

Sanoma's Half-year Report 2018 /transcription

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Sanoma speakers: Kaisa Uurasmaa, Susan Duinhoven and Markus Holm

Kaisa Uurasmaa

Hello ladies and gentlemen. Welcome to Sanoma's Second Quarter Results Conference. My name is Kaisa Uurasmaa, I'm heading Investor Relations at Sanoma. And today, here with me, I have the President and CEO, Susan Duinhoven; and CFO and COO, Markus Holm, who will present the results. And after the presentation, we will have a Q&A session. And we will first take questions from this room, here at Sanomatalo, and then over the phone line.

And with these short opening remarks, I will now hand over to Susan to start, please.

Susan Duinhoven

Thank you, Kaisa. Good morning everyone. We are reporting a good second quarter, supported by the phasing of the Learning business, but overall quite good growth. As you see from this first slide, all the KPIs net sales increased to 363 million; operational EBIT, 10% up to 80 million; operational EPS to 33 cents; and free cash flow -43 million, up 11 million. The key was the strong growth in the Learning business, order shifting both from Q1 into Q2, as well as from Q3 into Q2 in Belgium and Finland. And in the second quarter, we also closed the divestment of the Belgium women's magazines at the end of June, a little bit ahead of schedule. And we increased our stake, both in the Finnish news agency STT, and in Scoupy, our Dutch data-driven marketing and cashback service.

The outlook for 2018 overall is unchanged. And I think the next slide shows, very clearly, the strong improvement that you see in the Learning business in the second quarter. And as you know, phasing in the Learning business is a matter of normal business, given the fact that schools don't stick to our quarters. You see here, a 12 million uplift in EBIT in Learning. And that followed the top line growth.

If we then look at our Media business, the Media business in Finland had slightly lower EBIT, due to both lower print advertising sales – subscription sales, both in print and pay TV, a bit lower. And even though there was already a small first uptick of the festival and event business that we recently acquired, that had a positive earnings impact. The Media business in the Netherlands was overall stable. And if you look then, at other costs, they were fully in line with the second quarter of last year.

But let me, as usual, go into a bit of detail on each of the businesses. First, the Finnish business. And the Finnish business is impacted by the advertising market, so this slide summarises that. And you see that the overall advertising market in Finland decreased with 3% in the second quarter. You'll see that over the different media types, specifically impacted newspaper and magazines, while TV, radio and online were growing slightly. Overall, market -3, but what we do need to take into account is the effect of both Easter, and the elections last year. The Easter effect is the fact that Easter last year was in the second quarter, and this year's most important days for Easter, just before the Easter holiday, were in the first quarter. So, correcting for example, for the election impact on last year's result, you would see a decline of only -1%. Now, we see the online increase a little bit less than the previous quarters, that could have been caused by GDPR higher, but in all honesty, in our business, we did not see any significant impact from that introduction. We did see some switch in platforms, but switches and no decrease.

If we then look at our business specifically, we see that the Finnish business was already seeing a bit of a positive impact from the event business, the N.C.D, which has its results typically in Q2, but mostly in Q3. The net sales was overall stable, at 146 million. Advertising sales was decreased just like the print, and then specifically the magazine and pay TV subscription sales. But the number of digital subscribers increased significantly, both in Helsingin Sanomat, and in Ruutu.

If we then look at the operational EBIT that was following the top line, impacted by print advertising, that was not fully compensated by the increase that we experienced in TV, radio and online, declining print subscriptions, specifically on the magazine side, and the discontinuation of *Liiga* impacting the pay TV. As I said, positive impact already from the N.C.D. Production business, both impacting top line and earnings, and the ownership increase in the Finnish news agency, STT, happened nearly at the end of the quarter, so there is no impact from that. We increased our stake from 33 to 75%, so going forward, we will consolidate that business.

If we then go to Media in the Netherlands, solid profitability within the 18% return on sales this quarter. Net sales declined to 108, even though circulations sales – the magazine circulation sales – totally stable there. Advertising sales declined, but you need to take into account there that the Kieskeurig.nl, the comparison site that we sold at the end of the second quarter last year, generated all its revenue as advertising. So divesting that explains a big part of the decline in the advertising sales. The

other sales, where the event business in the Netherlands is included in, declined as well. And that by discontinuing one event, and a smaller event was moved from Spring to Autumn. The operational EBIT decreased only slightly, due to the impact of the lower net sales. But there were main benefits from streamlining the organisation last year, following the divestment of SBS, and the continuous cost innovations that impact the fixed cost in a good way.

