

Transcription

Sanoma Half-Year Report 2023

Kaisa Uurasmaa: Good morning, everyone, and welcome to Sanoma's first half of 2023 Results Presentation. My name is Kaisa Uurasmaa. I'm heading Investor Relations and Sustainability at Sanoma. During the first half of the year, our net sales grew operational. EBIT was supported by solid learning performance. We have the management here presenting the results. CEO Susan Duinhoven and CFO Alex Green. After the presentation, we will have a Q&A session. We will first take questions from the audience here at Sanoma House and then hand over to the telephone line. As a third option, you can also use the chat function in the webcast platform. After the webcast presentation and the Q&A, we will close the session. The recording of this event will be available on our website. With this, I would like to invite Susan on stage, please.

Susan Duinhoven: Thank you very much, Kaisa. Also from my end, a warm welcome to this half-year results presentation. As Kaisa indicated, we had growing net sales and a solid EBIT supported by the Learning performance specifically in the second quarter. If we look at the first half of the year, we saw the Group sales growing, and that was due to the Learning business growth. That growth came from the acquisition of Italy and German businesses, and also a solid four percent organic growth. That more than compensated for the lower net sales in Media Finland that we all expected coming from a decline in advertising sales. If we then look at the operational EBIT that was supported by that solid Q2 performance in learning, and impact as well as by the declining advertising sales and the cost inflation across all of our businesses. If we look at the free cash flow, there we had a very significant improvement.

The cash flow in any learning-driven business is negative in the first half of the year, but if you think that we also added Italian and German business, that typically then takes up more cash. This better performance than last year's is quite exceptional, and that comes from a concerted effort in our Learning business to take operational actions that can also be repeated in the coming years. That saved us 50 million in cash in the typical low point for us, the Q2. We pulled cash basically from Q3 into Q2 by a number of measures. Alex will go into a bit more detail on that. Our leverage was about stable at 3.3, slightly above our long-term target of being below three, and that is logical following the acquisition of the Italian and German businesses in the second half of last year. Overall, the outlook for 23 is unchanged. We see positive developments on the learning side compared to the start of the year, specifically driven by Spain, but then offsetting also some of the more demanding advertising circumstances in Media Finland. All in all, guiding is still very much in the mid of that range.

If we then go into Learning, Italian acquisition and the organic growth, both made that

business grow to 264 million. The sale of Eduarte in the second half of last year took a little step down of 4 million, but the Italian and German business added 42 million in itself to that growth. Then the other businesses contributed four percent growth, and that was literally across all the businesses. Strong growth in Spain, and there it was against the weak comparable because if you remember last year the curriculum changed. The LOMLOE had still to start and therefore caused a bit of delay in the second quarter so the comparable was low, but overall we're still seeing that in Spain, good solid growth. Also for the full year, we're expecting ten percent growth for that business due to the successful implementation of the LOMLOE curriculum renewal. If we then look at the growth in Finland and Belgium, that was mainly driven by the successful implementation of higher-than-usual price increases, and the start of that was already seen in then Q2 in those businesses.

In the Netherlands, however, we saw that some of the deliveries out of our content business were a bit later. The orders are in. That is going to be a very solid year also in the Netherlands, but the deliveries shifted into Q3. In Poland, you still see the first half of the year equal to the prior year, but that is because we're ahead of a minor curriculum renewal that will create an uplift as expected in the third quarter and fourth quarter of this year. So all in all, Learning solid growth across all the businesses was supported by an acquisition. If we then look at the earnings, we see that growth also supports the earnings in the second quarter. The second quarter was quite strong and stronger than last year. The first quarter was impacted by the typical annual seasonality of the business, but also the impact of inflation. Now in the first half for the first time, also personnel cost increases in addition to the regular fixed cost inflationary impact. If we then look at the growth, the growth in sales had a positive impact, but that was compensated by the typical cost for marketing and content creation in Poland ahead of that minor curriculum renewal.

