Conference Title: Sanoma's Q3 Result Webcast

Date: Friday 28th October 2016

Moderator: Good morning ladies and gentlemen and welcome to Sanoma's Q3 Result Webcast. With me I have Susan Duinhoven our President and CEO and our CFO Kim Ignatius. We will first hear their presentations and after that we'll have time for questions. Susan please go ahead.

Susan Duinhoven: Thank you very much. Good morning. Let me give you a brief summary of our results before handing over to Kim. We had a solid third quarter. Our profitability continued to improve by 25% versus last year to 78 million. It was a strong quarter in Learning and for Learning Q3 is an important quarter. EBIT in Western European markets was up 12%. Also the Finnish media business continued on its good performance from the last quarter. You see overall the results of all the businesses were strong cost and efficiency improvement impacting positively the results.

So the comparison of course to last year for the third quarter is the last time that we can compare to an unoptimised third quarter during the last year, so for Q4, we were to expect a more flat performance given the fact that Q4 was already last year strongly improved. If you then look at net sales, you see that the there is a slight decline 4.4% and if you correct for the changes in the portfolio, decline was 1.5%. The organics for the like-for-like sales development in the media businesses was actually flat, but it was specifically in learning where the market is negatively impacted in Poland that we saw the revenue declined.

Given the fact that good profitability improvement and the flow through of that to our cash flow we also see that our deleveraging which is a focus point for us as a company is going according to plan.

Therefore, we also decided last week to improve our outlook for the full year, and specifically the operational EBIT margin is now improved to be above 9% from the earlier outlook that was around 9%. The net sales development adjusted for the structural changes will improve from last year and that guidance has not changed. And as you saw in the previous quarter as well, year-to-date Q3 results and the result improvement actually comes from all the business units so every one of the units is improving nicely, and of course then are most predominantly the media business in Finland. That shows a very stark increase.

Now let me go into a little bit of detail on Learning. Because the third quarter is an important quarter for Learning, but also because in the previous quarters, you always have a little bit of the difficulty of changes and movements between the quarters because of the summer holiday and schools are typically changing a little bit just around to Q2 and the Q3.

So, if we now look into that, you see that the improvements in results in the Western European markets are quite strong 6% revenue up, 12% EBIT up. Now that includes the acquisition of De Boeck the Belgium learning company that we acquired in June. But also in Finland where there was a curriculum change and we therefore see a very nice uplift in revenues and resulting profitability. Digital development which is in learning an important focus point. It's going very well and Bingel is the most prominent example of that. We have – it's an application that started in Belgium was rolled out to Sweden last year, now launched in Finland and already after a couple of months 45,000 active users, in over 1,000 schools. So that growth in Finland is a very good starting point but you see in Sweden where it's now introduced for a year that it also starts already supporting our print and our hybrid sales, so schools really wanting to be a Bingel school and therefore also taking our print and hybrid methods.

The Polish market remains subdued as we indicated before. Changes in the regulation in Poland having its impact year-after-year and therefore a strong market decline, but we're happy that the business is performing quite well and gaining market share in that difficult market. And that is also specifically a good starting point for when the new educational system next year that is currently announced, but not yet clear, when that's starts kicking in next year. And you see here and the weather is not really with us on the ice-creams, but the logo you see of Jump, our adaptive learning method, that won an important prize on the user interface design.

Now if we then go to media; the media markets and specifically if we look at the bottom end of the slide, Finland shows a slight improvement. So, from the last number of quarters of decline this is now the first quarter where the market actually goes up. It's only 1%, but still it's an important signal. And specifically there you see the TV markets going up compared to the last quarter. If you then look at the Netherlands there the reverse is actually taking place. There the TV market is under pressure and goes to -6% and where online is picking up, but the total market is still in a positive slight growth. So overall, the advertising markets, moderate growth, but in Finland the change in the sign of the growth is an important one.

If you then look closer at our Belgium and Dutch media business, there you see a continuing positive track, cross media brands performing strongly, print and online, really creating growth, e-commerce growing nicely. And I thought it might be nice to highlight one element that we typically don't highlight as much but that's the Events business. In the third quarter, we launched a new event 'Share a Perfect Day', and you saw that on that first event already 60,000 visitors. We also started with an event around 'Linda', a very successful magazine brand for us, a more exclusive event with 12,000 visitors. So overall strong growth there and we see that event as important part of our cross media portfolio.

We also launched Vtwonen in Belgium with a similar, same editorial staff being able to now export the successful brands – the brand with its extensions into the Belgium market. Overall, operational EBIT 11% up for the first nine months so good performance also on the cost innovation and the cost effectiveness do see that TV viewing time is under pressure in the Dutch market. We indicated that already before. And then in the third quarter we had a bit of the event summer impact, the sport events, with specifically in third quarter the Olympics, that was impacting also our share in the market moderately, but still impacting results of course a little bit.

