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Speakers:	Susan Duinhoven, President and CEO Markus Holm, CFO & COO Kaisa Uurasmaa, Head of Investor Relations
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Kaisa Uurasmaa: Good morning, ladies and gentlemen. Welcome to Sanoma's full year 2019 results presentation. My name is Kaisa Uurasmaa, I'm head of investor relations at Sanoma and today's presenters here with me, the CEO, Susan Duinhoven, and CFO and CEO, Markus Holm.

After the presentation we will have a Q&A session during which we will first take questions from here at Sanomatalo – please wait for the microphone. And then hand over to the telephone line. This event will be recorded, and the recording is available on our website after the event.

Before handing over to Susan, I would like to remind you of the impacts of the divestment of Media Netherlands into our reporting. The divestment was announced in December and the business is reported as discontinued operations for 2019. And the continuing operations include the Learning segment and Media Finland segment.

And this presentation only focuses on the continuing business. With this, I would now like to hand over to Susan to start the presentation. Please.

Susan Duinhoven: Thank you, Kaisa.

As Kaisa indicated, 2019 was an important year, a year of transformation and we grew the learning business significantly with four acquisitions. The main one of course, being the Iddink business in the Netherlands, Belgium and Spain. And on December 10, we announced the intention to divest Sanoma Media Netherlands – the Dutch media business.

And with that, we now have two strong businesses: a growing European learning business and strong business in Finland in Media, ready for future growth. That is then also supported by 400 million headroom for M&A with a solid pipeline of opportunities for both businesses.

In December, when we were together, we also indicated the targets for the two individual businesses, both on a comparable sales level and on the profitability.

But also, financially it was a good year for Sanoma. Net sales grew and profitability further improved. The net sales grew to 930 million and that was mostly due to the acquisitions that were done. The comparable net sales for the underlying net sales was -1%, but still considerably better than the year before.

There was also clear profitability improvement to 135 million. And that was also due to acquisitions, but also largely due to the improved profitability of our learning business due to the High Five business development programme.

Now, that profitability would have normally shown even a little bit higher, but due to the divestment of the Dutch business, we allocated the remaining Group cost on the two continuing businesses and that impacted that result with close to 4 million. Of course, the 2018 was then also restated and that was impacted by 3.5 million.

Free cash flow improved to 131 million. That was largely due to the IFRS 16 implementation. The leverage increased to 2.7, slightly above our long-term targets but that was of course, because the Iddink acquisition came into the year quite late. Further impact on the leverage was also due to IFRS 16.

And the Board will propose to the AGM a dividend of 50 cents to be paid in two equal instalments.

And with that summary of the year, I would like to go into a bit more detail on the individual businesses: The earnings improved in Learning and were stable in Media Finland. Earnings significantly increased with 15% in learning, partially the Iddink acquisition which impacted the fourth quarter and the High Five programme.

In Media Finland, a very good year, stable sales, stable earnings, well performance of the team.

Other operations were significantly lower than last year and that is a little bit of an exception due to both a comparable year and cost reductions that have a one-off character in the year. So, going forward, we will be looking more towards a level of 2018 than 2019.

If we look into Learning, net sales grew through acquisitions, Iddink performed well – fully in line with our expectations. It added 22 million to our result due to the inclusion in the fourth quarter. But overall for the year, Iddink sales was 157 million compared to 141 million the year before. So, a good performance.

Operational EBIT, 5 million adding to our results due to the fourth quarter – total year 22 million. Also 10% up from the year before.

itslearning, an acquisition we did in December, contributed 2 million to the net sales. Smaller acquisitions of Essener and Clickedu, that were done, specifically Clickedu, only halfway through December, did not add in a significant way. Neither in sales nor in profitability.

But if we then look at the comparable business, or the business that was already there the year before, stable net sales in Belgium and Poland continued to grow on the back of the curriculum renewals that were taking place there. The Netherlands and the Dutch publishing business, nicely stable and a slight decline in Finland, which was expected because there the curriculum reform ended in 2018. So, 2019 was a bit of a low year because then typically schools do not need to repurchase the recently bought materials.