A solid second quarter and then for the full first half 15 million of EBIT, excluding PPA. If we then look at one of those elements that we have talked about quite a bit in the last year, the price increases in the Learning business. This was the first moment for us. The first half of this year was the first moment to introduce price increases following the inflationary impact that already started in the mid of last year. We have seen now in our sales calls and impact on the market that the price increases are well understood by customers. They are accepting those and we will see a bit of volume impact as well. It will not translate one on one, but that is very much more in the auxiliary and supplementary parts of the portfolio. Where in Q2 you only see a very small start of that positive impact of price increases, the majority of that impact will show in the third quarter. As said before, the full mitigation of the inflationary impact will take one to two years from the start, let's say, from July last year onwards.

In some markets, the inflation is a bit less there. It's covered in one year but in most markets, quite high inflation that cannot be covered in one year. That's still coming the next year, but that has also been part of those discussions. These price increases lead us also to

believe that we will be on the high end of our typical long-term growth target of two to five percent organic growth. These price increases will bring us this year on the high end of that.

If we go to the Media business, the advertising sales decreased in line with our expectations. Net sales came to 153 million and the advertising sales decreased by 11 percent, and that development was basically across all media categories. We performed in line with the market in online and radio but were a bit below the market in performance, in TV, and in newsprint. If you remember from the last years, TV in Q2 always suffers a little bit from the fact that this is the quarter with big sports events like ice hockey, where the competing channels have those rights. Typically in TV, our market share drops a bit in Q2.

In newsprint, we were impacted a bit by the elections that typically favor regional and local papers in their advertising. The uplift from the elections is typically not going that strongly to the national papers. In this second quarter, we also had an interesting launch. We were in Europe, one of the first to introduce FAST channels that stands for free ad-supported streaming services. The Pluto TV, which is an interesting phenomenon, I must say that it is VOD. You choose the channels, but in the channels, it is actually linear top-notch content like Frasier, like South Park that that is then ongoing and running 24/7. It's an old-fashioned concept in a new world. We're connecting it to Ruutu. It had already 800,000 starts in a couple of weeks. It was active in June and had over 100,000 unique users, which is then a nice inflow channel also into our Ruutu service. Subscription sales declined only slightly, and most of the decline was from the impact of the divestment of the Supla audiobook business in March. A slight decrease in the other subscription businesses, the volume decreasing a little bit more than the price increases could offset.

That's the tight balance that we all the time trigger. For that, we stay on the plus side there. This quarter we were a little bit on the minus side. The growth in events, very small business. I know that you're probably going to ask about that as always in this summer season. The event's modest growth in visitors stays around the same revenues and unfortunately also around break-even business, but a good position with the 13 events that we had only very small part was in Q2. Given the fact that we're now at the end of July, we oversee the full year and are therefore quite happy with this first year with a more normal market, I would say. If we then look at the earnings. Lower earnings as expected due to decreasing advertising, sales, and inflation decreased to 9 million, advertising sales being a big part of that decline. Then some positive earnings impact from lower variable costs, specifically in this transformation from print to digital and use is beneficial there, but then offset by higher personnel and other fixed cost.

If we then look for the full half year, the first half, then we see that the EBIT in Media Finland decreased by about half. There, it's important to realize that the first half of last year was a very strong comparable because inflation did not impact. If you remember Q2 last year had still a very strong advertising market. A strong comparable and therefore quite a significant step down in the earnings, but all that is in line with our expectations already at the start of

the year. That then also makes our outlook for 2023 unchanged. We expect to have sales between 1.35 and 1.4 billion and a group operational EBIT excluding PPA between 150 and 180 million. We have soft-guided you before towards that midpoint of that range, and we still reiterate that soft guidance. We see that on the media side, we might be performing a bit less than we originally soft-guided where we said one-third of media might be lower, that might now be more towards the 40 percent. Still better than the first half of the year because of the lower comparable. The learning business will absolutely compensate for that strong start and good visibility now for the year.