We then go to Finland, a good transformation continuing on a very positive track. Continued market share gains in the TV market specifically, also a solid start of the fall season. Share, viewing share up from 31% last year to 38% this year so solid performance on Nelonen TV as well as radio. The overall portfolio of Sanoma's product still reaches 97% of all Finns on a weekly basis and I think that explains then also the good growth that we show in our advertising sales because this remains of course of the utmost importance for companies to reach deeply into the – into the audience. And now we see in the third quarter already some initial benefits from the Suunta project and different projects both on top and on bottom line. Most specifically in Q3, you see the printing and distribution benefits already coming in, and the improvements in the B2B sales processes and streamlining more and more you see that supporting let's say the advertising sales.

So overall, Finland good track over from the last quarters continued in Q3. And then last year, when I sat here around this time I showed you this slide and indicated one slide for the strategic priorities and I'd like to just update you on those different elements where we stand. The number one priority for us as a media company is of course fulfilling our customer needs and as I said last year, I'd say that again here it's the number one, two and three in our priority list both for the advertiser and for the consumers, our audiences, and you see from the growth in cross media, from the rollout of the platforms that we have like the Vtwonen. And as you see it's from the increase in top line in Finland, that we are able to stimulate our customers and to have that positive trend in fulfilling their needs.

If we then look at learning there are specific – specifically indicated that utilising our digital strengths that we have in that division was of importance and you see the growth in Western Europe. You see the increasing use of the digital platforms and specifically the Bingel rollout as proof points for this, for the strategic progress on this. Accelerating cost innovations, that will be something that we'll continue going forward and you see Suunta as a set of projects being launched this year and now are successfully seeing the initial results in BeNe in learning over the group support functions. Constant innovation in our cost structure and our processes is of the utmost importance. And that then leads to an improved cash conversion and deleveraging of the business.

And were – with our deleveraging on track at the end of Q3, you see 3.3 net debt over EBITDA, a good point in time of course, and let's also be fair, end of Q3 is always the lowest point in the year because the Q4 with the learning sort of been loss making in Q4, always the leverage goes a bit up at the year-end. So I take it that this is the best point probably during the year, but compared to last years 6.1 is a good improvement.

So overall, I think we're on track, but not yet there, although the biggest improvements that we have been able to show of course compared to last year, this year and that is probably something that we will round off with this Q3.

With that, I would like then to hand over to Kim to give more details on the financials.

Kim Ignatius: Thank you Susan and good morning everybody, very good to have you all participating again this quarter. This quarter is a continuation still on the good profitability improvement that we have seen throughout the year and this improvement is pretty much driven by the efficiency improvements we’ve seen and by the cost innovation actions being taken. The reported net sales for the third quarter at 438 million were 4.4% below the level of Q3 last year. Still the operating expenses were over 10% below year-on-year. For the nine-month period, our reported sales of 1.2 billion were 5.1% below last year, and at the same time, the operating expenses were close to 13% lower. This naturally leads to a very good operational EBITDA development.

When we then look at the amortisations of TV programme rights and pre-publication rights we see that also those are below the levels that we had in 2015. And all in all, the depreciation and amortisation is below last year's level and that leads to a very good operational EBIT. We do see the programme rights cost picking up a bit in the last quarter.

The EBITDA improved from 62 million to around 78 million. The improvement in Media BeNe was close to €2 million. As mentioned already, we see the viewing time in the Netherlands declining. Also, the Olympic Games had a negative impact on our marketing share, advertising share. Also, we did divest from non-core assets and those had a 3 million impact on the EBIT numbers. Still we were able to show a positive development and this is because of the cost efficiency actions been taken in the area for personal cost, in marketing, and for this quarter, also having lower programming rights cost.

Media Finland showing a clear 8 million improvement comes apart from the higher advertising sales, we have been gaining share, Nelonen Media is doing really strong and the impact of the higher advertising or the higher advertising sales are at the level of around 3 million. This is a high gross margin part of our business and naturally then – goes all the way to EBIT with a very strong positive impact. Still the majority of the 8 million improvement is coming from the operational efficiency improvements and pretty much from the programmes that we already launched early last fall. You might remember that the target on a full year basis was to save close to 30 million in operating expense.

Already in Q4, this is good to remember, we were close to the full run rate and that is good to have in mind when looking at the balance of the year performance. In Learning, a lot of things impacting our Q3 performance. Also in Learning we launched restructuring programmes last fall, those are showing in our numbers. We have impact of close to 1 million from the restructuring benefits. We changed some of our – we changed our prepublication amortisation schedules. This has a 1.2 million impact now, positive, on the Q3 numbers.

We acquired De Boeck in Belgium and had now consolidated the unit into our numbers, and you have a 1.8 million positive impact on the Learning EBIT.

What is taking the positives down are the lower sales in Poland. The total Polish market has come down by 23% and we have lost some 6.5 million in sales year-on-year. Also in the other category, you see an improvement of 4.4 million, partly because divestments of non-core operations. This is the 1 million positive impact and the rest comes from similar type of cost innovation efforts that you see in across the units actually.

Then items affecting comparability; last year for the third quarter and for the nine-month period quite a lot of negatives from the restructuring programmes and selling non-core assets. This year fairly limited impact on the Q3, but a big positive impact on the first nine months reported in Q2 and this was the change of our pension scheme in Netherlands allowing to us to release some pension liabilities that we had on our balance sheet.

