million to close to €27 million. There are multiple items impacting the development; divestments of the non-core strategic operations some minus €3 million impact, a bit higher targeted investments to programming. Those are pretty much offset by the cost innovation efforts that we have taken. The delta here then remains being pretty close to the extra impairments on programme rights we took in Q4 2015, being the €15 million.

In Media Finland, we've seen for the first three quarters very positive developments versus the performance in 2015. Now this quarter, we are below last year's level. Two things to point out, one is the delta in the incentive programmes. The other one, again, the provisions for the rental space, the rental space provision is around €3.6 million for Media Finland.

The learning looks pretty flat, only close to €1 million positive difference but there are multiple items actually impacting the performance in Learning. One is increased sales, Q4 is a small quarter for learning because of the seasonality. Still we have close to €4 million higher, higher sales than last year and that pretty much comes through the P&L.

There's still a lot of restructuring savings around €5 million restructuring and streamlining of operations. De Boeck integration is having a negative 1 million impact because of the normal seasonality of learning, and then we have higher spending on marketing and ICT cost. We are preparing for the coming season and the year before we were a bit more prudent in the spending levels.

Coming back to the income statement and going kind of further from the EBIT levels. If we look at the results for the period, so the performance is much, much better naturally than last year.

We have about a €100 million better result for the quarter and we have over €270 million better performance for the full year. And the important line item here helping us with the result, in addition to the strong EBIT development, are the items affecting comparability. So on a full year basis we have around €60 million lower impairments and write-downs. We have €20 million lower restructuring cost. We have an €80 million better result of divesting some of our assets. And in addition, we have the change in the Dutch pension scheme going from defined benefits to defined contribution set up, which help us with €75 million in before taxes performance.

We have a bit negative financial items €10 million higher here in the P&L, it is because of some one off items in both years, we had a positive one off item of 5.5 million last year and a negative of 4.6 million this year.

Moving to the free cash flow, there's naturally always volatility quite a bit between the quarters so I'll focus on the full-year operational free cash flow, a very strong performance and of course it relates to the P&L as well as our operational EBITDA at €452 million versus €389 million last year so that is the solid base for the development but we also see that the investment into TV programme costs are below last year level and additional positive impact coming from change in net working capital €44 million positive, driven quite a bit towards the end of the year with accounts payable development. Then a bit negative on the financials items. We had a new bond issue and did tender for some of the old bonds which increased the finance – finance cost for the year.

Also, cash capex clearly below the levels that we saw last year which is a reflection of the focus on being cost efficient also in the area of capital expenditure. All in all, this leads to a free cash flow, operational free cash flow per share of around €1.

Then finally, the funding part, on the left-hand side, here you can see the use of our current facilities. So we have two bonds, two times €200 million, 2017 and 2019 bond then you can see that we utilized quite a bit the commercial paper markets here in the domestic capital markets. On the right-hand side, you then see the maturity profiles and in 2016 at the upper portion there is the hybrid bond which we now have redeemed. In 2017, €200 million of the facilities maturing is the 2017 bond which we will not renew. In 2019 we still have the – we then have the new bond. And finally, in 2020, the revolving credit facility of €500 million from the left-hand side you can see that we are currently not using the revolver at all, so it is a back stopfacility for us.

This ends my part of the presentation and before we go into the Q&A I would actually like to take this opportunity to thank you all for all the quarters we have spent together during my last eight years with Sanoma. And as released earlier, I will retire at the end of this year and until that time I will continue working with Sanoma's management team. As CFO, this is my last day and my last event and Markus Holm will take over as the CFO for the group and I'm really looking forward working together with Markus for the balance of the year. And if some of you haven't met Markus yet, say hi to him and welcome him to the exciting world of media. And now to the Q&A. Thank you.

Anna Tuominen: Thank you Kim and Susan. We will now take questions here first at the room. Please wait for the microphone.

Speaker: Thank you, Sami Sarkamies, Nordea Markets,I have two questions. Firstly, on the balance sheet, your new leverage target seems sensible, can you elaborate on the timeframe and primary means you will use to reach this target?

And then secondly, on guidance, it looks a bit cautious given that you did reach stable organic sales development already last year and also EBIT margin was above 10%. You did also disclose positive outlook for at least learning and BeNe divisions. Can you talk us through some of the reservations you have included in the guidance? Thanks.

Kim Ignatius: Maybe if I start with the leverage guidance. It is a long-term guidance meaning that that's the level below which we would like to be on an ongoing basis going forward and it might take some time to get there and I don't want to give a specific year when we are there but it clearly indicates that we continue with the strategy of deleveraging and trying to increase the financial flexibility. I think we've shown very good track and performance during the last year of getting the leverage lower.