The outlook is unchanged and also the assumptions underneath. We assume that there will be a mild recession in Finland. That was true in the first half of the year and that the advertising market will decline slightly with the specific impact in the first half. In summary, I think the solid performance in learning, Media Finland as expected, operating in a difficult operating environment, and the outlook unchanged for the full year. With that, I would like to hand over to Alex to go into a bit more detail on the financials.

Alex Green: Thank you, Susan, and great to be with you here today and to see lots of people in person as well. Let's go into the financials, starting off with the operational EBIT for Q2 specifically, which was stable. You see here on the right-hand side, 54 million of operational EBIT, which was helped by a strong Learning performance with the growth in Spain, driven by the LOMLOE curriculum change. As you heard, you remember that last year there was a significant delay, which meant that this year being on track, gives us that upside. We also see the impact of the acquired Italian and German businesses in there, and all this more than offsetting the challenge of the inflation coming in on paper, personnel coming in now in Q2, which we'll see more of in the second part of the year and on the fixed costs. This was offsetting the lower advertising sales in the Media Finland, which flowed through to EBIT with also higher personnel and other fixed costs. Across both businesses, a lot of thoughtful cost management was in place to mitigate these and optimize our position. Those two things. The higher learning and the compensation for Media Finland gave us stable earnings in Q2 at 54 million.

Looking at the free cash flow situation, you see on the right-hand side with the uptick on the purple line, the impact of the successful operating measures we took particularly in Q2, to improve the position. As Susan said, both with the increase in seasonality coming from the acquired business, particularly in Italy. A lot more cash is needed in the first half and coming in the second. Plus in an environment of the high cost of capital, high-interest rates, it's extremely important to us to try and mitigate this as much as we could. We put in place across the company a number of measures to bring forward and improve the cash inflows in H1 rather than H2. There are a couple of examples of this. We put in place a mechanism to bring in prepayments from schools as opposed to having full invoicing done around now and later having the money in the second half of the year. A lot of prepayments in this were well accommodated by the schools and we got a lot of money in H1.

We also invoiced our digital subscriptions slightly earlier than we do, otherwise, normally that comes at the beginning of Q3. We brought the invoicing forward a month and then were, therefore, able to chase the cash and get that in as well as focusing on collections across the company. Also, looking at inventory levels, looking at the timing of orders, and in a high-cost-of-capital world, sometimes it makes more sense to make different decisions around those things to optimize our cash position. All that together gave us this significant upside, taking us to an improved position versus last year even with the acquisition. An important factor here is that a lot of these measures are structurally in place and will happen again next year and in future years as well. We've brought forward permanently our cash flow generation and smoothed the position. Now, as I say, a lot of what I'm saying is timing. It's bringing forward from H2 to H1. For 2023 overall, our underlying cash flow is expected to remain relatively stable as we communicated before.

As a reminder of our dividend, we paid the first installment of 0.13€ a share in April, the second installment in September, and the third will be in November. The strong cash position H1 has reduced the increase in net debt to just €792 million, otherwise, it would have been clearly higher versus the end of March. Now, clearly, it does increase with the seasonality of the earning business, but this took our net debt over adjusted EBITDA to a stable position of 3.3 versus 3.2 last year, still slightly ahead of our long-term target of three with the acquisition last year expected to be around on the three mark by the end of the year. The equity ratio at 35.4 is within the long-term target of 35 to 45 percent. Our net financial items have increased with the increased interest rates and also the slightly higher debt levels versus last year with the average interest rate at around about three percent versus one percent this time last year. As a reminder, the hybrid bond interest is not included in net financial items as it's a hybrid bond. The accounting treatment means it's deducted directly from equity.

Those are the three financial slides I have. I also now want to announce that we do have a Capital Markets Day on the 22nd of November 2023, so we look forward to inviting you here for that. This is an in-person meeting. You can also join virtually, but important to us to have that in-person meeting and so we very much look forward to seeing many of you there for that event. With that, I invite my colleagues back on stage for the Q&A.

Kaisa Uurasmaa: Thank you, Alex. Thank you, Susan. We would like to start the Q&A session from here at Sanoma House. We have several hands up so let's please wait for the microphone before you start.