But on top of that, we saw quite a positive trend of increasing sales of digital learning materials. But that of course, has an effect that the recognition of those revenues are flowing into the next year.

For 2020 and 2021 the market will grow in several of our core markets, most pronouncedly Poland, the Netherlands and Finland.

So, as we have shown in December, on the back of those market growth, we also expect our learning business to grow.

If we then look at the picture, there you see, I think, also that within the Learning business, the acquisitions have really created a very nice transformation. Last year, the end of the year, we had 15 million users on Sanoma's digital learning platforms – coming from 6 million the year before. And that growth is both organic growth through, for example, the Bingel platform in primary education and the recently introduced Campus platform in secondary. But 8 million of that increase came from acquisitions. Most pronounced of course, the Iddink acquisition, itslearning and also Clickedu. So, 15 million students on Sanoma learning platforms.

If we then look at profitability, profitability nicely improved, most in the existing business and due to the Iddink acquisition. A total improvement of 15% to 73 million and the split between existing business and Iddink acquisition was roughly 50/50. In the existing business, it was the High Five business development programme that created cost savings, both on the variable and on the fixed cost. And of course, the Iddink acquisition was one quarter that was added, that contributed 5 million to this improvement. And in the curve, you see a nice improvement in the EBIT margin over the years.

If we then look at Media Finland, also again, a good year. Continued growth in digital subscriptions, net sales being stable at 477 million, but specifically, as we also already discussed in December, the total number of HS subscribers of Helsingin Sanomat continued now for the third year in a row. And I think also on an international scale that is quite an achievement.

And we even went back into the archives and saw that the subscription sales – so the revenues from subscription for Helsingin Sanomat – it was this year at an all-time high.

So Helsingin Sanomat, a good year, but also Ilta-Sanomat, monthly visits in December at an all-time high and when you look at the graph, you see that the best week of the year, 42 million weekly visits to the site.

News and Feature unit, that we started on the 1st of October after preparation, important milestone for the news and feature business. That business unit now combines both Helsingin Sanomat, Ilta-Sanomat, but also seven magazine brands that have content that can be shared digitally.

And that's also the key objective of forming that unit that the sharing of that content and technology is made more easily.

Also, the entertainment business saw a good success - increase in digital subscription sales from Ruutu+ where the revenue from that even offset the discontinuation of pay-TV that took place in the second half of 2018.

The growing festival and event business performed well. Also, on a profitability level. Of course, part of that supported by the acquisition, the addition of the Rockfest Festival in 2019.

If we then look at the advertising market, we see that digital advertising for us grew significantly with 6% and grew more than market. The domestic digital advertising market grew with 4%. Total advertising sales for us decreased with 1% in line with market and that was of course, due to the print advertising decline that we see on an annual basis.

If we then look at profitability, stable sales, stable profitability at a level of €69 million, excluding PPA. Improved profitability of festival and events. This was the second year operating with a large portfolio, clear improvements in the way of operating. Also, good cost control, lower marketing paper distribution cost across basically all cost lines. We of course saw that with the inclusion of the Fox channels, we saw higher sales from TV, but also higher costs due to the payments made to Fox on that.

Write-down, in the fourth quarter specifically, on IT solutions and IT infrastructure that we have replaced over time, and we took that now in the fourth quarter and that's why you see that specifically that quarter is a little bit lower than a comparable year.

The Board proposes to the AGM in March, a dividend of 50 cents. That is a nice increase of 11% versus the previous year and represents around 82 million cash. That represents 58% of the adjusted free cash flow and it’s then adjusted for the settlement of the rent on the office building of the divested Belgium business.

It will be paid in two parts, half of it in April, on the 3rd of April with a record date of March 27th; and half of it in November.

Dividend policy unchanged; we aim to pay an increasing dividend and it will be in the range of 40 to 60% of the annual free cash flow, but the important part will be the growing dividend.