Susan Duinhoven: Let me then sort of come back to your point on the guidance. I think we have a positive outlook in the way we look at our operational business. We do see that in the business 2016, as I indicated, it went faster than expected and that also means that some of the quick wins have now in – flown all into ‘16. And therefore, the level of improvement for ‘17 is really into the more elaborate, let’s say, changes that need to be made in the business, if you think about distribution, back office, for both the ad sales, back office for the B2C. Those are system and process changes that typically take a bit longer. They also take a bit of investment in order to bring them about and that you will see impacting some of the improvements on the one hand and cost on the other hand, are impacting. That is true in BeNe, that is true in SMF. In the Learning business, you have a long cyclicality in the business and that means that curriculum change has a good effect on the top line because schools need to order the new methods. But that happens over a longer period of time so, that happens across years, and at the same time, in the start of that curriculum change, and that's where we are in that cycle at the moment, you do start depreciating all the investments that you have done in order to produce that method. So that's where, always in the learning cycle, at the beginning of these curriculum changes, you get a bit of downward turn on the EBIT so when I am positive about Learning, you know, it's not necessarily a positive on the absolute EBIT, it is a positive on the intrinsics of the business. And that will come out because the Learning business is a long cyclical business that will come out in the coming years, but not necessarily all in ‘17. And that's why the guidance for ‘17 is as it is. And you still see me and the team being very positive on the longer-term perspective of our business.

Speaker: Very helpful. Thank you.

Speaker: It's Kimmo Stenvall from the OP Financial Group. First, on the mid-term financial targets, you chose not to give any margin target. We know that there's a big transformation on the sector but can you at least give some colour what is your ambition level for the margin from the current levels?

Kim Ignatius: We on purpose have not done so. And that is because we see the deleveraging and being a good dividend stock as key objectives for us. And that means that the margin percentage is only one component. So we think it is important to indicate the focus on the top line, as we have indicated before, the focus on the customers, means focus on top line development. We can project one year out, outlook, and that is already difficult with volatility in the advertising market but we therefore have chosen to go for financial target that is much more related to, on the one hand, a new dividend policy, and on the other hand, a longer term target showing the leverage as an objective. That's more holistic way of looking at it, cash flow related than only one point, the margin.

Speaker: Okay. Thank you. Then additional question on the cash flow. We saw that the net working capital was very good last year. What is the view on this year? And then another one is on the cash capex. We know that it came down very much. Is that sustainable level €35 million per year?

Kim Ignatius: On the net working capital, as long as you have fairly stable sales and no bigger changes in the way the markets are working then you could assume that the net working capital development stays fairly stable as well. Naturally, we are, as part of the deleveraging target, putting an effort to try to improve the efficiency of the net working capital development as such, and part of those efforts are now seen in the numbers for this year. Of course, it's always only a one day snapshot of how payments are being divided between the periods but definitely there will be a lot of focus going forward on that as well.

The capex levels have been at the fairly low level and I would expect that they would stay pretty close to that so not exactly 35 but let's say between €35 million, €45 million is probably a good assumption at this point.

Speaker: Okay, thank you. And then one question still. On the Finnish media you flagged there will be some additional cost on this year because of development changes. So what kind of magnitude you are expecting for these items to be this year?

Kim Ignatius: It could be up to €5 million.

Speaker: Okay, thank you.

Anna Tuominen: And we will now take questions over the phone. There are any?

Operator: As a reminder, please press *1 to ask a question. We will take our first question from Panu Laitinmäki from Danske Bank. Caller your line is open.

Speaker: Hello, can you hear me?

Susan Duinhoven: Yes.

Kim Ignatius: Now we can.

Speaker: It's Panu Laitinmäki from Danske. I have a question related to SBS. Can you talk about the performance of SBS business given that the market has been challenging. The market share has remained flat, and related to that, their share of result to non-controlling interest was fairly low in Q4, can we make any conclusions from that related to SBS' performance.

Susan Duinhoven: I can take maybe the general question on the SBS performance. I think the Dutch TV market, as you've seen, showed a decline. And in addition, it was an event year so also in the market share, we knew that 2016 would be a difficult year and it was. We're happy that the sales overall for SBS was stable versus last year. So from that perspective I would say it's a good performance, of course we are sort of indicating that the viewing time decline that we're seeing in general in TV markets across Europe. It's something that keeps us busy. So with that then maybe the specific question on…

Kim Ignatius: On the non-controlling interest line reflects the share of our minority shareholder on the net result of the operation and it's a combination of the TV, SBS business plus the Veronica TV Guide operation that we have and naturally interest costs and taxes as well included.

Speaker: May I conclude that it was almost at break even in Q4 then?

Kim Ignatius: It is a reflection of the net result and you can in addition to the operational performance you can have local write-downs included in the net results as well.

Speaker: Good. Thank you.

Operator: There are no more questions at this time.

Anna Tuominen: Do we have more questions here at the studio? If not? Then we thank you all for participating and hope to see you soon again.

Susan Duinhoven: Thank you.

Kim Ignatius: Thank you.

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