Sanna Perälä: Hi, it's Sanna Perälä from Nordea. I have a few questions regarding Media Finland. First, the advertising sales. How do you see the sales developing in H2?

Susan Duinhoven: The sales development is a bit difficult to indicate because the

comparable is quite different, H1 versus H2. We think that our advertising level stays at the same level, and therefore compared to the comparable, the decrease will be less. We don't see the advertising market still already pulling much stronger. We do think that there will still be a decline versus a weak comparable from last year.

Sanna Perälä: Okay, thank you. Then on the Group level, will the growth in fixed costs, for example, in personnel and other fixed costs continue in H2 as well?

Susan Duinhoven: Yes, they will.

Alex Green: Well, if we think about the main areas, so the paper and print costs, we see them stabilizing so not increasing having peaked. In the second half of the year, that will give us a little bit of benefit on the Media Finland side but on the learning side, with all the printing largely done, that will help us next year. On the people cost-related things, the salary increases started in Q2 because they generally happened in March and April on average, but we'll see more of that in H2. That's fully included in our estimates, the soft guidance and the midpoint of that guidance have all that. In there, we don't expect surprises.

Sanna Perälä: Thank you. That's all.

Kaisa Uurasmaa: Thank you, Sanna. The next one, please.

Kimmo Stenvall: It's Kimmo Stenvall, open markets. A couple of questions about the media business. First of all, on maybe this long-term strategic business question on the media. We know that Viaplay is facing big troubles in the Nordic and in Europe. Also, Telia is announcing a major restructuring in the media business. Does this give you any thoughts on the future of the media business in Finland at least in the TV? Because Viaplay is sublicensing maybe some of the sports content. Is there any possibility for you to operate in that market?

Susan Duinhoven: Yes, Viaplay is quite a different business from our TV business. If I just highlight a couple of these differences. A big part, as we understand of the free-to-air TV business exposure in Viaplay, is to the Swedish market only. In Finland free-to-air TV. The Swedish market has had quite a boom in past years. Very high price level and therefore not surprising that with a little bit of a recession, the dip there, the decline there is much heavier than the decline in the Finnish market. I think that's one of those key comparables. The other thing is that Viaplay has a B-to-C proposition with premium sports, as you indicate. We had an experience with premium sports a couple of years ago and was not a happy one in all honesty. That is a business that is very difficult to make profits on, and typically the winner of the auction is the one who is going to struggle to make a profit out of that. In that sense,

we're not surprised that it is very difficult both for Telia and Viaplay to make money out of those sports rights.

I would not like to go back into that field unless at a very different price level, and a price level where we could make a profit and we are absolutely open to it. The price levels that have been paid for those rights, in my mind, have been exactly what is underneath the issue. That is an issue I would not like to take on my shoulders. We have had our share. Let's say it that way.

Kimmo Stenvall: Then maybe on the same topic. Do you see that you can somehow make Nelonen or Ruutu more interesting to add some CapEx or add content investment there, or are you happy with the levels you are having at the moment?

Susan Duinhoven: We are making a very conscious choice not to overspend on content. If the advertising market isn't there and the price levels aren't there, we are quite hesitant to overspend. We still see in the Finnish market significant overspending. I hope that all the talk about it will at some point make the market players relook at their investment levels. I would be keen not to follow the wrong example there and to go in that flow. Now, there is always a little bit of that. We have now introduced Pluto TV, as I indicated, and I see that as a very interesting way to actually do digital advertising. It's in a linear way. It is high-quality content, but we don't really pay for it. We do a little bit of a rev share on this, but we don't need to do the cash outlay. That is for us a creative way to still gain position. I mean, 800,000 video starts. It's quite a number of minutes that you create in the market, but you do it in a very cost-efficient and very pay-for-performance type of way. That is a bit of the path we're choosing and we hope that the rest of the market will follow.

Kimmo Stenvall: Thank you.

Kaisa Uurasmaa: Next one in the middle, please.

