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Speakers:	Susan Duinhoven, President & CEO Markus Holm, CFO & COO	
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PRESENTATION

Kaisa Uurasmaa

Good morning, ladies and gentlemen, and welcome to Sanoma’s third quarter results webcast. I’m Kaisa Uurasmaa. I’m head of investor relations at Sonoma. And today here we have the President and CEO, **Susan Duinhoven** and the CFO and COO Markus Holm, who will present the result. This webcast will be recorded, and the recording will be available on our website after the event.

After the presentation by Susan and Markus, there is an opportunity for questions. We will first take questions from the telephone line, and after that, the questions that come through the chat channel. So, please feel free to use both ways.

And with this short introduction, I would now like to hand over to Susan to start the presentation. Please.

Susan Duinhoven

Thank you, Kaisa. Good morning also from my end to this third quarter results presentation. And we had a good quarter and overall strong performance in the first three quarters of this year where both net sales and our operational EBIT improved.

So, if we then go into the details of the figures. The net sales grew over those first three quarters to 835 million, coming from 707 last year. That growth was mostly due to the acquisition of Iddink in the Learning business and the strong comparable growth in the Polish business, of course, partially compensated by a decline in Media Finland, due to the Corona pandemic. And there, you then also see that the comparable net sales declined with 6% versus 1% last year. But we consider that a very strong performance, certainly in this year in the media business in Finland.

If we then look at the operational EBIT, that increased to €156 million, coming from €133 million last year, and that was just like the cash flow increase to €65 million from €56 million last year, both of them due to the Iddink acquisition. And the leverage then returned to well

within the long-term target range of below 2.5. At the end of the quarter it was 1.0. And that was, of course, due to the divestment of the Oikotie business in July.

On October 8, we also renewed our outlook for 2020, and that now reads that reported net sales will be around €1,050 million compared to last year, €913 million, and an operational EBIT margin around 14%, compared to 14.8% last year.

So, if we then go in a bit more detail in each of the two businesses. If we look at Learning, our third quarter, of course, always a very important quarter, and we now look at the year-to-date, then we see strong sales growth. And specifically, with the high season now behind us, we can see that we have grown to €434 million, coming from €275 million last year. And €141 million of that increase came due to acquisitions, and the most prominent of those was, of course, the Iddink acquisition. But I think it's important to realise that in the Learning business also the comparable net sales – sales from the existing businesses – grew with 6%. A large part of that came out of Poland, where that business grew now, year-to-date, 20% versus last year. That is coming from the curriculum renewal, specifically in upper primary and upper secondary.

Net sales also grew in the Netherlands, as expected, from the curriculum change there, and that is in maths in primary education. And as we have indicated from the start, we see hardly any impact of the Corona pandemic on the business results of Learning, not in net sales and not in EBIT, even though, of course, the operations are heavily impacted, specifically on the distribution side of the business.

If we then look at the earnings, you also see that increase in sales of course translate in significantly higher earnings, and the EBIT, excluding PPA, improved to €112 million, compared to €84 million last year. And that was largely attributed to the acquisition of Iddink and strong sales growth in the Polish business.

So, all in all, in Learning, well on track to meet the full-year targets that we already announced in December 2019 on our Capital Markets Day when we indicated that Learning this year would have net sales of around €500 million and an operational EBIT margin of around 20%. So, well on track towards that.

If we then go to Media Finland, and there we focus on the third quarter by itself. And that was an exceptionally good quarter, specifically, when we compare, of course, to all our expectations. We saw growing subscription sales, the acquisition of the regional news media business coming into play, and then, a particularly better advertising development than we had expected even at the end of Q2. If we look at the net sales, it still declined, but only slightly to €141 million, coming from €147 million last year, and there was, of course, the acquisition of the regional news business that added €20 million. But that was partially countered by the divestment of Oikotie, our classified digital business that was sorted July and that impacted the Q3 result with €-5 million. So, a net effect of €15 million coming from the net of the acquisitions.

