

Conference Call Transcript

Q2 2009 Sanoma Corporation Earnings Conference Call

Hannu Syrjänen - *Sanoma Corporation* - CEO

Ladies and gentlemen, welcome to our conference call regarding our results for the first half of this year. As before, I will first go through some key points and events. After that, we have time for your questions and discussion. Kim Ignatius, our CFO, and Anna Tuominen, our IR manager are also answering your questions here with me. The slides I'm using are available on our internet site.

Efficiency Improvements to Continue

The first half of the year has been of course challenging also to us. However, we have been able to adjust our operations to the challenging economic environment. Operating expenses have decreased by over 5% during the first six months.

Sanoma Entertainment's TV and broadband businesses and learning succeeded. In addition, magazines, kiosks and movie theatres here in Finland performed well too.

In the Netherlands, the decrease in advertising sales has started to show in our figures. At the same time, it seems that the decline in advertising expenditure has stabilized here in Finland.

We will continue to make structural changes, discontinue loss-making operations and examine all processes in order to improve the additions.

Being a market leader in chosen businesses is one of our strategic objectives. As you well know, we have been able to sustain our market position and even gain market share in the magazines, for instance in Belgium, and here in Finland, and also in TV advertisement market here in the Finnish marketplace. I believe that our leading position will help us in this challenging economic environment.

Key Figures

Figures, briefly, Slide number three, our net debt decreased by 8.2% in the first six months. Main reason for this was the decline of advertising sales and sales in the Baltic countries due to the economic situation.

Our operating profit, excluding non-recurring items, decreased by 35%, totalling EUR96 million. Non-recurring expenses in the first six months totaled EUR9.7 million, mainly due to the Sanoma News efficiency improvement program.

Our cash flow from operations weakened to the lower operational result in January–June.

On slide number four, you can see how our EBIT, excluding non-recurring items, developed in the first six months. Negative EBIT declined due to decreasing advertising and single corporate sales in the Netherlands and Central Eastern Europe.

In News, advertising sales, especially in classified ads have affected the result. Entertainment's television, and broadband operations developed positively and it showed in Entertainment's EBIT.

Learning and literature's EBIT decreased due to the negative impact of the consolidation of Nowa Era's seasonal losses, and due to the decline in sales in language services, as well as in literature and other operations.

Trade's kiosk and movie theater operations in the Baltic countries suffered from the economic slowdown. Also investments in Russia and Romania and declining press distributions affected Trade's EBIT.

The Group's financial position remains stable. Our balance sheet totals some EUR3.2 billion. Equity ratio is 37%. Our interest bearing net debt is about EUR1.2 billion. And our net debt EBITDA ratio is 3.0. In the current market environment we want to keep it on a lower level.

Outlook for 2009 Unchanged

The existing credit facilities, such as the EUR802 million syndicated loan cover all our financial needs. So we have no need for material refinance in the near future.

I said in the beginning we'll have to adjust our operations further and improve efficiency. Our target is to have our operating expenses clearly below the '08 level. This will mean organizational gain, discontinuing loss-making businesses and improving our processes. Unfortunately we cannot avoid personnel reductions either.

We have already initiated many restructuring programs. For example, in newspapers, in general magazines, especially in Belgium and for instance our Estonian retail operations.

Our outlook for this year is unchanged. So our net sales are expected to decrease and operating profit, excluding non-recurring items, clearly decline from the previous year.

In '08, operating profit, without those one-offs was some EUR296 million.

Sanoma is a strong European media company with a market leading position and balanced business portfolio. This year we are very much focusing in improving our efficiency, both in short and also in the long term.

Media market is changing faster, as you all know, and we want to restructure our operations to better respond to the needs of our customers in the future.

Questions & Answers

Q: Alexander Wisch - S&P Equity Research - Analyst

I have three questions. One is on learning and literature. The other one is on 2010 in advertising. And the other one is on your net debt. To start with, the learning and literature, the revenue is down 8%. It seems that the unit is more cyclical than I -- and maybe what I've seen from consensus and the market think. Is it just they know why there it is not proceeding according to plan? Can you give us more color on the learning and literature? And in 2010, if you can say anything on advertising for magazines and news in 2010, any visibility at all, any guidance would be great. And finally on your net debt, three times dangerously close to the 3.5% limit that you yourself have set as a top. And I

wanted to know whether you have any covenants in your facility that might be breached over the next twelve months. Or can you specify which covenants there are?

A: Hannu Syrjänen - Sanoma Corporation - CEO

If we start from your last question on covering the debt. Question number three first, so Kim will elaborate a bit about our net debt issue, and then go into 2010 and learning and literature.

A: Kim Ignatius - Sanoma Corporation - CFO

This is Kim Ignatius. First of all, comment on the differences between the quarters in the year.

Now at the end of June, normally the net debt levels of the Company are at their highest. And then do come down a bit towards the end of the year, because of the nature of our business. Our main covenants in the current facilities are the net debt to EBITDA, and also equity ratio.