As said, we increased the ownership of the well-performing Scoupy service, the data-driven marketing and cashback services, specifically targeted for the FMCG. We increased our stake to 95%, and the divestment of the Belgium women's magazines at the end of June, a little bit ahead of schedule. So overall, also in the Netherlands, a good second quarter. And Learning had an exceptionally strong quarter. But that was mainly supported by the phasing of the business. As you remember, in the first quarter we had slightly lower sales. We were waiting for Spring orders that were just around the Easter holidays in the Netherlands. They moved into the second quarter, and a little bit to our surprise, certain orders from the third quarter moved into the second quarter in Belgium and in Finland. Operational EBIT improved even more than the top line. So top line increased by 10 million, and the operational EBIT by 12, showing both, you know, a very good flow through from that additional revenue, and some moving in – movement in cost between the quarters.

Overall, with that, the outlook for 2018 remains unchanged. As we said before, consolidated net sales adjusted for structural changes will decline slightly, and be slightly below 2017. And operational EBIT margin will be around 14%. And that is, of course, assuming that consumer confidence and advertising markets continue to behave in a similar way as 2017. And it's good, maybe at this point, to summarise, when you look at the other two halves of the year, that you will see that SMF had a slightly weaker first half last year, but will have a much stronger second half of the year, compared to 2017. And Learning will be the other way around, where the first half of the year was stronger, and the second half of the year will be slightly weaker compared to last year. Because of course, last year if you remember, third quarter, Polish business increased very significant, due to the two overlapping curriculum transformations in that market.

So with that, I would like to hand over, for some more financial details, to Markus.

Markus Holm

Thank you, Susan. I'll start by analysing the profitability of the business units. Overall, in the quarter, we saw a 7 million improvement in EBIT. And – by business units, this means that in Finland, we saw some headwind. The profitability was down by 4 million. We had already a positive contribution from the acquired festival and events business, N.C.D. Production, that contributed roughly a million to the result. Then, the headwinds were soft print advertising sales that continued in the quarter, roughly 2-3 million negative effect in the quarter. We also saw some decline in print subscriptions, in magazines especially, and then the discontinuation of *Liiga* subscriptions had some effect as well. Also, some negative effects of cost phasing in this quarter. So, the advertising sales, 2-3 million negative, I said, the subscriptions, *Liiga*, in total some 2 million negative.

Media Netherlands, they had a lower fixed cost, due to the streamlined operations post-divestment, and the strong performance of Scoupy contributed positively by roughly 2 million. Negative – advertising sales and divestment of Kieskeurig in June 2017 had a negative impact of roughly 3 million. In Learning, the shift of orders – in total, the shift of orders from quarter one to quarter two, and also the quarter three to quarter two – they had a roughly 10 million impact. So from the sales, roughly 10 million impact on the total 12 million positive. The rest is explained by some positive effects from costs, and cost phasing.

And as we've indicated earlier, the quarterly phasing is different this year, compared to 2017. In Media Finland, we see more weight on the second half, due to the discontinuation of the loss-making *Liiga* contract; higher marketing development, TV programming costs that we had in quarter four 2017; and then, the fact that the N.C.D. acquisition there – quarter three will be the largest quarter in – due to the seasonality. Also the positive one-off correction of 4 million in quarter one 2017 has to be kept in mind.

In Learning – repeated several times, but the shifts of the orders has an impact when analysing the first half to the second half. And I want to repeat also, that the third quarter last year was exceptionally strong, due to simultaneous curriculum reforms in Poland. And that strong sales, we don't expect to be repeated in the third quarter this year. And overall, a solid first half, with operational EBIT of 88 million, pretty well in line with our own expectations.

Over to free cash flow, which continued on a good level. The free cash flow improved by 10 million in the first half, mainly explained by lower net financial items, offset to some extent by higher taxes as a result of the real estate we sold in the fourth quarter 2017. There were also some positive working capital effects across the businesses. The divestment of the Belgian women's portfolio was completed, and the cash consideration of this 24 million is received in parts. And that is shown in our cash flow from investments. The restructuring and transaction costs of 80 million in total will be paid out in the second half 2018, and that is shown in cash flow from operations. It's important to notice that for the dividend calculation, the items related to the divestment will be excluded from the free cash flow. We also booked an item affecting comparability of 11 million, related to the vacated office space in Belgium. This is not affecting the 2018 cash flow.