But then, if we look at the subscription sales, that grew again, and driven by the digital performance. Again, Helsingin Sanomat, very strong performance, a quarter with year-on-year growth of 3%, and now a number of quarters already well above the 400,000 subscription in total, which is really a good performance from the team in these times.

If we, then, also look at the number of subscriptions for Ruutu+, our VOD video-on-demand platform. That also grew and is now well above 300,000, which is also a very significant number. And Supla+, our audio-on-demand platform also nicely continued to grow, although, of course, small compared to the large numbers.

But the real surprise, I think, this quarter, the positive surprise was in the significant recovery in the advertising sales. And we also continue to outperform the market month after month. But as you see in this graph, you see that the September month, which is a sizeable month, really made the difference, where we performed above last year. And that compared to a market that was still significantly below last year. But if we look over the whole of the quarter, we see that the comparable advertising sales for us declined with 5% versus a market decline of 14%. But we do need to note here that the uncertainty remains, specifically on advertising sales into the fourth quarter, but even into 2021 as this pandemic is far from over, unfortunately.

In the third quarter, we, of course, also saw major impact from the cancellation of the festivals. We knew that that was going to be cancelled. And it had a €19 million impact on the total top line of Media Finland. But all in all, sales development, even though slightly lower than last year, well above expectations. And that, then, translates also into the profitability that even improved year-on-year: 24 million this year, 22 million last year. And the reason for that is, of course, the slight impact from the acquired business, but mostly from cost mitigations across all cost categories, on personnel, overall administration, but also in content and in paper. So, all in all, very good cost containment. And then, being able to counter the effect of the cancelled event season, the lower advertising sales, and the divestment of Oikotie.

We had before indicated that in Q2 we had held back a little bit on the TV production. The programming costs therefore were slightly lower. Part of that has now been spent in the third quarter, and the remaining part might be spent in the fourth quarter. Of course, depending on the demand for advertising on TV.

And I reiterate that the uncertainty, both in the economic development and in the advertising sales, is expected to continue also in the fourth quarter, but even going into 2021. But all in all, Media Finland, very good quarter, with profitability above last year.

At the beginning of the month, on October 8, we renewed our outlook for the full year, and we indicated and reiterated here that our net sales this year will be around €1,050 million compared to €913 million last year. The operational EBIT margin, excluding PPA, is expected to be around 14% compared to 14.8% actual result in '19. The 14%, a round 14% this time means above 13% and below 15%.

The outlook is based on our assumption that the advertising market decline in Finland will be between -15% and -20% compared to the market in '19.

So, that's it as far as the results are concerned. But in the third quarter, we also very much continued our transformational path, and the most recent announcement in that happened on October 19, when we indicated to prepare for the acquisition of Santillana Spain. The EV for that is €465 million, which represents around a 9.3x multiple. The closing is expected in the first half of 2021, and I will give some further details on this Learning acquisition in the next slide. But earlier already in the quarter, we divested Oikotie, classified business in Finland, to Schibsted. That was on July 16. The EV was €185 million. That represents a multiple of the EBITDA of around 20.

At the same time, we also see the good impact – and you've heard me talk about that already – the good impact of the large acquisition of last year, the Iddink Group. Learning business performed well this year, fully in line with our expectations, and also the integration is progressing very well. So, overall, also happy with the continued path of transformation in our business. And after the closing of the Santillana Spain acquisition, our group will have 65% of its earning coming from the Learning business. And we will continue our focus on growing that Learning business in the coming years. The long-term financial targets have not changed with this transformation of power.

With that, let me give a deep dive still on the Santillana Spain acquisition, given the fact that it is such a recent announcement. And Santillana Spain is the leading provider of learning content in the Spanish market. And as you see from the graph, it is really focused on K-12 – 90% of their revenue is coming from K-12 – and within that revenue, the majority is in primary education. The total net sales is €128 million, an EBITDA of €50 million, and a standalone EBIT excluding PPA of €43 million, representing a margin of 34% when we look at the performance of 2019. As I said, high share in K-12, strong position in primary education, which is, even within K-12, the most resilient part of the education business.

