Transcription
Sanoma Q1 2024 Interim Report

Kaisa Uurasmaa:
Good morning, all, and welcome to Sanoma's First Quarter 2024 Results Presentation. My name is Kaisa Uurasmaa. I'm heading Investor Relations and Sustainability at Sanoma. Our performance improved during the first quarter, which is seasonally small in the Learning business. And we have the President and CEO, Rob Kolkman; and CFO, Alex Green, here today to tell you more about the quarter.

After the presentation, we will have a Q&A session. We will first take questions from here at Sanoma House. Please wait for the microphone. And, after that, we will hand over to the telephone line. You can also use the chat function in the webcast platform for questions. And this event, including the Q&A session, will be recorded, and the recording will become available on our website shortly after the end of the event.

With this short welcome, I would like to hand over to Rob to start the presentation. Please.

Rob Kolkman:
Thank you, and good morning, everyone. It's my pleasure to present the quarter one results for this year and give some more color to the performance of both businesses. Let me start by looking at the overall performance, which really was driven by operational improvements across both businesses, clearly, in a seasonally small quarter. And that's also particularly, of course, true on the Learning side.

If you look at what's driving the 5% organic growth, then that is very much also driven by Learning, partly as a result of the earlier ordering, and I'll touch on that in a minute as well. And solid, stable performance on the sales side in Media Finland. That, of course, has its impact in a positive way on the operational EBIT. And, there, you also see that there are lower operating expenses, especially on the paper side in both businesses; and higher sales, of course, in Learning has that impact as well. All that works its way through to the cash flow as well, driven by the higher earnings again, but also the continuous active working capital management, and Alex will touch on that later as well.

Result of that leaves us with a leverage, now improved to 2.9, which, as you know, that meets our long-term target level of below 3.0. Also, our efficiency program, Solar, continues to be on track. A lot of actions being taken there, and I'll touch on a few in a minute, too. It's been a good start to the year. At the same time, it's, of course always important to realize this is a small quarter for us. So, that's also why the outlook is unchanged because the key elements there are around the economy in Finland, but also the lower curriculum cycle in Spain is, of course, still having its impact more in quarter two -- quarter three and quarter four, so in the second half of the year than necessarily now. So, let me zoom in first on Learning and then on Media Finland.

If you look at the Learning side, then you saw the net sales grow in most of our markets, and there is some early ordering here to highlight most notably in the Netherlands and also in Belgium. And that's, of course, very much how this business can work in the small quarters. You can have some earlier ordering, but also likewise some late delivery of order. So, between quarter one and quarter two, you can always see that and you can also see it even from quarter two to quarter three. So, that's always a bit to keep in mind on the Learning side.

The other point here to notice, of course, that in the like-for-like comparison with last year, we now have the divestment of Stark flowing through the numbers, which has a minus €4 million impact on the net sales in the first quarter. And for the full year, we'll have an impact of about €14 million. If we then look at the operational EBIT, which is, of course, driven by the season, a negative one, but an improved performance there, again, driven by the higher net sales, but also continuous cost management, very active cost management. And also paper and printing in Learning as well, of course, is at a lower level now than it was last year.

If you look at the full-year margin expectation, you now see it in quarter one go to the 19.3%. We really expect that to come back down to around last year's number of 18.7% for the full year, and that's partly driven by these fluctuations between quarters. But underlying, we expect that one to be relatively stable for the full year. And a key component to mention here is if you look at Spain performance, that is slightly better now in quarter one compared to last year. It's a very small quarter, but it is driven by the fact that there is still some positive effect from last year's curriculum change also in quarter one. That will not be the case in quarter three where you will really see at the lower end of the cycle happening. So, that's also why we see the percentage being roughly the same compared to last year for the full year.