Then just to remind you, before the Christmas break when we were together, we announced the long-term targets for each of the SBUs, and we now for the first time track against that long-term target. If we look at learning, you see that we target to comparable net sales to grow in the coming years, 2% to 5%. Last year 2019, was at zero, in line with expectations.

Operational EBIT margin, we target to be between 20% and 22% – we’re already at 21.7%. So, you might ask if this is now a challenging target, but of course to remind you that adding the Iddink business was on average slightly lower margin business, shows that the targets for the continuing business is still to continue their profit improvement [? 00:20:32] of the last years.

In Media Finland, we target to have comparable net sales between plus and minus 2% – so stable. And last year was -2%, so that represents a true target.

Comparable EBIT – sorry operational EBIT margin excluding PPA we target for Finland to be at 12% to 14%. Last year was at 12%, so at the lower end of the range, so also there next steps to be made in that business.

And we're comfortable with the outlook for the whole of the group then, for 2020. We expect the comparable net sales to be stable and the operational EBIT margin, excluding PPA, to be around 15% compared to 2019, this report 14.8%.

So, with that, I would like to hand over to Markus Holm for more details on the Q4 results.

Markus Holm: Thank you. The fourth quarter operational earnings developed well in line with our expectations. Operational EBIT improved by 7 million compared to prior year.

In Learning the Iddink acquisition added 5 million and the rest were explained by lower fixed costs across the business.

Media Finland saw a slight decline of 2 million explained by positive effect of lower paper costs and negative one-time write-down related to discontinued IT solutions and TV programme costs related to Fox channels.

In the full year, 2019, the costs of other operations were exceptionally low across categories. We expect this to normalise closer to 2018 levels, i.e. from this seven to ten I would say we expect it to be closer to ten than seven.

Cash flow was solid. We had a free cash flow of 131 million compared to 109, a year ago. This is explained to a great extent by IFRS 16, which added 25 million. We had also lower taxes paid that was positive and then, as earlier mentioned, we have a 10 million settlement of rental contract related to discontinued operations, Belgium and also hire IACs related to the several M&A transactions in the year as well as IT infrastructure changes, and also the divestment of the Linda magazine in Netherlands had a negative effect. Overall, well in line with our expectation on underlying cash flow.

Net debt was higher due to the Iddink acquisition and IFRS 16. The net debt was at 795 million at the end of the year and net debt to adjusted EBITDA at 2.7.

The equity ratio declined below our long-term target level due to the 105 million capital loss that we booked related to the divestment of Media Netherlands, the Iddink acquisition and IFRS 16. But both the net debt to EBITDA and the equity ratio expected to return to the target level once we close the Media Netherlands divestment.

We repaid the 200 million bond in November. This is expected to significantly reduce our financial expenses going forward. You remember that the interest on the bond was 3.5%, while our current run rate of interest is below 1%.

We raised 250 million four-year term loan in September to finance the acquisition of Iddink and on the net financial items we were at 22 million last year, compared to 12 million the year before, explained by IFRS 16 of 5 [ph 00:24:48] million and then we had an old exchange rate loss related to liquidated Ukrainian subsidiary of 3 million in that.

And that concludes my part. As a reminder, our Annual General Meeting will be on the 25th of March.

Kaisa Uurasmaa: Thank you, Markus. Thank you, Susan. And we will now start the Q&A. Please wait for the microphone before your question. We have the first question, please.

Sami Sarkamies: Thanks. Sami Sarkamies, Nordea Markets. I have a couple of questions – starting from Media Finland. You have been quite positive on the unit recently despite sluggish advertising media markets. Did the fourth quarter meet your expectations and what can you say on the outlook for this year?

Susan Duinhoven: The fourth quarter definitely met expectations. We knew of course that we would revisit the IT and look at potential necessary write-downs, given the lots of IT development that we had done in both '18 and in '19, so that was to that extent expected. The underlying business performs well and we're very enthusiastic about that increase in digital subscriptions that you see both in Helsingin Sanomat and in Ruutu+. And that I think is why you see an underlying enthusiasm from us on this business, that is that the core essentials of it are doing well.

