Sanoma

Extensive report

05/02/2024 21:23

Petri Gostowski
+358 40 821 5982
petri.gostowski@inderes.fi

Inderes corporate customer

This report is a summary translation of the report "Tehostusohjelmalla uutta suuntaa hakemassa" published on 2/5/2024 at 9:23 pm EEST

Seeking a new direction with an efficiency program

Sanoma's normally stable and predictable earnings development has weakened especially as a result of cost inflation and contraction in advertising. With a substantial efficiency improvement program in the Learning business, we expect the segment's profitability to increase clearly in the coming years, which, together with the gradually recovering Media business result, will boost earnings growth to a good level in the coming years. We believe the expected return consisting of this and the highish dividend yield in the coming years turns the risk/reward ratio attractive. We reiterate our Accumulate recommendation and EUR 7.0 target price for Sanoma.

The Learning business sets the tone

The shift in Sanoma's business focus toward Learning has progressed both organically and inorganically in recent years. As a result of the considerable growth of the Learning business in Europe, its income accounts for good one-half of Sanoma's revenue, but due to its higher profitability, it accounts for the majority of the Group's earnings. Thus, the role of the Media business has decreased and, in particular, the relative share of declining print media has shrunk (2023: 20 %). We expect this trend to continue in the medium and long term as a result of the growth of the Learning business, and we estimate that the performance in the Media business will improve as the digitalization rate of income increases.

Organic growth accelerated through acquisitions in the future, profitability outlook points upward

We estimate that the growth potential of the Learning business is within the 0-5% range, while the Media business growth outlook is relatively stable. Thus, we forecast the company's medium- and long-term growth rate to be approximately 2%. We estimate that the company will continue to accelerate organic growth through acquisitions, especially in the Learning business. The goal of doubling the Learning business by 2030 requires the company to make several acquisitions, but these will be more relevant in the future once the indebtedness has been lowered. We expect Sanoma's profitability development in the coming years to be on an upward trend, especially due to the significant efficiency program and the timing of curriculum reforms in the Learning business. As a result, we expect the earnings growth outlook for the coming years to be quite good. We feel the key risk associated with this is the profitability development of the Media business and continued pressure from high inflation and consumer purchasing power.

The market does not price the earnings improvement from the efficiency program

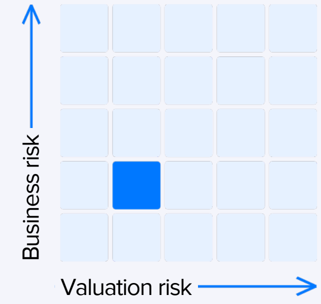
With the low earnings level of the current year, the share valuation is highish (2024e adj. P/E 17x and EV/EBITA 11x). However, the gradually improving earnings and cash flow that absorbs indebtedness, turn the valuation moderate with our 2026 estimates (adj. P/E 10x and EV/EBITA 9x). Thus, the earnings growth we expect acts as a bigger driver for the expected return than the downside in the valuation and together with the nearly 6% dividend yield it raises the expected return above the required return. Overall, we consider the risk/reward ratio attractive. The valuation framework formed by the DCF model and sum of the parts calculation (EUR 7.6 and EUR 8.3 per share) also shows, in our opinion, that the current pricing of the share is on the attractive side.

Recommendation

Accumulate
(previous Accumulate)

EUR 7.00
(previous EUR 7.00)