Let's now zoom in a little bit on Solar and the performance there and the continued performance there. If you look at all the actions we've taken and the impact on our run rates for 2026 savings, we are slightly ahead of our planning, but very much reconfirm that for the full year, the 80% of run rate savings with all the actions we take will have taken place. And you see still a lot of that happening in the second half of the year, which is true for all the core components, but especially also around organizational optimization and the harmonizing of our digital platforms. Those are, of course, continuing to take place and also, again, significantly in the second half of next year. So, that 80% is still very much where we see that being towards the end of the year with some phasing between the quarters.

On the four streams, we see good continued performance. So, that's on the organizational optimization, especially the effects of Spain and Poland. But also if you look at the publishing process improvements and especially the harmonization of our digital platforms. So, that continued move to lower-cost countries, center of excellences, tech hubs in Poland and Spain is nothing new. But the execution of it is continuing to perform well, which is, of course, important for our longer-term profitability. And then also on the other optimizations, you see good continued progress there.

Let me now go to the Media part. And in Media, we saw the net sales being around €140 million compared to €142 million last year. There, the trends very much continue. So, the digital growth is very much continuing there, offsetting the decline in print advertising in particular. If you look at the cost side, then we very much, of course, see the lower paper costs now having a significant impact, relatively speaking, in this quarter, both price and volume. And that is the real driver behind the improved operational EBIT that you see here.

It's good to highlight that, that, of course, in a year-on-year comparison is more significant in the first half of the year than in the second half. In other words, the pricing of paper has come down already in the second half of last year, and Alex will touch on that a bit as well.

If you look at the advertising sales, that trend, as I mentioned, is just continuing also in line with our expectations. On the subscription side, we see continued good growth in digital, especially Ruutu+, which is now, for the first time, above 370,000 subscribers. And also here, it's good to highlight that on the sales side, the impact of the portfolio changes, most notably also Netwheels is €3 million negative for the quarter, and we expect that to be €16 million for the full year. And on the operational EBIT, I mentioned the core components already around the paper, but also the continued growth in digital subscription, of course, has that longer-term positive effect if that continues.

And a few words on the outlook, which is unchanged. And that has all to do with the fact that the core drivers there in both businesses, we continue to look at in a similar way as we did for the full-year guidance, which is the advertising market in Finland to decline slightly for the full year. And that's still our expectation and that is, of course, on the back of the Finnish economy also being relatively stable and not much better performance. And the same applies for the economies of the other operating countries. And then specifically on the Learning side, as I highlighted already, in quarter three, you really will see the flow-through of the lower curriculum in Spain, which is driving also part of this outlook.

So, with that said, I would like to hand over to Alex to dive a bit more into the financials.

Alex Green:
Thank you, Rob, and great to be with you here this morning for the Q1 presentation. So, let's go into the financials, starting with the Q1 operational EBIT numbers and the improvement versus last year. And there's a lot of timing impacts in this. So, if we look at Learning first, higher net sales with earlier ordering with, particularly in the Netherlands, about €3 million of sales coming in from April into Q1, which flows down to the bottom line. And that, together with continued active cost management and some lower paper and printing costs, led to the €6 million improvement in Learning.

In Media Finland, the key driver here was the lower paper costs, which was €3 million lower year-on-year, of which about two-thirds of that has to do with the price because the prices were still high in Q1 last year and a third to do with volumes. And so, as Rob mentioned, that the prices kind of came down through last year, so that impact year-on-year will be front loaded to Q1 and a bit in Q2 as well. That, together with growth in digital subscription sales and particularly Ruutu+ March year-on-year, was 29% increase in subscriptions and Ruutu+.

So, that had a positive impact, offsetting some lower external printing sales to get to a €3 million improvement in EBIT for Media Finland.

And the other and elimination line, some higher personnel and technology costs came in to show this delta. Now, this is relatively normal at this time of the year. It's a timing thing across the year, and it includes some long-term incentive bookings as well. Overall, full year, the other and eliminations will be a similar level to last year, so around €13 million.