Pia Rosquist-Heinsalmi: Hello, Pia Rosquist from Carnegie. A few questions on the Learning business. Reading your report, I'm trying to figure out how the shifts between quarters in Learning and if the Netherlands were a bit on the low side, then Belgium and Finland may be supported with some shifts. Would it be fair to say that we have a net effect or do we see a slight positive or negative?

Susan Duinhoven: I think that if you look at the slide that we had in the presentation where you see the pluses and the minuses, you're absolutely right that the Netherlands is a bit in the minus, but keep in mind that the overall organic growth is plus four percent. It's not balancing each other out. The balance is net plus and the shift element of that is not that

big. The shift in the Netherlands-- I would say the shift in Spain was last year. When you now compare it to last year, it's a bit difficult. Belgium and Finland, as we indicated, that is true because of higher than average prices. They have a sales part and deliveries that are already a little bit earlier whereas the other markets are typically only fully in Q3. I'm not envying your job to try to figure this out between shifts.

Pia Rosquist-Heinsalmi: Then the learning price hikes. You said you had seen some maybe volume impact in the supplementary part. What kind of services/products are we talking about here?

Susan Duinhoven: Supplementary can be an extra workbook for students that are excelling. They are not must haves but if schools have the room in their budget, they typically like to spend a bit on that. Other things are some methods do not always require a full method. Take, for example, social sciences. Social sciences is typically a subject where some schools use a full method. Others only take workbooks or some digital materials and some support, and others do it completely themselves with some newspaper articles and just enthusiastic social sciences teachers. There is a bit of that mix in what we expect. We don't know yet because a lot of this little bit of non-core, non-must-have is often bought in Q3 and even in Q4. Then a school sees how many students I have. What is my budget? What do I have left for the year? If, for example, they had a vacancy for six months, they have some budget left and then they might spend it on these types of extras. The question now is, has the price increased and are there other cost increases taken up that budget or will it still be there at the end of Q3?

The good thing is that as core publishers, we are typically living off the must-have subjects. The more accelerated products are typically coming from small suppliers here and there, typically switching and those type of things. This is where it's also the question of how much will we see of that in our sales versus what the market will see.

Pia Rosquist-Heinsalmi: I'm well aware that you are not guiding or commenting on 2024, but now adding the pieces to the puzzle. In your report, you talk about efficiency improvements. Given that there are changes in the curriculum in Spain next year, so you're looking for cost improvement measures, I believe, and then combining the price hikes. Can you give any color on the margin in Learning for 2024?

Susan Duinhoven: No, we're not going to do that. You expected that answer already, but you're picking out elements that are in place. Then the question is, are there counterbalances to that? We also have a curriculum. The reason why we reduce our staff to build for the new curriculum is also that the curriculum then is a little bit at its end. Take, for example, Poland. Not a lot to be expected next year. In Spain, one province is left to go onto a new curriculum. That's much more limited than this year. The compensating effects that. We also still need to fully digest this year's trends and then extrapolate to next year.

Pia Rosquist-Heinsalmi: Then finally, do you have any plans regarding the 200 million bond that is maturing early next year?

Alex Green: That matures at the end of March, as you say, next year. We're working on that and so we'll come back and talk about the plans for that at the Q3 results presentation. Given the situation, given the cost of that, given the world that we're in, we're looking at all the different options and going at it very closely to make sure that we find the right solution and we get the right funding. We were almost to say also we have great relationships with a lot of our banks, all our banks in fact. We have great relationships and so not worried about the opportunities, just the question of picking the right path.

Pia Rosquist-Heinsalmi: Thank you.

Kaisa Uurasmaa: Thank you.

Maria Wikström: Maria Wikström from SEB. A little bit of continuation on Pia's question. Thinking about Learning more about the sales terms for next year, given that the curriculum change renewal is over in Spain and Poland, and then on the other hand, you have these pricing increases. If we look at the sales line, we don't even go to the more difficult part. How should we look at 2024?