Share price:
6.73



Key figures

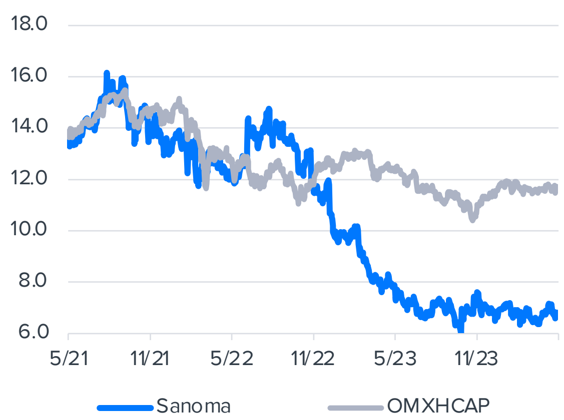
	2023	2024e	2025e	2026e
Revenue	1393	1330	1346	1384
growth-%	7%	-5%	1%	3%
EBIT adj. ilman PPA	175	174	184	211
EBIT-% adj.	12.6 %	13.1 %	13.7 %	15.2 %
Net Income	-4.1	33.3	78.7	107.7
EPS (adj.)	0.39	0.41	0.53	0.70
P/E (adj.)	17.7	16.6	12.8	9.6
P/B	1.4	1.4	1.4	1.3
Dividend yield-%	5.3 %	5.5 %	5.8 %	5.9 %
EV/EBIT (adj.)	14.4	14.1	12.2	9.7
EV/EBITDA	6.7	6.0	5.1	4.9
EV/S	1.4	1.4	1.4	1.3

Source: Inderes

Guidance (Unchanged)

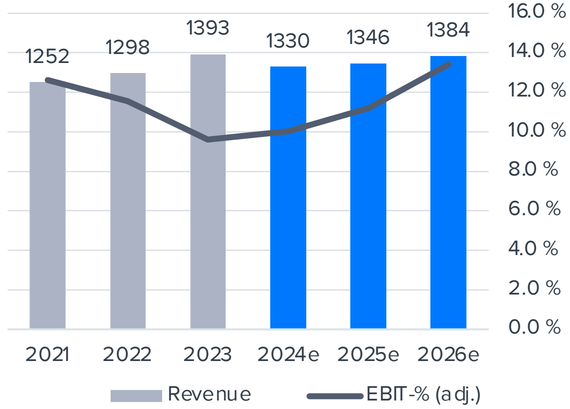
In 2024, Sanoma expects that the Group's reported revenue will be 1.29–1.34 BNEUR (2023: 1.4) and operational EBIT excl. PPA is expected to be 160–180 MEUR (2023: 175 MEUR).

Share price



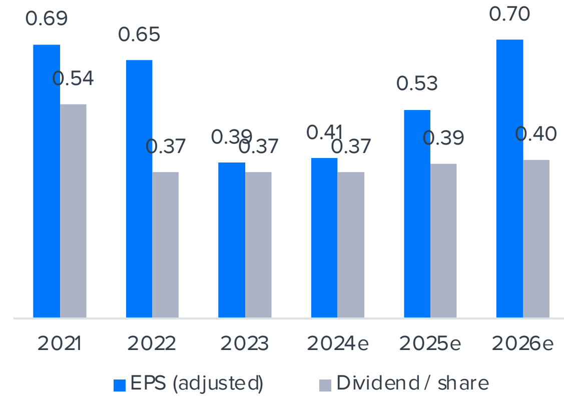
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Growth of digital revenue in the Media business
- Improved revenue structure with growth in digital income and Learning business
- The margin potential of price increases and efficiency measures in Learning
- Synergy benefits from completed acquisitions

Risk factors

- The trend-like decline in print media
- Weakening competitive position especially against global competitors
- Typical risks associated with acquisitions
- Risks associated with general economic development
- Political risks and risks related to regulations

Valuation	2024e	2025e	2026e
Share price	6.73	6.73	6.73
Number of shares, millions	163	163	163
Market cap	1100	1100	1100
EV	1882	1838	1797
P/E (adj.)	16.6	12.8	9.6
P/E	33.0	14.0	10.2
P/B	1.4	1.4	1.3
P/S	0.8	0.8	0.8
EV/Sales	1.4	1.4	1.3
EV/EBITDA	6.0	5.1	4.9
EV/EBIT (adj.)	14.1	12.2	9.7
Payout ratio (%)	181.6 %	81.0 %	60.7 %
Dividend yield-%	5.5 %	5.8 %	5.9 %

Source: Inderes

Contents

Company description and business model	5–9
Strategy	10-12
Sector review – Learning	13-14
Learning	15–17
Sector review – Media Finland	18–21
Media Finland	22–24
Financial position and development	25-27
Group level estimates	28–29
Investment profile	31-32
Valuation	33-34
Tables	35-42
Disclaimer and recommendation history	43

Sanoma in brief

Sanoma is a Group consisting of two independent business units and one of the leading learning material and solutions provider in Europe and the leading media company in Finland.