Over to net debt, it was substantially lower compared to 2017, a net debt at 473 million, compared to 847 million in 2017. And net debt to adjusted EBITDA at 2.1, compared to 3.6 a year ago. Equity ratio at 36.6 compared to 28.8. The financial items, net financial items were 6 million in the quarter, compared to 5 million in the comparable period. And in the first half, our net financial items were at 9 million, compared to 11 million. These are explained by lower external debts, the repayment of the 200 million bond, which had a 5% coupon rate in March 2017. And there was also a revaluation of the remaining 5% ownership in Scoupy, a put option that we have there, which we revalued in the second quarter, which is shown in the other financial items. Average interest rate continues on a good level, at 2.4%.

And finally, I want to just remind you that our quarter three financials will be published on the 24th of October. Thank you.

Q&A

Kaisa Uurasmaa

Thank you, Susan. Thank you, Markus. We will now open the Q&A here at Sanomatalo. Please wait for the microphone before you ask your question.

Okay, maybe we start with Matti, please.

Matti Riikonen

Hi, it's Matti Riikonen from Carnegie. A couple of housekeeping questions. First of all, the N.C.D. acquisition that you made, and it's already contributing, could you just refresh our memory, how does the seasonality go? You mentioned that Q3 is obviously the strongest, but how strong? So, could you give some indication of a rough split, how you expect the seasonality to go? And what was the impact in Q2?

Markus Holm

Yes, I would say – so the N.C.D. impact was a positive 1 million, roughly, on the second quarter, and the split is roughly 70-30 for the third quarter.

Matti Riikonen

So, 70-30 for the third quarter, meaning?

Markus Holm

Meaning that the third quarter will be clearly better than the second quarter.

Matti Riikonen

Oh, all right – sorry, so –

Markus Holm

The second quarter in N.C.D was positive 1 million and it will be clearly higher in the third quarter results in N.C.D.

Matti Riikonen

Yeah. But is it possible to give the percentages for each quarter roughly?

Markus Holm

This business is really concentrated on the third – or the second and third quarters. So that's all.

Matti Riikonen

And there is basically no revenue or profit or no revenue and cost will be there in Q1 and then Q4?

Markus Holm

Not any significant impact no, on the first and fourth quarters.

Susan Duinhoven

So, a little bit of coupon cost and all these costs are completely variable. So in that sense it operates quite different from Learning business where the Learning business, of course, you do a lot of preparation and all your costs are really made in Q1 and Q4. Event business is much more with freelance stuff that is raised at that point for that event and then the next event is at a

different place and again with staff and materials all centred around that event. So there is some overhead cost in the other quarters linked.

Matti Riikonen

Sure. And then on the top line side, it's basically the same split as in EBIT?

Markus Holm

Yes.

Matti Riikonen

Then finally the Liiga numbers now. We saw some negative impact in Q1 but it should be clearly more positive in Q3 and Q4. So also for that, could you refresh our memory how did it go?

Markus Holm

Yes, the significant part of this and which we have communicated earlier is that write-off that has been done in quarter three that negative 6 million that we won't have this year obviously. There was a small impact in the second quarter from the Ruutu subscriptions due to the decline now related to Liiga. So those are the impacts.

Matti Riikonen

All right, fair enough. Thank you.

Kaisa Uurasmaa

Okay. Then the next question, Sami, please.

Sami Sarkamies

Okay, thanks. I will continue on Media Finland. In Q2, there was 5% drop in subscription revenues. This have been more stable in the past 1% to 2% decline. So, what happened in Q2 and will this continue throughout the rest of the year?

Susan Duinhoven

We think in Q2 a bit of a step down on specifically on the magazine, which is normally quite stable. It is not foreseen that it will continue at this same pace but at the same time we also don't think it will disappear completely, the decline. So, we see in that sense a difference between Finland and the Dutch business. Well, in the Dutch business, it's very stable, and in Finnish business and we understand that also to be a market trend, that magazine circulation is a bit more down than also we had anticipated because with an economy going well, typically these are the type of products that do well.

So, we are working on that and looking into that but as we were taking it for ourselves, we are taking it in that it will continue a bit into Q3 and Q4 as well.