Susan Duinhoven: I think that we have been discussing in all the discussions where was appropriate, and we have been indicating also to schools and governments that it will be a two-step. The fact that we cannot recover everything in year one means that there will be a second step. That is where we are targeting that next year. There will be again an above-market or above-normal price increase on the learning side. The question remains, even for this year, what is then the volume impact of that? That creates then your net growth and there we need to take first the learnings of this year fully which we don't have yet. As I indicated, a lot of these accelerated sales are done in Q3 and Q4. Once we have seen that, then we can also estimate more closely what will happen next year. In that sense, even on the more simple top line, I need to stay. Operationally, it's not something that I don't want to say, but this is something that we will experience with the market, but we are looking at it quite positively. I think you can pick up the note.

Maria Wikström: On the balance sheet, you now indicate that the free cash flow should be more or less the same as last year, and I think you referred to the 65 million in free cash flow. If you look at the dividend payout from last year, I think that was a total of 60 million. My question is that as you are now above your own long-term target, when does the deleveraging come?

Alex Green: The leverage target. We're at 3.2 at the moment. It's expected to be pretty much on or close to the three at the end of the year. When we have an acquisition, it lifts up, and then generally the normal operations, and with the cash flow and with improving margins, it will generally start. We expect to still stay within that long-term margin, so get close to it and stay within it until the next acquisition sort of gives us that lift again.

Maria Wikström: May be a continuation of that, though, given that the last year's dividend payout equals the free cash flow you are guiding from this year. The strategy before this year was growing the learning business with acquisitions and even at the end of the year you will be at the high end of your own leverage target. When should we expect you to be able to basically get back to the strategy that you have had before?

Susan Duinhoven: I think our strategy is still in place and it's the same. We always knew that you do an acquisition and then you build down. The building is down, and I just remind you about the multiple that we paid for that Italian and German business, which was quite low. At that moment, it always creates quite a bit of enthusiasm, but already at that point, we indicated that there is a very significant separation and integration project. We did that also when we communicated the multiple. You should actually take that as almost acquisition cost, but the unfortunate thing is that it looks as if it is coming out of operational cash flow, so your free cash flow is impacted by that. Therefore, the fact that we don't deleverage this year is expected and foreseen because part of the acquisition money is the integration project that we're running. That's a sizable sum.

We are at the tail end of the Spanish one and we're now at the height of the Italian project. That is also explaining a little bit why there is so little leftover free cash flow. That is part of that still that historic acquisition. To your point of when do we come back? We assume that if there are attractive opportunities, we can go to the market. The debt market and equity market depend a bit, but if there are attractive opportunities for consolidation in K12 with strong synergies, with a good case that there is the ability to then pull the money in, that is the strategy. We always knew that we could not do large acquisition after large acquisition because we knew that the balance sheet has its limitations.

Maria Wikström: Maybe then finally on the acquisition market and what you are seeing there today. Have the prices of the targets come down, and are there more or fewer targets currently available?

Susan Duinhoven: At this moment in the learning space, not a lot of activity. There is quite a bit of activity in the tech companies that are struggling, that are making losses, that have started up and that the cost of capital goes up can't support those losses anymore. Those are companies that we always will look at, but we're not that keen on. We are focusing our view at this moment, as we indicated before, on market acquisitions with high synergies. We

see some of these targets coming to market, but not a large quantity. We have not seen larger acquisitions. We have seen in France Editis but that was part of a much bigger group that had to be sold as one package so that was not for us. There are things coming to market. The price level of which is too few and far between to really talk about the trend and very different business propositions that you could really say has the price now come down. I would not say that we are always judging DCF. For us, the acquisition is always the same but now the depreciation and the WACC have seriously gone up, so the prices will be lower than we can offer.

Maria Wikström: Thank you very much.

Kaisa Uurasmaa: Thank you.

Petri Gostowski: Petri Gostowski from Inderes. Just a few more questions on the subscription business in Media Finland. What are your thoughts on your pricing level? Do you see room to hike prices still just thinking about what we've seen on the market?