You also see that Santillana Spain has only 2% of its total revenues in digital, and that is still above the market average in the Spanish market. And we see that as a great opportunity because, with our experience in highly-digitalised countries, and our digital platforms that are well developed, we see a good opportunity in rolling these out into the Spanish market.

And just for your feel of the size of the business, the total business is 570 employees, majority working in Commerce and in Educational Content production, and it has a very long-standing, experienced and committed management team that we were very impressed with during our visit. So, that's the short summary on this latest acquisition. With this, I would like to conclude my part of the presentation, and hand over to Markus Holm for the details on the financials.

Markus Holm

Thank you, Susan. Good morning, everyone. We saw strong earnings improvement in the third quarter. Operational EBIT, excluding PPA, improved by 34 million from 77.5 to 111.3. The Learning business improved by 32 million, and that was mainly due to two factors: the acquisition of Iddink and the strong comparable net sales growth in Poland.

In Media Finland, we saw an improvement of 2 million, and that was mainly due to active cost mitigation actions and the exceptionally low-cost level overall in that business, such as travel costs, the fact that we have significant projects ongoing with the integration of the regional media business. And those project costs are then reducing our labour costs as they booked out as ISE [ph 00:18:36]. Also, the reduction of pension, the TyEL [ph 00:18:41] pension in Finland, among other things. Then, these were negatively offset by the cancelled event season, lowered advertising sales and the divestments of Oikotie. And having said that, the lower advertising sales, of course, was still well above our expectations for the quarter.

On the free cash flow, we saw good improvement driven by the Iddink acquisition. The free cash flow year-to-date grew to 65 million compared to 56 million a year ago, as a positive [ph 00:19:14], of course, the Iddink acquisition and net sales and earnings growth in Poland as well as timing of working capital changes between the quarters.

In Media Finland, the lower profitability, partially offset by lower TV programming spend, those were negative on the cash flow year-to-date. And then, as we have said earlier, the divestment of Media Netherlands had a negative impact in the first four months of 22 million, and for dividend calculation purposes we are eliminating that from the cash flow. It's good to remember that the second dividend instalment of €0.25 will be paid on the 6th of November and the record date is tomorrow.

Our net debt decreased significantly and the leverage returned to its long-term target level as a result of the Oikotie divestment. The net debt adjusted EBITDA was at 1 compared to 2.8 a year ago. The equity ratio was 48.5 compared to the 33.8 a year ago, and that's due to the capital gain of 165 million related to the Oikotie divestment that we booked in the third quarter. The closing of the acquisition of Santillana Spain we expect to happen during the first half 2021.

Our net financial expenses decreased to €7 million compared to €17 million last year. The significant reduction was due to the average interest rate of external loans that decreased to 0.8% compared to 2.7% a year ago, following the repayment of the €200 million bond in November 2019, and also, of course, then, the lower interest-bearing debt after the divestments of Media Netherlands and Oikotie.

That concludes my part. Thank you. I hand over to Kaisa.

Kaisa Uurasmaa

Thank you, Markus. Thank you, Susan. A pre-warning of the next results presentation that will be on the 10th of February next year when we will release the full year 2020 results. But even before that, we will actually host a virtual Capital Markets Day on 8th of December. And in addition to Susan and Markus, we will also have Rob Kolkman, the CEO of Sanoma Learning, and Pia Kalsta, the CEO of Sanoma Media Finland, representing the strategies of our two businesses. And more information on that event will be sent out shortly.

This concludes our presentation. And now, I would like to hand over to the telephone line for questions. Operator, please.

Q&A

Operator

Thank you, ladies and gentlemen. If you wish to ask your question, press 01 on your telephone keypad; it's 0 and 1 on your telephone keypad.

We have a first question from Sami Sarkamies from Nordea Markets. Please go ahead.

Sami Sarkamies

Hi. Thanks for taking my question. I've actually three of them. Starting from the full year margin guidance, it's looking fairly cautious in light of the third quarter performance. Would you say you're being very cautious regarding Q4 and that you may have to release the guidance in case trading conditions do not materially deviate from those in the third quarter?