2016-2019

- Business focus, divestments of non-synergistic businesses
- Extensive programs to improve business and administration efficiency
- Profitability makes a clear upturn
- Cash flow improves, gearing decreases and balance sheet strengthens considerably

2020-2023

- Business focus shifts more strongly to Learning following the Santillana and Pearson acquisitions
- Acquisition of regional news media business and divestment of Oikotie
- Economic development and cost inflation are clearly reflected in growth and profitability

2024-

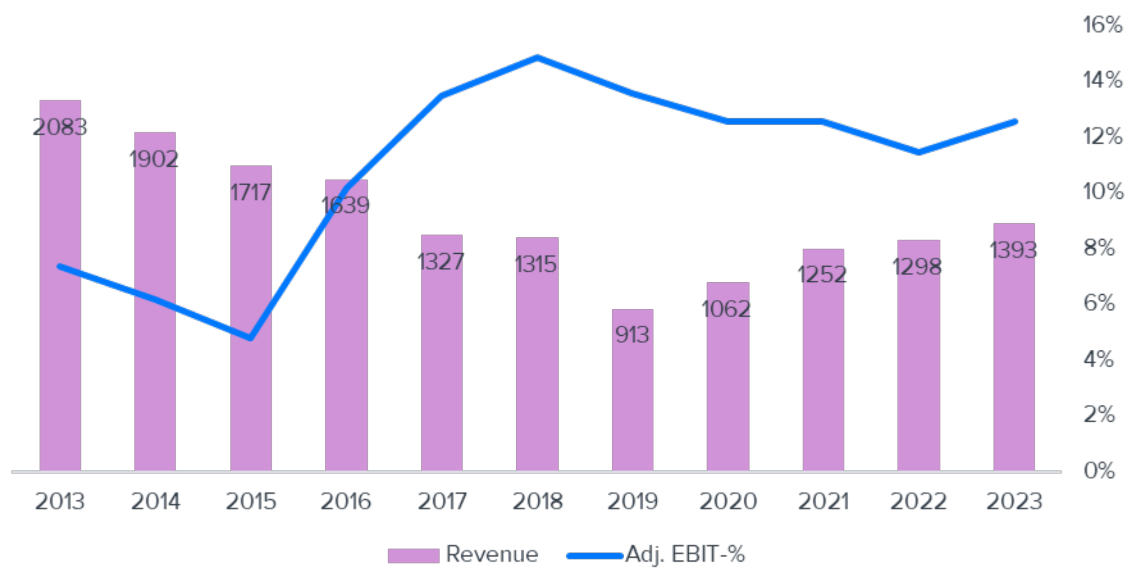
- In the short term, the focus is on operational efficiency, extensive efficiency program in the Learning business, continuous improvement continues in Media
- Acquisitions are possible in the current operating countries in the short term, while the long-term growth plan of the Learning business is unchanged

1,393 MEUR (1,298)
Revenue 2023 (2022)

12.6% (14.6%)
Operational EBIT-% excluding PPA 2023 (2022)

57% / 79%
Learning's share of revenue and operational EBIT excluding PPA, 2023

16% / 20%
Share of advertising sales/print media of revenue, 2023



Source: Inderes, Sanoma

Business model 1/3

Learning solutions and media business

Sanoma is a learning and media industry group that consists of two independent business areas; Learning and Media Finland. The company has learning business in 12 countries while media business only operates in Finland.

The Group's revenue totaled 1,393 MEUR in 2023 (2022: 1298 MEUR). Operational EBIT excluding PPA (hereinafter operational EBIT) was 175 MEUR or 12.6 % of revenue. Operating EBIT decreased from 189 MEUR (14.6%) in the previous year, especially as a result of the decrease in Media Finland's earnings.