Susan Duinhoven: Yes, I think in Media Finland, as I showed in the result, we are doing very good work. I think the team is doing excellent work on the research on price elasticity to determine exactly the packaging that you need to choose. Straight price hikes, the same product upping significantly in price, I think the whole of the market, not only the media market but just the exposure consumers have had to price increases, puts it a bit at the max. Our team has been quite clever and good in packaging things in a different way, therefore giving people an option to actually pay a bit less if they really need to but stay within the product and then buy add-ons. We know that even at the moment if you take the decision, you then go a bit down. If then two months later, an interesting offer comes, you might up and up and you choose a couple of things because it's only €1 or €2 a month extra but then at the end you might still go with a higher price. That's an attractive way of pricing instead of straight price hikes. I think in the market we have now seen a bit of saturation with the straight, this product costed this and now it costs 20 percent more. There is a limit to that.

Petri Gostowski: Can you give some comments on the number of subscriptions developed going forward? Have we seen the worst in H1 or what do you expect in the second half of the year?

Susan Duinhoven: I expect this to be a little bit of a trend that is not yet at the end. Unless consumers really have more disposable income, I think this will be a bit under pressure. What we see and the good thing is that people can still switch from a more expensive one. For example, a print subscription to a less expensive digital subscription, or a digital plus weekend so that they have a bit of the mix and in that sense, economize without costing us in the bottom line. That's why you also see the variable cost decrease. I think therefore the

volume trends that we see, we expect and have included in our guidance. We definitely expect that to continue for 2023.

Petri Gostowski: Great. Thank you.

Kaisa Uurasmaa: Thank you all. If at the moment no further questions from Sanoma House, I would like to hand over to the operator, please.

Operator: If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Sami Sarkamies from Danske Bank. Please go ahead.

Sami Sarkamies: Hi, I still have a couple of questions left. Starting from the outlook for this year, what are the main reservations that you have for the second half of the year as you chose not to narrow your wide guidance range after the first half of the year?

Alex Green: The obvious one is that we are just right now in the high season of the learning business, which is a substantial part of our business. As we get through that period and see where the lie of the land is, then we'll be in a position to think about doing that. I think doing it before that period is somewhat premature given the size of the skewing of our business there.

Susan Duinhoven: Just to add to that, the advertising market still has very low visibility, and you know that the advertising market very strongly reflects in the profitability. That goes down an 80 percent level into your margin. Small variations in the advertising market development can make a bit of a difference. As Alex says, it felt not logical to know in Q2. We had also indicated that we would only narrow the range by Q3.

Sami Sarkamies: Then continuing on the full-year outlook. I think you talked about the guidance midpoint being the most likely outcome at this point even though Media Finland seems to do weaker than previously anticipated. What surprised you during Q2 when it comes to Media Finland? Why do you think this can be made up by learning?

Susan Duinhoven: It's not as much an individual surprise, but I think that where we were initially thinking that the first half might be really already at the end, seeing it bottoming out, we don't see that yet. If we then assume that it is more at this level, which is not dramatic in the first half, but if it doesn't recover in the second half, the second half is for the media business, also a sizable half of the business. This is where we say we guide it towards a third and now we're more towards the 40 percent. The feeling of comfort on the learning side is

that we see the two uncertainties that we had at the start of the year on the one hand, how would the LOMLOE in Spain go in its second phase? That has gone well. The second uncertainty was the price increases. What would the pushback and the response from the market be? There, we see an acceptance and of course no one likes it. Let's be fair about that. We see an understanding and also working with the educational publishers to make this a good way and to make sure that we can recover our cost.

Those two uncertainties are now taken away and that's why we feel comfortable that what we see as a slight lower end on the media can be recovered on the learning.

Sami Sarkamies: That's very helpful. Then moving on to the learning business. We talked about the timing shifts earlier, but maybe asking it in a different way. I think you estimated about 10 percent sales growth in Spain for the full year. Would you assume as far as growth rates are concerned for the Dutch business and for the Polish business this year?