Now, we've added an extra slide and going forward to expand on the P&L to go from the operational EBIT down to the results for the period. Obviously, this information in the -- fully in the interim report. So, you can see here on the topline there, the IACs. IAC is a small quarter for IACs and, in fact, the number is positive at €1.5 million because we had a €5 million capital gain related to the Netwheels divestment. So, if you take that out, relatively similar as last year, so not a large IAC quarter. And as you saw on the Solar slide with the increase to 80% for 2024, that will connect with some higher IAC bookings, as we've mentioned before, in the second half of the year.

Net financial items, relatively stable. Big part of that is interest due and interest paid. Going forward, full-year 2024 will be impacted by the repayment of the two -- of the low cost, low coupon rate €200 million bond, which we repaid in March 2024. So, going forward -- and we refinanced that with a €100 million term loan and through commercial papers, going forward, expect this line to be about €2 million-plus every quarter due to the fact that the current interest rates are higher than when we have that bond. So, that will increase going forward. And then you can see the result for the period just flows through from the operational EBIT improvement and from the capital gain on Netwheels

Looking at leverage, improved year-on-year. So, net debt down €694 million, so lower year-on-year, slightly higher than the year-end, obviously due to the investment nature of Q1 and the negative cash flow. But we're at 2.9 leverage below our long-term target of 3. Equity ratio at 42%. As I mentioned, the bond was paid back in March and average interest rates at 4.3 versus 2.9 last year. That will go up for the second -- for the remainder of the year due to the nature of the funding.

And then, finally, on free cash flow, improved from minus €68 million to minus €44 million year-on-year. Two big parts of that are the flow-through of operating results with EBITDA being €9 million positive year-on-year and another €9 million coming from active working capital management, which is primarily the optimization of inventory levels. So, a lot of the good work we did last year to improve our operational cash flows happened after Q1. And so, year-on-year we do see that improvement together with, in the quarter, slightly lower investments with some timing of TV investments being earlier versus last year and also an offset by the higher interest paid. So, that kind of adds up to the improvement for the quarter.

I look at full year, free cash flow is expected to be at similar levels than 2023 with the lower investments because we don't have a large curriculum cycle and the improved working cash management being offset by higher interest paid. And we also still do have the Solar IACs coming in on the back half of the year, like we did last year. So, net-net, overall, roughly the same place for free cash flow in 2024 and improving thereafter.

So, that concludes the presentation, so I'll move -- we'll move to Q&A.

Kaisa Uurasmaa: Thank you, Alex. Thank you, Rob. And we are now ready to take questions. We will start from here at Sanoma House. Please, on the -- from there.

Nikko Ruokokangas: Nikko Ruokangas from SEB. Thank you for the presentation. I have couple of questions and maybe starting on Learning, which improved year-on-year, but you discussed some factors such as early ordering, supporting the demand. So, did Learning go as you planned before the Q1? And then continuing on that that you say that you have not changed the outlook, given that Q1 is seasonally small, so is that due to that you cannot extrapolate the performance yet as it's too early or that you expect the negative effects to come still that you know will come?

Rob Kolkman: Yeah. With regard to that last point, that's very much the case. The negative effects of Spain that I mentioned is really a quarter three impact. And also, if you think on the revenue side, the decisions we are taking around Iddink and having less of the low-margin contracts is also much more a quarter three impact. So, that's why we are trying to highlight, yes, it has been a good start to the year. Always good to see it. But it is in a small quarter and it's not something you can extrapolate to the other quarters.

Nikko Ruokokangas: I understand. Then, on Solar, so you mentioned that you are a bit above on a run rate -- expected run rate so far, but how much was this already visible in your numbers and how much does this expand?