Susan Duinhoven

I think the question there is, are we prudent? And I think, yes, we are always prudent, but the outlook is the outlook, and we reiterate that today. So, there is a range of 13% to 15% on the margin side, and we're indicating around €1,050 million on the sales. So, that is where we stand behind, and I do indicate, as we've said before, that the advertising sales and the overall economic development are still highly uncertain. Visibility into the advertising sales is only very short.

Sami Sarkamies

OK. And then, moving onto TV business, how do you see TV programme costs this year relative to last year's level? Do you think this will return to normal level next year?

Susan Duinhoven

Yeah, I think the overall deviations will be, we will always measure that, based on the advertising development, of course. So, the slight saving that we have done in Q2, we see that already to a large extent being spent in Q3, and we also indicate that the remainder might even be spent in Q4. So, overall ending the year as we had planned it. And then, the next year we will take those decisions, of course, again, in line with the uncertainties in the advertising market. We will also, then, scale the TV content according to the advertising sales.

Sami Sarkamies

OK. Thanks. And then, finally, can you discuss the outlook for Learning business across operating regions for next year? Will you benefit from curriculum renewals in any of the countries?

Susan Duinhoven

Yeah, typically, this is not the moment for us to give an outlook for next year, let alone on a SBU level. As you know, we do see that the curriculum changes, of course, the Polish one being a very prominent one, is a curriculum change that will also go into 2021. And I remind you of the graph that we typically show there. For example, in the last Capital Markets Day, that is still very valid on how the market develops in line with the curriculum changes. So, you remember the typical bell-shaped curves for each of the territories that then add up to Sanoma Learning as a whole. So, if you look at that graph, you see that Poland will still have a significant curriculum, let's say, execution of the curriculum reform in 2021.

Sami Sarkamies

OK. But nothing in the other countries?

Susan Duinhoven

I'm not going now country by country, through all the smaller or bigger ones, but I think the Polish one is the one to keep most closely in mind. Otherwise, we would need to go through the slides. And I would invite, therefore, to the Capital Markets Day. Then, we will definitely do that again in detail.

Markus Holm

And it may be good to repeat also the long-term organic growth target that we have there for Learning, the 2% to 5%. So, we see that that holds well.

Susan Duinhoven

Very well.

Sami Sarkamies

OK, thanks. I don't have any further questions.

Susan Duinhoven

Thanks.

Operator

Thank you. Next question from Pete-Veikko Kujala from SEB. Please go ahead.

Pete-Veikko Kujala

Hi. Pete-Veikko Kujala calling from SEB. Can you hear me OK?

Susan Duinhoven

Yes.

Pete-Veikko Kujala

Excellent. Couple of questions from me. Start from the Media Finland business where most of the surprises took place in this quarter. Starting with the Alma Media Regional News acquisition, you mentioned you saw sales of roughly 20 million this quarter. But have you seen any of the synergies that you communicated when you did the acquisition? Basically, I'm asking that do any of the synergies explain this high profitability in the segment for this quarter?

Susan Duinhoven

No, the maturity of the synergies are still to come. And the reason for that is that, as we explained when we announced the acquisition, we are taking over the back office. We are taking, let's say, the business into our back office, but that will still happen, and we are now in full preparation as markets indicated. That will only happen by the end of November. So, by the 1st of December, we would actually be running the business from a back-office perspective by ourselves. So, only at that moment will the main part of the synergies start kicking in. So, I will not say that there are not some smaller cost savings that you do already now, maybe using a bit of content here and there, but that is very small and definitely not the explanation that you're looking for. The explanation there is the cost savings, let's say, throughout the whole of the business, including the regional business, but much more along the normal cost lines.

Pete-Veikko Kujala

Yes. So, the 13 million that you communicated, that was by 2022? So, in other words, most of the synergies should come in in 2021?

Susan Duinhoven

Yes, yes. That's correct.