Sami Sarkamies

Okay. And then second question regarding the first half development and at Media Finland, I think you saw €5 million drop in sales but then EBIT came down €10 million. There was this €4 million one-off in Q1 but still you had sort of the same cost structure as last year even though top line is coming down. What is the reason for this? You are talking about lower cost in Q4. So, is there like different phasing of costs between the quarters this year?

Susan Duinhoven

Yes, there is. And that is also project related. In Q4 last year it was project related. Now this is also project related. But there are some cost that you are making in one quarter doesn't necessarily repeat itself. So, that's why we're indicating quite clearly that the second half for SMF will be significantly better.

Sami Sarkamies

Okay. And then finally on Learning, I think you said that there was some phasing of cost between the quarters. I guess this was positive in Q2. So, can you be a bit more specific on what the amount was and –

Markus Holm

Yeah, of the €12 million improvement, roughly €2 million was explained by costs year-on-year.

Sami Sarkamies

And this is cost away from what was booked in the second half of the year or –

Markus Holm

So, it is both cost savings and some improvement also compared to last year in the second quarter.

Sami Sarkamies

Okay, thanks.

Kaisa Uurasmaa

Thank you, Sami. Maybe we take this side now.

Noora Penttinen

Hi. My name is Noora Penttinen, I'm from the news agency Startel. I read your press release and you talked about new acquisitions potentially in the future. So, I am interested in what kinds of acquisitions and for example like what's the direction now. You've sold the Belgium business. So, like geographically where and also like you just brought the events business. So what type of business, so where is the focus?

Susan Duinhoven

Yeah. I think what we explained a bit in more detail on the Capital Markets Day is that we are looking into businesses that has a good synergy with our existing business and if you look for example at the event business in Finland that has the synergies through music business in both TV and radio where we're sort of expanding the opportunities also for artists to go from, let's say, the TV and radio shows into the festivals. So we're looking at synergistic acquisitions focused around also our customers. It can be advertising customers like in the Netherlands, the increase in share in Scoupy. In Learning, you see acquisitions like De Boeck type of acquisition small Belgium company that we bought two years ago.

So what we're looking for is acquisitions that add to the existing business that have a good linking point; geographic expansion in media is very unlikely that is not what we're aiming for. Geographic expansion in Learning could be the case.

Kaisa Uurasmaa

Okay, thank you. Then the next question.

Panu Laitinmäki

Thank you. Panu Laitinmäki from Danske Bank. I would have three questions. Still going back to Media Finland, you are guiding the second half to be better. My question is we know the two drivers the acquisition and the TV rights but what about underlying developments? Should we assume that it continues like in the first half with kind of organic growth and EBIT down or do you see a change in that?

Markus Holm

I wouldn't expect any big changes in the underlying this more or less this shift. So the Liiga as you said, the marketing development, programming cost had an impact on quarter four last year which were not repeat. And then the N.C.D. as mentioned. So really mainly those that it's centred around.

Panu Laitinmäki

Thank you. And then secondly on Learning. Could you give more colour on what kind of growth rates or declines for Poland to expect for the second half. So how much is the weaker second half compared to last year that you are kind of guiding?

Markus Holm

Without giving any exact numbers here, of course we still have the third quarter ahead of us but third quarter mainly you can see that the improvement that we had in Poland in Learning. It's mainly Poland regarding, and there it will be clearly lower compared to last year.

Panu Laitinmäki

Okay, thanks. And the final question is on this EBIT shifts between second half and the first half. I think after Q1, you gave a number of €15 million to €20 million moving from first to second half. I was wondering if that number has changed due to these timings in the Learning because it's no longer given?

Markus Holm

Yes, well, we repeated it here in the numbers. The shift in Learning is now smaller. So there is not the impact, but still in Media Finland we have it. And in Learning the new thing was of course the earlier sales from the quarter three to quarter two, which was roughly €3 million. So in Finland are the remaining, say, changes.

Panu Laitinmäki

Thank you.

Kaisa Uurasmaa

Thank you. Next question here.

Kimmo Stenvall

Yes, it's Kimmo Stenvall from OP Corporate Bank. I have couple of question. First on Sanoma Media Finland. The Helsingin Sanomat subscription growth has turned in couple of quarters or years ago. Is that to continue or is there any changes in the trends you see in Q2?