Alex Green: So -- and just to refocus on that graph, the graph is talking about the actions and the decisions taken to secure the margin improvements in 2026. And so, we've -- we're going up that curve. We're pleased with the progress we've made, but it's all about impacts in 2026. And so, getting to 80% of everything secured by the end of this year is key to securing that margin. Now, as we've talked about before, the impacts of what we're doing is going to be spread over time, partly because part of it's about unit cost reduction in Learning, so that gets full effect when the volumes go up in 2026. And it's partly about a lot of the reorganizations post-large curriculum renewals is about reducing the size of teams, a lot of which was cap -- a lot of that cost of which was capitalized and depreciated over time. So, as we get those actions, the impact will be later. Now, we will see some possibly impacts later in the year. But the majority, it's about securing 2026 margin.

Nikko Ruokokangas: All right. I understand. Then, one on Media Finland, and it looks like you performed better than the advertising market overall. So, was this explained by your shares mix or do you think that you have improved your competitive position?

Rob Kolkman: Yeah. Maybe a couple of comments on that one. If you compare it with last year, for example, the TV, we had lost some market share. We also see a little bit of a bounce back there. So, that is an element where if you look at it over the longer period, not much change. But compared to last year, a bit better. Besides that, the trends are really continuing as we expected, which is that digital growth and then, of course, offset with the print decline.

Nikko Ruokokangas: All right. Thanks. That's all from me.

Kaisa Uurasmaa: Thank you. If we continue with Sami, please.

Sami Sarkamies: Okay. Thanks. Sami Sarkamies, Danske Bank, I have questions related to topics starting from costs. If we look at Q1, you benefited from lower paper costs. How much was this at both segments and what is the outlook for the rest of the year on paper costs?

Alex Green: So, in -- so for Q1, in SMF, there was €3 million lower paper costs, of which two-thirds was price and a third volume. And in Learning, it was smaller, so lower than a €1 million. From a full-year basis, in SMF, we expect that to be a little under €10 million for the full year and front loaded. And in Learning, it will be somewhere between €5 million and €10 million, depending on the volumes that we see through the year.

Sami Sarkamies: Okay. Thanks. And then, secondly, if we think about other costs, how much lower were these in Q1 and what is the outlook for the rest of the year? Will you be seeing lower costs also for the rest of the year, if you think about, for example, personnel costs?

Alex Green: So, in personnel costs, so full-year basis, personnel costs will be slightly higher because even though we have less people and we take into account the divestments, we do see the salary inflation coming in, which is offsetting that. So, we'll end up with slightly higher costs. In Q1, we -- Q1 last year didn't have the most of the salary increases tend to come, in a lot of cases, Q2 onwards. And so, in Q1, there was more of an increase, but it sort of balances out a bit lower in the full year. So, it's not a big increase, but it's an increase still because of the salary inflation.

Sami Sarkamies: Okay. And then, finally, can you still recap headwinds from the Netwheels divestment in Q1 and for the full year in terms of net sales and EBIT?

Alex Green: So, net sales, it was €4 million in Q1 and €14 million sales for the full year with relatively small...

Kaisa Uurasmaa: Yeah. That's Stark.

Alex Green: Sorry. Okay. My apologies. That's Stark. Netwheels...

Kaisa Uurasmaa: Netwheels, €8 million 2023 net sales. So, we saw a bit less than €2 million now in Q1, and we'll see a similar impact during the rest of the quarters. On the EBIT, it was above the Media Finland spend of average EBIT margin, but we don't comment on that more specific.

Rob Kolkman: Maybe to highlight what I showed on the slide is for the full impact of the divestments that have taken place in Media over the last 12 months. So, there's a bit more impact there.

Alex Green: Apologies for mixing up my divestments.

Sami Sarkamies: Okay. Thanks.

Kaisa Uurasmaa: Yeah. Pia, please.

Pia Rosqvist-Heinsalmi: Hi. Pia Rosqvist from Carnegie. Regarding the paper and printing cost, just to make it clear, we don't -- you don't see any impacts from the Solar program. So, these paper -- declining paper and printing costs are really related to the pricing in the market and the volumes?

Rob Kolkman: At this stage, yes. If you think about the Solar program activities that we do, then, of course, going forward, there are elements that will also have an impact on paper and printing. But if you purely look at this year, the majority of it is really driven by the pricing and then, of course, the volumes, particularly in quarter three .