Sanoma has a significant market position on the Dutch, Spanish, Italian, Polish, Finnish, Swedish and Belgian learning materials and solutions markets and on the Finnish media market. The company's well-known domestic media brands and products include, e.g., Helsingin Sanomat, Iltasanomat, Nelonen, Ruutu, Radio Suomipop and Aku Ankka. All in all, Sanoma's portfolio comprises dozens of leading media, digital service and learning brands.

Two independent business units

The **Learning** business comprises the income of printed, digital, as well as blended (i.e. printed and digital) learning materials and solutions. In 2023, the business constituted 57 % of the Group's revenue and 79 % of its operational EBIT.

Sanoma's other business unit, **Media Finland**, is the leading cross-media company in Finland. The segment's income primarily comprises subscription, content and advertising income of the newspaper, news and magazine media, advertising and subscription income of TV, radio and related online services. It also includes other service income comprising, e.g., festivals, events, marketing services, event marketing, corporate publications, books and printing services. Media Finland's share in the Group's 2023 revenue was 43% and 21% of operational EBIT excluding the result of Other Operations. Under the Other Operations segment, the company reports the Group's other costs not allocated to business segments, which stood at -12.9 MEUR in 2023.

Four income components

Sanoma's business can is divided into four main components by income type, which differ from each other in terms of the recurrence of income, customer type and cyclicality.

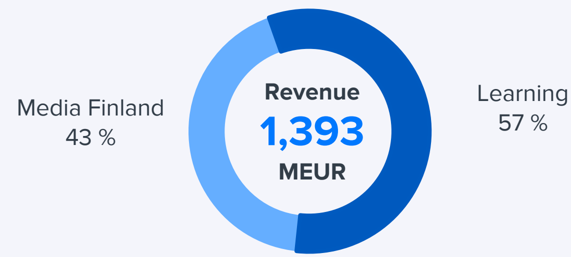
1) **Learning income** (2023: 57 % of revenue) consist fully of the income from the Learning segment's digital and printed learning materials (incl. distribution) and digital learning platforms. The customer target group for learning income is mainly the public sector, and in particular comprehensive schools, upper secondary schools and vocational schools (K12). Learning income is not tied to the general economic development in the short term but is subject to changes in school semesters and curricula. Annual Learning income concentrates partly on Q2 and especially on Q3, which also results in strong seasonal fluctuation in Sanoma's income and cash flow. Moreover, Learning income may annually vary considerably from country to country. This is based on the demand for learning materials, typically driven by curriculum reforms in individual education markets every 4-8 years. Due to the growth and geographical

Sanoma's business structure, 2023

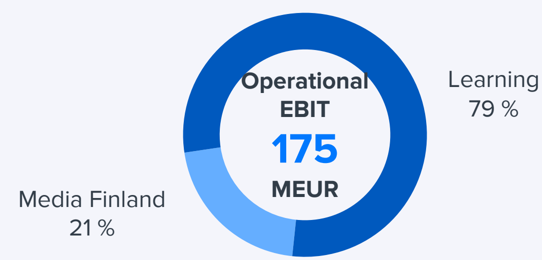
Sanoma Group
Revenue 1,393 MEUR
EBIT (adjusted excl. PPA) 175 MEUR

Media Finland	Learning
Revenue 598 MEUR Operational EBIT 40 MEUR Operational EBIT % 6.7 %	Revenue 795 MEUR Operational EBIT 148 MEUR Operational EBIT % 18.7 %
• Newspapers • Online media • TV & Radio • Magazines • Festivals • Other services	• Learning materials • Digital learning platforms • Learning material distribution

Revenue distribution, 2023



EBIT* distribution 2023



* Operational EBIT excl. PPA, NB! Segment-specific relative shares do not consider the result of Other Operations

Business model 2/3

expansion of Learning, the income fluctuation from year to year is moderate for the entire business, as the curriculum reforms of the countries do not occur in the same years.

2) **Media's content income** (2023: 20 % of Sanoma's revenue) comprises subscription and single-copy sales income of printed newspapers and magazines (e.g. HS and Aku Ankka), as well as online news and entertainment media services (e.g. HS.fi and Ruutu+). Content income revenue comprises recurring subscription income that represents some 18 % of Sanoma's revenue (87% of all content income), and the corresponding percentage of single-copy sales is close on 3%. The primary customer target group for content income is consumer customers.