Susan Duinhoven: That is very specific, to be honest, and that's a level of detail that I would not like to go into. I can say that the Dutch business is, if I'm correct, now showing something like a minus ten, and it will be definitely on the plus side and on the good plus side. Quite a difference. That's why I'm saying that specifically for the Dutch market. For the Polish market, we're also saying there will be good growth where the first half is only showing flat. I'll leave it at that.

Kaisa Uurasmaa: Be good to recall that the Dutch business, as we reported externally, includes the content business, but also the distribution business, which we expect to decline this year. Externally reported Dutch organic growth in some of these.

Sami Sarkamies: Any color regarding the sales level for Italy during the full year?

Susan Duinhoven: Yes. The Italian business is doing well. Not having a significant curriculum change or anything there, so rather flattish versus last year.

Sami Sarkamies: Can you remind us of the sales figure last year?

Susan Duinhoven: I'm going to do something on top of my head. Let us come back to you on that. Unless you know it by heart.

Kaisa Uurasmaa: We are 120 million for the Italian and German business in total.

Susan Duinhoven: Italian and German together. The reason why you see us asking is we

have in the Italian business, we have a business that we run as a content business ourselves and we're doing the distribution still for Pearson English language learning and that's always in the numbers, how you represent that. That's where it's a little bit in the details to answer that specifically.

Sami Sarkamies: Then finally, regarding Media Finland. Can you provide any color regarding the advertising media market outlook for the third quarter?

Susan Duinhoven: The visibility is still extremely short. Two, three weeks out is the max. What we're indicating is that we still expect a slight decline in the advertising market for the whole of the second half and therefore also for Q3.

Sami Sarkamies: Thank you. I don't have any further questions.

Operator: As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers.

Kaisa Uurasmaa: Thank you. If no further questions from the Sanoma house, we have a few from the chat. There was one on Viaplay, and I think that was already covered but then coming still back to the Spanish LOMLOE renewal. How much do we expect that is left for 24?

Susan Duinhoven: For 24, we have one province left, that is Andalusia and that is a big province. That is the one province that still needs to convert. What is our expectation? I can see the connecting question to that is the Spanish elections that have taken place last week and might be redone later this year. That might also impact that. We keep Andalusia still as something that we want to learn more about now with the political changes in the Spanish market. Because also when no curriculum change takes place, you still sell and you still sell a lot in Andalusia. It is not a dramatic yey or nay. This is why there is not yet a full answer from our end on what will be left in 2024.

Kaisa Uurasmaa: The next question relates a bit to what Sami already asked about our view on the outlook. Has something changed or not? In particular, are we now more optimistic when it comes to the pricing coming through and the Spanish learning performance or are we kind of similar compared to how we were earlier in the year?

Susan Duinhoven: I always get more optimistic when the clarity becomes greater. I think that is what we see. The fact that it comes in at or slightly above what we expected makes me quite optimistic and positive. That's maybe the tone that is picked up. Is it dramatically

different from what we said before? No, not dramatically but it is now in place, and that's always quite different from having the concept.

Alex Green: Exactly six months down is going to give us more information than before and we feel good about where we are both on the pricing, acceptance, and understanding and on where we are in Spain, particularly versus last year. We feel very good.

Kaisa Uurasmaa: Good. Thank you. At the moment, the final question is on the restructurings that we are planning in Spain and Poland. What kind of expenses are to be expected and what are the plans exactly?

Susan Duinhoven: We will come back to that in Q3. We wanted not to keep that from you because it is out in public. This is very much dependent on how the exact negotiations go with unions, with works councils in some of the territories that are already a little bit more advanced than in others. The legal circumstances are different, but be sure that it is taken into this guidance. You can also see that 2023 will hardly be impacted by this because this will only kick in with a slight delay. No impact on 2023 from what we're guiding here. It's more of a preview, and then we will come back on the specifics in Q3.

Kaisa Uurasmaa: Thank you. If no further questions, we will now conclude the event. Thank you to all participants. It was an active discussion and we wish you a nice continuation of the day.

Alex Green: Thank you.

Susan Duinhoven: Thank you.