Pia Rosqvist-Heinsalmi: Good. Thank you. Then, regarding price hikes, you mentioned that in the report as well. So, what kind of early indications do you see now in Learning? And also in Media Finland, where are you able to raise prices?

Rob Kolkman: Yes, let's tackle them one by one. On the Learning side, we expect 2024 to be another year of above average price increases. If you recall, it was around 5%, 6% last year, probably more towards the 6% at the end of the day. And, now, it's more around, we expect, the 4%, 4%, 5%, which is in line with how we plan to do it to also recover on the margins over the few years. So, I think that's still happening. If you think about Learning and how that works, then, of course, the prices for the materials have been set. It's now all about the sales, and you will then see that reflected, of course, in revenue in quarter three in particular. So, that's on the Learning side.

On the Media side, of course, it's a very diverse picture. We are doing that very considerate. Last year, I think, on average, it was between 5% and 10%, and we continue to work on that as well now. But it is really difficult to pinpoint that on a percentage because it really depends on what are we doing specifically on, let's say, Ruutu+, what are we doing on our newspapers, etcetera. But we continue to look at that in a considerate way.

Pia Rosqvist-Heinsalmi: Thank you. Then, finally, on Learning. Still, you guide for relatively stable EBIT margin. Can you highlight the upside and the downside risks to this guidance?

Rob Kolkman: Yes. So, if you look at the Learning side, I think the ongoing improvements that we are making is, of course, one that is on the upside. The key one on Learning for this year that is on the downside is the lower cycle in Spain because that is, of course, good margin revenue that, particularly in quarter three, you will see significantly less of, which is as expected, but has, of course, an impact. So, if you then underneath look at it and take into account that we do stop some of the Iddink low-margin contracts, then you see why the combination of all that is around that similar margin, clearly with some uncertainty for the full year.

Pia Rosqvist-Heinsalmi: Thank you.

Kaisa Uurasmaa: Thank you. Please, Sanna, continue.

Sanna Perälä: Hi. Sanna Perälä from Nordea. I had one question regarding Media Finland. It was a solid result in that segment. Should this be interpreted that this is a like permanent level of improvement in that segment?

Rob Kolkman: So, maybe two comments on that. If you look at the topline side, then you see that continuing transition where digital is offsetting, in a positive way, the decline on the print side, right? I think that is a trend that will continue. On the profitability side, it is important to highlight, like Alex also did, that the positive impact of paper is much more significant now in quarter one than it will be in the second half of the year. So, in that way, no, you can't just extrapolate that.

Sanna Perälä: Okay. Thank you. Then, regarding Media Finland, and you mentioned the discontinued contracts in Netherlands. How big was that impact in Q1 or was it visible in this quarter?

Rob Kolkman: No. On the contracts, it's very limited, visible because the contracts that we stop are ones that mostly were delivering in quarter three. So, you will see that impact really in quarter three.

Sanna Perälä: Thank you.

Kaisa Uurasmaa: Thank you. Are there further questions from the audience? Let's send them out. If not, I would like to remind you -- sorry. Yes, Nikko, please.

Nikko Ruokangas: Yes. Nikko Ruokangas from SEB. One quick add-on question. So, related to the Learning, you mentioned that you benefited from early ordering. So, how big was this impact in Q1?

Alex Green: So, the big part was €3 million coming in from Q2 to Q1 in the Netherlands.

Nikko Ruokangas: Thank you.

Kaisa Uurasmaa: Thank you. And, yes, I would like to remind you that you can use the chat function on the webcast. But, now, meanwhile, we will hand over to the telephone line for questions.

Operator: There are no questions at this time, so I hand the conference back to the speakers.

Kaisa Uurasmaa: Thank you. And we do have some questions from the chat, so let's continue with them. Maybe one related to the advertising sales in Q1. What were the drivers behind the outperformance in our sales versus the market?