Susan Duinhoven

Q2 again showed increase year-on-year around 1% in total subscriptions for Helsingin Sanomat. So that is combination of print and digital.

Kimmo Stenvall

Okay, thank you. Then on little bit longer-term question on the TV business. We saw Telia acquiring the Bonnier Broadcasting. So what is your first take on – if this M&A goes through, what is the first take on the media market or the TV market in Finland?

Susan Duinhoven

Yeah, it's hard to say at this moment in time. The deal itself is indicated to be closed only by end of '19. So we don't expect in the short term many changes. If this has a significant change in the dynamic from that moment on, we'll follow it very closely. But I think that's the TV business in and of itself, which is an advertising business and in contrast to, for example, the VOD business like Liiga. This is an advertising business, the free-to-air business, so it has a quite different dynamic.

Kimmo Stenvall

Okay, thank you.

Kaisa Uurasmaa

Thank you. And the next question, Matti please.

Matti Riikonen

Matti Riikonen, Carnegie again. The GDPR change caused some commotion in the kind of online at buying, and now after couple of weeks of July of course, it's a quiet time of the year. But would you say that the online buying has become more normal now and basically everything is running as expected or as more or less before GDPR or has it changed something in a more permanent nature?

Susan Duinhoven

I think it is a fair assessment. I must say that also the changes that happened around the introduction of GDPR, I think it was more like expected that yes, some platforms were a bit late with getting the approvals and therefore advertisers had to switch platform. I think there will be some longer term impact that the very diverse landscape of bigger and smaller players in that field. That might consolidate a bit. But other than that I'm with you that this is now back to business as normal.

Matti Riikonen

Okay, thank you.

Kaisa Uurasmaa

Thank you. Do we have any more questions? Yes.

Petri Aho

Petri Aho from Inderes. The advertising sales in Finland especially continued to decline quite heavily. What are the actions that you are making to sort of mitigate this decline?

Susan Duinhoven

Yeah, we have a strong actions I think in place, at least the strongest possible. We have done in the last couple of months two things. One is we have streamlined our processes and systems, because remind yourself that we are coming actually from three, four different business units each with a long system landscape. So we have integrated that, and we'll start seeing the benefits from that.

But we have also oriented our sales teams more towards the customers that working with account teams, that fully work on one customer. So where there is one end responsible for all the media types, and then specialists are in the team to assist, let's say, that key account manager with the medium individual sort of requirement, because selling magazine or selling TV is quite a different skill set. But those two things we assume to start paying off in the coming quarters. But it is a declining market. So we're not thinking that we will change the market landscape totally but it is I think catering more and more towards the customer needs that we're focusing on. But one of these bigger projects that you also saw in the cost structure in SMF was actually the sales system integration.

Petri Aho

Good. You said that you were – so the first half went according to your expectation. Was there any deviation from your expectations in Finland or was that also – I mean, the market was as expected?

Susan Duinhoven

The market was as expected and we have indicated in the start of the year as well that we expected to continuing slight minus in the quarters in the advertising market. I think the one exception that we just highlighted was a little bit on the print magazine subscription. That was the only one where you see that was a little bit other than expectations. But rest of it as expected and that also reflects in the sort of the overall outlook being the same for the full-year.

Petri Aho

About the events business acquisitions, you have now had the business near books, like, for few months. How do you see it going forward and how has the integration progressing?

Susan Duinhoven

Yeah, the integration is progressing very fast because given the fact that this is events, so event-by-event type of business, we have integrated our own events into the organisation. So that integration is seamless and we have, as you know, acquired additional events in this sort of area. So, we're seeing that as a very good business and weather permitting this is also – would be a nice start for the third quarter.

Petri Aho

Thank you.

Kaisa Uurasmaa

Thank you. If there are no further questions from the room, I will now hand over to the operator if we have questions over the phone line.

Operator

Thank you. Ladies and gentlemen, if you do have an audio question for the speakers, please press 01 on your telephone keypad now to register for a question. So once again that is 01 on your telephone keypad if you would like to register for an audio question for our speakers. There will be a brief pause whilst any questions are being registered. And since there are no audio questions registered, I now hand back to the speakers in the room.

Kaisa Uurasmaa

Okay. Thank you. With this, we conclude the conference. Thank you for all for participating and have a nice summer day. Thank you.