We have talked with the market that according to our finance policy, our targeted maximum net debt to EBITDA level is at 3.5%. So we're still quite a bit from that level that the covenants regarding this key indicator are even quite a lot higher.

I do not see any risk, us being even close to breaching these covenants during the coming quarters or during next year. The same kind of situation analysis would apply to the equity ratio. We're not close to having any issues with that. So I feel very comfortable with the current finance package and related covenants.

A: Hannu Syrjänen - Sanoma Corporation - CEO

On 2010: unfortunately it's too early to say anything really definite because as we all know even '09 is partly in the shadows.

So it's very difficult to say. It very much depends on what happens in the global economy, because advertising volumes are very, very closely related to the activities in other parts of the economy, and other industries.

The only thing that I can say is that now when we are cutting our costs, so many of the projects they affect partly or completely not before 2010. And on the other hand, so we are not just making cost cuttings in short term, but also changing the processes and structures to be more cost efficient also in the future.

So I'm pretty sure that our cost base will be pretty efficient next year and work passed the top line so it very much depends on what happens in the global economy.

Your first question about Learning & literature, Nowa Era is of course one issue only. But you have to bear in mind that it was not in our figures in the beginning of last year. So -- but there are many differences in the division.

Education is, as we have said, very, very stable. No real cyclicalities there. There are some currency issues, for instance in Poland and Hungary. There are some timing issues, but no major issues on the year label. So we are very equally confident on that.

Language services is this other part of the business. So it is very, very cyclical, especially the training part of -- so it's very easy to imagine that when the companies are cutting their costs, so they are, for instance, cutting language training.

There is also some decline in general in literature, especially our multiple year businesses. So I think those are the main points why the top line is a bit lower than last year.

Q: Alexander Wisch - S&P Equity Research - Analyst

If I may extend that question, how much is the share of education within Learning & literature?

A: Hannu Syrjänen - Sanoma Corporation - CEO

It's about two thirds.

Q: Niklas Kristoffersson - Chevreaux - Analyst

I have a couple of questions. But if we start with the first one, you seem to have reduced your operating expenses by 5% the first six months. Can you maybe split that up by currency effects, and what you have done to the fixed cost base and what you have done to the variable cost base, if it's possible?

A: Hannu Syrjänen - Sanoma Corporation - CEO

Kim will give you more detailed information. But in general, what is the big picture that our cost of goods sold is very well reflecting our decline in our top line. So they seem to be really flexible as of course by definition they should be.

So now of course when we have noticed that, we are very much focusing on fixed costs. But Kim will give you some more details.

A: Kim Ignatius - Sanoma Corporation - CFO

Yes, costs are in a pretty good shape, and also the fixed costs, you could say that all categories are developing very satisfyingly.

Of course in some actions that we are taking, the -- you do have delays, like it's easier to cut marketing and the impact is immediate. Relating to the personnel costs you will have some benefits coming later on.

When you look at the exchange rate impact, the biggest impact is of course in the magazine divisions where we have operating expense savings in Russia and also in the Central Eastern European markets.

Maybe one third of the savings in these markets are related to exchange rates development. But then we have our biggest businesses being in the Netherlands, and in the Finnish market, where of course the exchange rate does not have an impact.

Q: Nicolas Christoffson - Chevreaux - Analyst

Okay. And my second question relates to the entertainment operation which seems to be doing quite nicely in the quarter and for the first half year. And -- however, you guide for earnings to be virtually flat year-over-year. And you've already made up 75% of last year earnings this half year. What will happen in the second of the year that explains that guidance?

A: Hannu Syrjänen - Sanoma Corporation - CEO

Nothing special really. So of course you have to bear in mind that entertainment division is pretty small division in our portfolio. Of course it's a pity that it's so small because in the circumstances, it's demanded. And during this performance, it should be bigger.

But no real major changes there. So maybe that our -- because what has happened, our performance during the first half of the year has been sort of surprisingly good. And because the market is declining anyway. Of course the big question is is it possible to gain more market share month by month. It has succeeded so far, but maybe we are a bit conservative when we look at the second half of the year.

Q : Nicolas Christoffson - Chevreaux - Analyst

Perfect. Thank you. And then just a final question on your tax rate. I assume that in some of your lower tax countries you are breakeven. And I guess your tax rate, if I'm not mistaken, is like 29% for the first half year. Is that the way to look for the full year as well?

A: Kim Ignatius - *Sanoma Corporation* - CFO

I think the first six months this year give a fairly good picture of the effective tax rate to be used in your thinking, because there isn't a lot of non-taxable gains or any other items that would mix the rate. So this is very reflective.

Ending

Hannu Syrjänen - *Sanoma Corporation* - CEO

Thank you very much, ladies and gentlemen, for participating and for the discussion and for your questions. And I wish you all a very, very nice, nice afternoon and good weekend when it comes. Thank you very much.