Rob Kolkman: Yes. I think there is that element that I mentioned earlier around the TV side where we did see a bit of a drop in market share that we mostly picked back up in quarter one this year. So, that's one of the ones. And then besides that, it was also just solid performance across the other elements, particularly on the digital side.

Kaisa Uurasmaa: Very good. If I continue with the advertising, although this is a bit from a different angle, but a question related to the potential upcoming regulatory change related to gambling advertising in Finland. What is the expected timeline for that and how could that impact our business?

Rob Kolkman: I think it's still towards 2026, if I remember correctly. Obviously, that could have a positive impact on our business, but it very much depends on how that roll-out will take place, what the regulations are around that, and that is still very much something that is not as clear. So, it's difficult to predict what the exact impact will be. But it is, of course, a sizable market at the moment. A bit too early to say exactly what the opportunity is.

Kaisa Uurasmaa: Yeah. Exactly. And I think that we will need to wait until next year before we know it -- more about it, and the legislation will start to take place. Okay. Moving to the cost side or coming back to the cost side, on the paper costs still, should we expect that the lower paper cost impact would be similar size in Q2 as it was now in Q1? And I think that this relates to the both businesses.

Alex Green: So, as we said, so €3 million for Media Finland and a smaller amount for Learning in Q1. Overall, for the full year, around about just under €10 million for Media Finland and between €5 million and €10 million for Learning, and it will be sort of front load particularly in Media Finland where the paper prices sort of came down through last year. So, that obviously means that the year-on-year difference will be front loaded, so mostly in the first half of the year.

Kaisa Uurasmaa: Yes. And then on the cash flow guidance, we are guiding similar cash flow for 2024, as for the previous year. How does that imply or how does that take into account the underlying cash flow development? I mean, there are Solar costs this year, but I guess that there were some last year, too, so -- and then, of course, this year, the higher interest cost.

Alex Green: Yeah. So, Solar, if you remember, we announced about €45 million of Solar IACs, which will be spread over two years, and we booked roughly €22-ish million in 2023, and the remainder will come almost entirely in 2024. And so, that's the sort of net in both years. We do see higher interest costs. It was about €31 million last year, and it's going to be closer to €40 million this year with the -- because we no longer have the sort of the low coupon rate bond, senior bond. And so, that shows an increase. And offsetting that is the better working capital management, the more optimized stock levels which sort of netted out in 2024. But, obviously, if you roll forward after that, as we talked about in the Capital Markets Day, without the Solar IACs, with the profitability improvements coming in in 2026, we will see an increase in cash. And should interest rates decrease then, obviously, that has an impact there as well.

Kaisa Uurasmaa: Yes. Very good. Thank you. And then there was one question still on the kind of us running ahead on the actions implemented related to Solar. What does it imply for 2024/2025 earnings? I think, Alex, you already referred and explained on that a bit later, but maybe a recap on that.

Alex Green: Yeah. I meant to remind that the slide is about the stage of or the completion of actions taken to improve the margin for 2026. So, the fact that the head of the game doesn't have an impact on 2024, it just means it's secured earlier for 2026. And as to recap, the key goal here, get to 80% of everything done by the end of this year. As you saw on the graph, to secure that 2026 margin at a 23%.

Kaisa Uurasmaa: Very good. One more on advertising. What are the expectations on our market share development in Q2, Q3, considering there are some major sports events taking place during those quarters?

Rob Kolkman: Yes. And the underlying implication being, that's, of course, where we have lower kind of market share. Yeah. That will -- you have to take that into account. If you look at the overall performance, taking that into account, it's market share as expected to be more stable.

Kaisa Uurasmaa: Very good. If -- well, I don't have any further questions on the chat. Are there any further questions from Sanoma House? If not, thank you for the questions, and we can come back to any further ones one to one -- sorry -- after this event. And the next time, we will report our Q2 results on 24th of July, so looking forward to seeing you again latest at that time. Thank you, all, and have a nice day.