This had an impact also on the income tax as you see a fairly high income tax for the nine-month period, and that is related to the pension scheme change and reversing some of the tax assets that we had in our books.

All in all, the result for the period, very strong, 51 million and also cumulatively 148 million. Our operational earnings per share grew to €0.30 for the quarter and to €0.58 for the nine-month period.

Moving to free cash flow; when you study the third quarter numbers, the cash generation profile is pretty much the same as this quarter as what we had last year in Q3, still because of the higher EBITDA and the lower other adjustments here being the restructuring cost and also lower cash capex. We do see a positive trend and are improving our free cash flow from 58 million to 88 million for the quarter.

The reported free cash flow numbers for the cumulative period are impacted by the pension scheme change in the Netherlands. So, it's probably better to have a look on the right hand side on the operational free cash flow for the nine-month period and there you see adjusted for the items affecting comparability. We have a 64 million positive cash flow last year 37 million negative, so around 100 million improvement year-on-year.

This leads to my final slide the capital structure, with the good improvement in our profitability and the related cash flow development we have been able to lower our net debt levels coming from the last year's end of Q3 levels of 852 million 766 million. This together with the improvement in the EBITDA then leads to our leveraged ratio being now at 3.3 times when it was 6.1 at the end of Q3 last year, so very positive development in the leverage picture.

This finalises my part of the presentation. I had back to Anna for Q&A.

Moderator: Thank you Kim. We will now take questions and before asking your question please state your name and the company. Do we have questions here at the studio?

Speaker: Hello. I'm Outi Kokko from Taloussanomat. I would like to know how you're seeing the advertisement markets how they're improving because if you think about for example, economists have said that the situation in Finland is not improving very well. How does the market go?

Susan Duinhoven: I think if you look at the slide, you see that in Finland, in the third quarter there is a 1% uplift and I think we see that as a positive sign because we do believe that in order to grow the economy and in order to get out of that downturn, it – actually advertising is the solution. And advertising for the products and services in a consistent way actually creates that growth. So, that's where we're happy to see that turn, advertising will go a little bit in front of, then, the economic turn. So, that's where I see the upliftment is that's consistent for the coming quarters, volatility in advertising market is such that predicting it is not something that we would go into.

Moderator: Any more questions here at the studio? If not we'll move over to phone questions, operator I'll hand over to you.

Operator: Thank you. If you like would like to ask a question over the phone, please press *1 now on your telephone keypad ensuring that your mute function is turned off to allow your signal to reach us. Please press *1 to ask a question over the phone. We'll pause for one moment. I have a question from Rasmus Engberg SHB. Your line is open.

Rasmus Engberg: Yes, hi good morning. I wanted to ask you about the learning business for the fourth quarter.

You have made an acquisition here and there are changes in publication curriculum etc. Are you – do you think that the improvement can be sustained in the fourth quarter or should we be more conservative with regards to estimates?

Kim Ignatius: Rasmus, as you know the fourth quarter for the learning operation is always a negative quarter and you get a good reference when you look at last year's numbers there. Adding De Boeck into our Learning operations will mean that we're adding another learning operation that also has a negative fourth quarter and the impact will be around 2 million in the consolidated numbers.

At the same time, we are introducing a higher number of new topics for 2016 compared to last year, and this will lead to some additional marketing spending for the last quarter of this year. So hopefully, this gives you a picture of how we see the Learnings fourth quarter developing.

Rasmus Engberg: Thank you and now your financial leverage has come down. And should we then be thinking about the hybrid capital or dividend?

Kim Ignatius: So the question on the hybrid we have already kind of mentioned that we will use the redemption option that we have and will not replace the old hybrid with a new one. And your questions of dividend is what, can you clarify a bit?

Rasmus Engberg: Should we expect – I keep hearing myself if maybe somebody has a mobile phone on there because of an echo here. But anyway should we expect you to go back to about 50% payout ratio already this year?

Kim Ignatius: Well the dividend policy hasn't been changed. So, it's been stable for quite a few years and all in all the dividend matter is something that we will discuss with the board towards the end of the year and then finalise the board will finalise their recommendations. In the beginning of the coming year and final year as you know the AGM will decide on it. And the dividend is always a question of multiple things. It's your profitability and cash flow performance, but also your investment needs and overall capital structure picture. And I don't have a clearer guidance to you and cannot have because that discussion is still to take place.

Rasmus Engberg: Okay. Now finally, your ratings in Finland have been very, very strong for some time. Can you remind us when that started on the TV side?

Susan Duinhoven: That started basically at the beginning of this year and already Q4 last year had the first uplift, but the real next and the real step-wise change was in the beginning of 2016.

Rasmus Engberg: Thank you.

Operator: Once again if you would like to ask a question please press *1 on your telephone keypad. We'll pause for one more moment. There are no further questions on the phone.

Moderator: Thank you. Do we have more questions here at the studio still? If not, I will conclude this webcast. Thank you all for participating and have a nice weekend.