Pete-Veikko Kujala

Yeah, all right. And then, one more about the Alma Media business, which is now your business, of course. Can you give any indication on how the profitability of the business, for example, in Q3, compares with the Media Finland segment in general?

Markus Holm

Of the profitability, it's quite comparable to the news and feature business overall. So, quite in line with that.

Pete-Veikko Kujala

All right, yeah. Thanks. Then, looking at 2021, can you give any comment on, do you have any insurance in place for the festival business for next year as well?

Susan Duinhoven

No, I think that will be insurance that will be very hard to come by. And any insurance there would always exclude corona and pandemics in general. So, that, I think, is a one-time benefit that we indicated before, a one-time benefit. Of course, we are now much more pre-warned also ourselves. So, in contracting for that business, we're now, of course, taking into account the uncertainties that are there, and trying to come up with ways to mitigate that in the best possible way. And we know that this is a business that, if there is a vaccine or if this Corona pandemic is over, it will probably blossom quite strongly because I think we're all very keen to now go out and be in events. So, we still very strongly believe in that business. We are, therefore, also preparing for the next season to the most of our capabilities, but of course, taking care that, if the pandemic is not over by summer 2021, that we are not going to be hard-hit financially. But an insurance will not be part of that toolbox, unfortunately, any more.

Pete-Veikko Kujala

Yes. All right. Understood. And looking at the cost side in Media Finland, you've done very good work so far this year with managing the cost base, but looking at 2021, if we assume that the economy and, for example, the advertising market is going to be at least somewhat better than it has been this year, how much of the costs do you need to bring back from this year? Or can you actually maintain a lower cost base also next year?

Susan Duinhoven

Yeah, I think this is maybe not the moment to go into that. I would propose that both on the Capital Markets Day, but specifically, also when we present the full year results, and typically give an outlook for the year that we, then, come back to that. But I do think that you need to realise that, of course, with the full pandemic ongoing, total absence of travelling costs, impact on short-term incentives, the pension costs, as Marcus indicated. So, there are quite a number

of these costs that you will most likely, these cost savings that you will not see returning next year. So, that the cost level will go up over time, we, I think, do need to take into account.

Pete-Veikko Kujala

Yes. OK. Thanks for that. And then, one last, let's go to the Learning business. Looking at your recent planned acquisition of Santillana, the EBIT margins that have been around roughly 30% in the business, is this a good working number for analysts and investors also for future years?

Susan Duinhoven

Now, what we have indicated is that 2019 is a bit of a peak year in the curriculum change and that the next peak will be 2022-2023. So, that is what you need to take into account in a four-year cycle in the Spanish market, that we will go through a bit of a trough, which is logical, in 2021 and also the 2020 result. So, we indicated two weeks ago that it's better to look for 2020 and 2021 to look at 2018, instead of 2019. And we have given, at that moment, those figures. So, I hope that helps in the modelling.

Pete-Veikko Kujala

Yes, yes. All right. That's all for me. Thanks. Thanks for this.

Operator

Thank you. Next question from Pia Rosqvist from Carnegie. Please go ahead.

Pia Rosqvist-Heinsalmi

Yes. Hello. It's Pia Rosqvist from Carnegie. I have a few questions, starting with the Learning and Poland, which was strong in the third quarter. How do you expect sales to develop now going into the more quiet quarter? So, I'm looking at the Q4 number, you have in the past few years reported sales of some 12 million. Do you think you can reach this in the fourth quarter in Poland?

Susan Duinhoven

I think what we stick with we don't go to a country-by-country evaluation and forecasting. We have indicated that for the whole of Learning, the total sales will be around €500 million and the margin around 20%. I think that is as detailed as we feel we should go.

Pia Rosqvist-Heinsalmi

All right. Thank you. Then, on Media Finland, we have discussed the costs, but I'm trying to get a grip on any productivity improvement measures that are more sustainable. Have you done

anything specific which you would like to highlight with regards to more permanent changes in the cost structure?