3) **Media advertising income** (2023: 16 % of revenue) consists of advertising income from newspapers and magazines, TV and radio channels and related online services. The relative share of print advertising has fallen significantly, accounting for only 22% of all advertising income in 2023, so a large proportion comes from digital channels, TV and radio. The main customer target group for advertising income is corporate customers. The development of advertising income is somewhat cyclical by nature because companies' advertising investments are typically tied to general economic development.

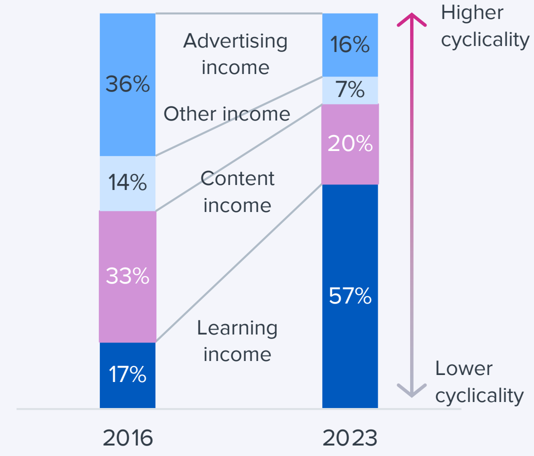
4) **Other income** (2023: 7 % of the revenue) consist of Finnish festival operations, marketing services, corporate publications, as well as books and printing services. The main customer target group for other income is businesses, but most of the income from festival business that forms a sizeable share of other income (25-30%) comes from consumers. Relative to the past, other earnings are slightly reduced by the sale of the Netwheels business (2023 revenue 8 MEUR) together with other smaller divestments at the beginning of 2024.

Structural trends affect income flows

In addition to normal demand drivers, Sanoma's income development is guided by structural trends of different magnitude. The structural trend that most affects Sanoma is the regression of print media resulting from the digitalization of media consumption that strongly affects both the development of print media content income and, especially, print media advertising. The share of print media income of Sanoma's revenue was 20 % in 2023. An opposing trend to that of print media is the structural growth of digital media income. The income share of other media than print media (incl. linear TV and radio) included in the Media business was 23% of Sanoma's revenue in 2023.

Structural trends also affect the growth of Learning and other income, but their effect is lower than media's. Last year, Sanoma restructured the focus of its business considerably with M&A transactions. Especially due to the growth of the Learning business, the share of declining types of print media revenue has decreased considerably. At the same time, the dependency of business income on general economic development, i.e., cyclicality has decreased.

Sanoma's revenue distribution 2023



Estimated effect of trends on Sanoma's income

Income type	Impact of trends on income
Learning income	Steady growth +2-5% p.a.
Content income	Growth of digital content 0-5% p.a.
	Decline in traditional content -0-5% p.a.
Advertising	Growth in digital advertising 0-5 % p.a.
	Clear decline in printed advertising 510% p.a.
Other income	Stable +/-2% p.a.

Source: Inderes

Business model 3/3

Overall risk profile of Sanoma's business model is moderate

We feel the risk profile of Sanoma's business model is moderate over time, although over the past two years high inflation and the contraction of advertising income with the economic development have depressed the company's earnings development. The business model's risk level is specifically reduced by moderate cyclicality, high share of recurring and predictable income, strong market position, as well as reasonably good and predictable operational cash flow over time. The business model's risk level is increased by factors related to the revolution of the media sector that strongly reduces the demand for print media, undermine Sanoma's pricing power, and reduce the economies of scale of print media operations.

The risk level of the business model is raised by the contract structures of the Learning business that allow prices to be raised ex-post relative to cost inflation. Limited pricing power also affects consumer-driven content income from media businesses, reflecting the wide competitive field of content income and the relatively low threshold for consumers to switch content.

Share of predictable income is high

The share of income from recurring order flows in Sanoma's revenue was 75 % in 2023, and they comprise very stable and predictable Learning income and media content subscription sales. The share of advertising income that is heavily dependent on consumer demand and economic cycles, has decreased markedly of Sanoma's revenue because of acquisitions in the Learning business in recent years.