Sami Sarkamies: And then a follow up: Where do you see the main improvement potential in Media Finland going forward?

Susan Duinhoven: I think that it's doing well. The improvement will be just continuing the good cost control. The TV market is, of course, a market where we see that if you look at for example price levels – very much below the European average. So, if the TV market turns to a little bit more regular performance, you would say, then that could show significant improvement also in our results. So, those are things that we do not take into account; we take into account the things that we can influence ourselves and there, we say, that's the reason why we target for the 12% to 14%. We see good opportunities to step-by-step improve that profitability still while keeping the business stable.

Sami Sarkamies: OK. Then moving onto learning. We are entering a period of faster pace. How do you expect margins to behave over the next few years when you will be benefiting from these curriculum renewals?

Susan Duinhoven: As we said, we think that the underlying business margins will still improve, adding of course, 150 million business with a slightly lower margin profile and that impact, the fact that we already in December indicated that we think that we can stay within that target range already in 2020, I think indicates that the core of that business is doing well, both on sales level and on profitability.

Sami Sarkamies: And then anything you can share on the M&A pipeline at this point?

Susan Duinhoven: As you expect – I cannot.

Sami Sarkamies: OK, thanks.

Kaisa Uurasmaa: Questions from Sanomatalo?

Pete-Veikko Kujala: Yes, Pete-Veikko Kujala from SEB. A follow up on Media Finland [ph 00:28:38], you mentioned the IT write-down – any indication on what kind of size we're talking about?

Markus Holm: One and a half million.

Pete-Veikko Kujala: All right, thank you. And then about Iddink – it seems that profitability was indeed higher than for example, I expected in Q4 for the business and also it seems in 2018, Q4. So, how should we think about the seasonality in terms of EBIT for that business? Is it a lot more stable than that normal learning business?

Susan Duinhoven: Yeah, I think we have disclosed at the moment of the – we have disclosed the seasonality of that business. We don't see major changes versus that historic trend.

Kaisa Uurasmaa: Questions from Sanomatalo? Please.

Petri Aho: Petri Aho, Inderes. About variable costs. You said that last year the paper costs for example were decreasing and you had the IT infrastructure changes. Should we expect that this year these will benefit you again, or last year obviously the IT wasn't beneficial, including the write-downs. But how do you see those costs developing and are you expecting the paper cost, for example, to come down? And does it have a big impact on you at this moment anymore?

Markus Holm: We saw an improvement from paper costs already last year and we expect at least that level to be sustained going forward. And on the IT cost, of course, those were one-offs, so it will not impact this year.

Petri Aho: And then on the M&A, you obviously will have some costs now that you are looking for the targets all the time. Will those costs then be added to your books when something materialises, or will you have some kind of extraordinary cost from those in first quarters for example?

Markus Holm: Sorry, I didn't quite–

Petri Aho: The M&A, now that you are actively seeking for targets, those will probably make some cost to you. So, will those be extraordinary costs booked already in first quarters or then when something materialises?

Markus Holm: Typically, you have a great part of them up on the transaction itself to the closing of the transaction. But there are of course, things that we are adding during the year as well, so you have something also during the year.

Petri Aho: And then on extraordinaries. In general, you have had those a lot in recent years. How do you expect them to develop going forward?

Markus Holm: Of course, if you take the absolute amount now we have one business less, so to that extent it should be smaller. Last year we had also this so-called journey to cloud project, which was quite big in IT, and that is now over. So, those will not be repeated. So, I would say the IACs, as we call them, going forward are mainly related then to the M&A and so forth.

Petri Aho: OK, thank you.

Kaisa Uurasmaa: OK, thank you. Anything further from Sanomatalo? If not, I would like to hand over to the telephone line for questions.

Operator: Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. And just as a reminder that was 01 on your telephone keypad. And there seems to be no questions on the phone, so I'm handing back to the speakers.

Kaisa Uurasmaa: OK, thank you. I would like to now conclude the event. Thank you all for participating. Thank you for the questions and have a good Friday. And please come back with further questions to us at IR. Thank you.