Susan Duinhoven

I think we are on continuous improvement programmes, and those have, of course, continued as good as possible through the pandemic period, where everyone is working remotely now, already, since mid-March. So, that has impacted some of these programmes. Specifically, the more lean methodology-oriented programmes have been impacted. But still, the good work that has been done, that was already done, let's say, before March and has continued as much as possible during this period, that is, of course, what you're seeing also in the results. So, yes, there are one off-costs or costs that are temporarily due to the pandemic, but there is also just a continuous work that Sanoma Media Finland typically has in order to manage its cost base. So, that, I think, is the combination that you see panning out month after month, quarter after quarter.

Pia Rosqvist-Heinsalmi

All right. Then, to the events business. Can you please remind how much of sales in 2020 has now been lost in total?

Susan Duinhoven

The total business is typically 35 million. So, you see part of that in the second quarter, and now, 19 million in the third quarter.

Pia Rosqvist-Heinsalmi

Right. OK. Thanks. And then, to the Santillana acquisition. You acquired the Spanish business of Santillana. Is there any particular reason why you did not buy the business in Portugal?

Susan Duinhoven

Yes, there is. That is more a part of the convenience that we talked about. The Spanish business, that's the most sizeable business. And to make a deal happen in Corona times is already quite something, so we definitely focused here on the large part of the business. The Portuguese business is really a very small business by comparison. So, that's where we said, 'Let's not go into a second country, another language area, another team, and try to do that simultaneously.' And this is where it was more a matter of focus than anything else.

Pia Rosqvist-Heinsalmi

OK. That's clear. Thank you. And then with regards to the revenue streams from Santillana, how much of the sales comes from private schools versus public schools? Is there a major difference between these two and is the profitability different?

Susan Duinhoven

Yeah, I think those are maybe a bit detailed questions that I would love to take a bit of time at the Capital Markets Day. Roughly speaking, in the Spanish market, having in the back of your mind that something like 60% of the schools are public schools, 30% are an in-between form. It's not purely private because the teacher salaries are still paid by the government, but the parents have a very substantial contribution overall. And then, there is a 10% of really religious schools that are private schools, but have a very different signature, you could say. And it is typically that last category where the Santillana share is lower, that we indicated before. The religious schools have also very dedicated religious publishers that serve that market. Santillana is present in some subjects, but with a significantly smaller share in these private schools, this mid-category, and the public schools, the shares are about the same.

Pia Rosqvist-Heinsalmi

All right. Thank you. I have some more detailed questions on Santillana, but let's take those, then, later at the CMD.

Susan Duinhoven

Let's keep a little bit for that.

Operator

Thank you. Ladies and gentlemen, if you have another question, press 01 on your telephone keypad. We don't have any more questions for the moment. Ladies and gentlemen, if you have a new question, please press 01 – it's zero and one – on your telephone keypad.

Last call. We are asking if you have another question to press zero and one, it's 01, on your telephone keypad.

Looks like we don't have any more questions. Back to you for the conclusion.

Kaisa Uurasmaa

Thank you, operator. We have one question through the chat that has not yet been asked. And that comes from Petri Gostowski from Inderes and relates to the advertising market development during the third quarter, and, I think, in particular, the September. Did we see any impact of the second wave of the pandemic already in the market or not?

Susan Duinhoven

Not really, although I must say it is hard to make that distinction at this moment. It is very much industry-by-industry that the impacts are different. Of course, hard-hit industries like

travel, you can hardly distinguish in those trends. So, I would not say that we've seen an impact from the pandemic itself, from the second wave.

Kaisa Uurasmaa

OK. Thank you. Thank you, Susan. Thank you, Marcus.

Susan Duinhoven

Thank you very much.

Kaisa Uurasmaa

And to close off the event, I would like to once more remind you about the virtual Capital Markets Day that is coming on 8th of December. And invitations will be sent out shortly. And in case you have any further questions, please do not hesitate to contact us at Investor Relations. We are happy to continue the discussions. Thank you. Have a good day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you, all, for your participation. You may now disconnect your lines.