Global competition and regression of print media reduce pricing power

Sanoma holds a strong market position in its own fields of specialization, especially on the Finnish media market. Traditionally, this has guaranteed Sanoma strong pricing power. However, reduced coverage of print media, fragmentation of media consumption, as well as the competitive pressure introduced mainly by Google and Facebook, have weakened the advertising pricing power of local media companies. We estimate that the speed of change has leveled out somewhat, with larger media companies improving their technological solutions and winning market share from small domestic operators. However, the pricing power has recently been particularly tested by high cost inflation, which is slow to transfer to prices and requires new packaging solutions at product/service level.

Print media's economies of scale declining but digital offers high benefits of scale

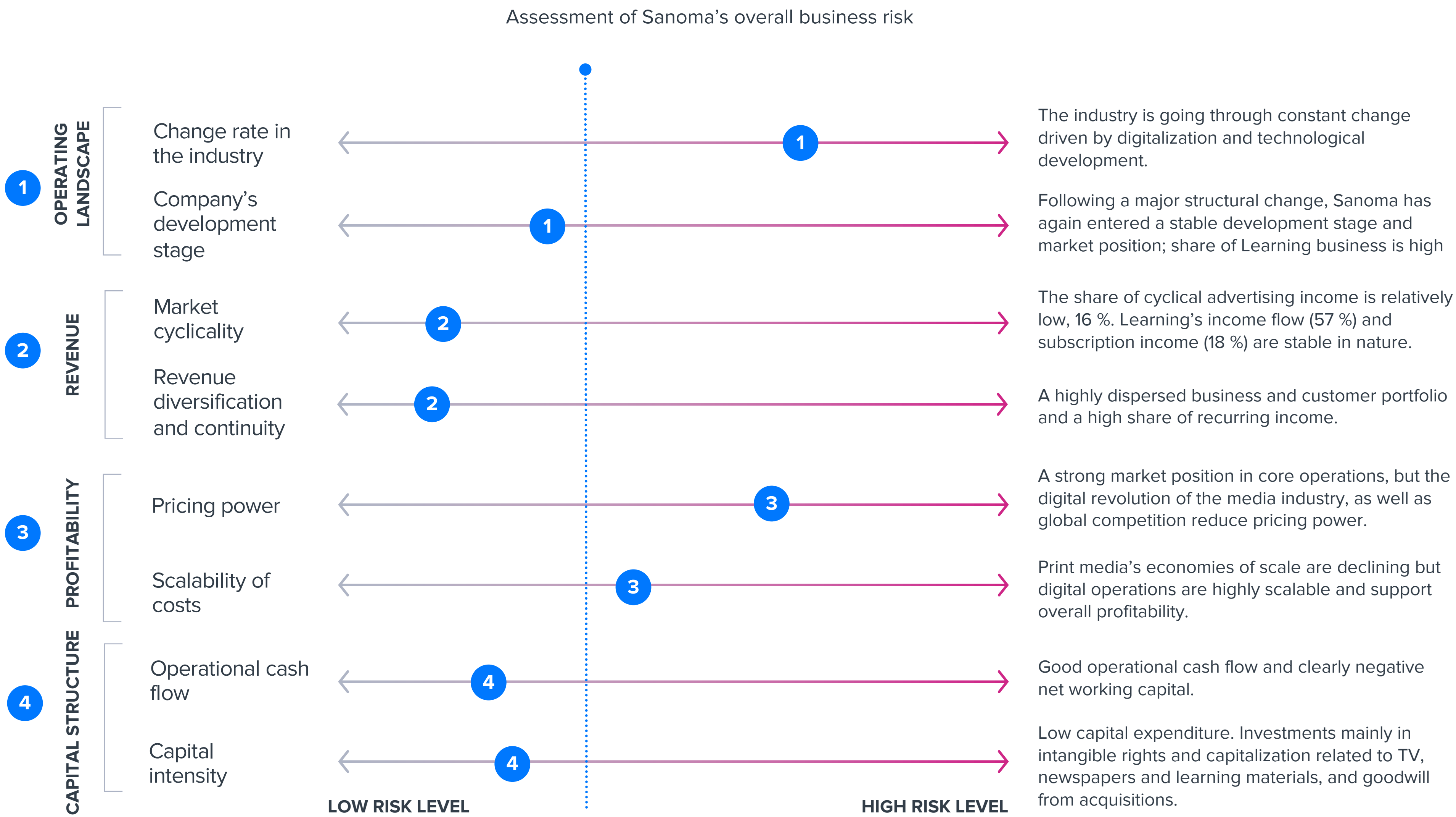
Most of Sanoma's cost structure is fixed, as is typical for newspaper, magazine, and learning material publication. As a result of the regression of print media, Sanoma's economies of scale have, in our opinion, decreased in print media, which means the company has had to constantly cut its fixed costs and improve operational efficiency. However, in growing digital income, the economies of scale are clearly higher and relative profitability is higher, which compensates for the weakening profitability potential of printed media as long as the company can hold on to its customers as they move from print to digital.

Working capital strengthens operational cash flow

The ability of Sanoma's businesses to generate cash flow is quite good as a whole, as the cash flows of media's content income are typically very front-loaded and include a lot of advance payments, which typically results in working capital being clearly negative at an annual level. In addition, organic business growth typically ties up limited capital.

However, business focusing more strongly on the Learning business will decrease negative working capital in relative terms. Due to the timing of the curriculum reforms, content investments also vary from year to year. In the short term, the company aims to improve efficiency in, e.g., content production and the growth outlook for the Learning business requires less content investments in the coming years. Thus, in the next few years, cash flow should be strengthened by smaller investments, but higher interest costs will burden it.

Risk profile of Sanoma's business model



Source: Inderes

Sanoma's strategy

No specific group-level strategy

Sanoma has not announced a group-level strategy and the strategy comprises the individual strategies of its independent business units. In our view, it is natural not to have a group-level strategy as the business models, markets and competitive fields of the businesses are drastically different from each other, with synergies only in terms of group administration. In the rapidly evolving media sector, rigid long-term group-level strategies could, in our opinion, even impair Sanoma's competitiveness.

Group-level development trends

Over the past few years, the development of Sanoma Group has been steered by development trends comparable to strategic goals. In 2018–2020, the company completed a significant restructuring stage that started in 2015 during which Sanoma focused on core operations that are leading in their respective markets, simplified its business structure, and carried out extensive cost saving and efficiency programs. Despite a considerable decrease in revenue, the restructuring can be seen as successful as it clearly improved the company's profitability and cash flow. Therefore, the company has also been able to allocate capital into investments that shape the business structure, and especially into Learning. This has increased recurring revenue, which has clearly lowered the risk profile of the business and demand dependency on economic development.

We believe Sanoma's strategic focus in the next few years will be on organic growth that utilizes the scalability of its core businesses, improving operational efficiency and cash flow. For completed acquisitions, the company has finished the integration and cost synergies are being worked out, especially in the Learning business with the Solar efficiency program.

Acquisitions are an integral part of the strategy

Acquisitions are an important part of Sanoma's strategy, as they are needed to increase revenue and ensure economies of scale, as well as to replace the fading income from print media. Divestments, on the other hand, have in the past been used to direct capital to more efficient use but we feel the current business portfolio no longer contains significant potential divestment objects.

Considering the increased indebtedness, we do not expect acquisitions in the short term in 2024. In the future, we expect acquisitions to focus especially on the Learning segment. In the short term, Learning is likely to focus on complementary acquisitions, but in the longer term, it targets significant growth in its core markets in Europe. We estimate that Media Finland could carry out small-scale acquisitions that strengthen the value chain and economies of scale.

Financial targets

Sanoma's long-term financial objectives and dividend policy are:

1. Leverage: The ratio of net debt to adjusted EBITDA below 3.0x.

2. Solvency: Equity ratio 35–45%.

3. Dividend policy: Growing dividend corresponding to 40–60% of annual free cash flow.

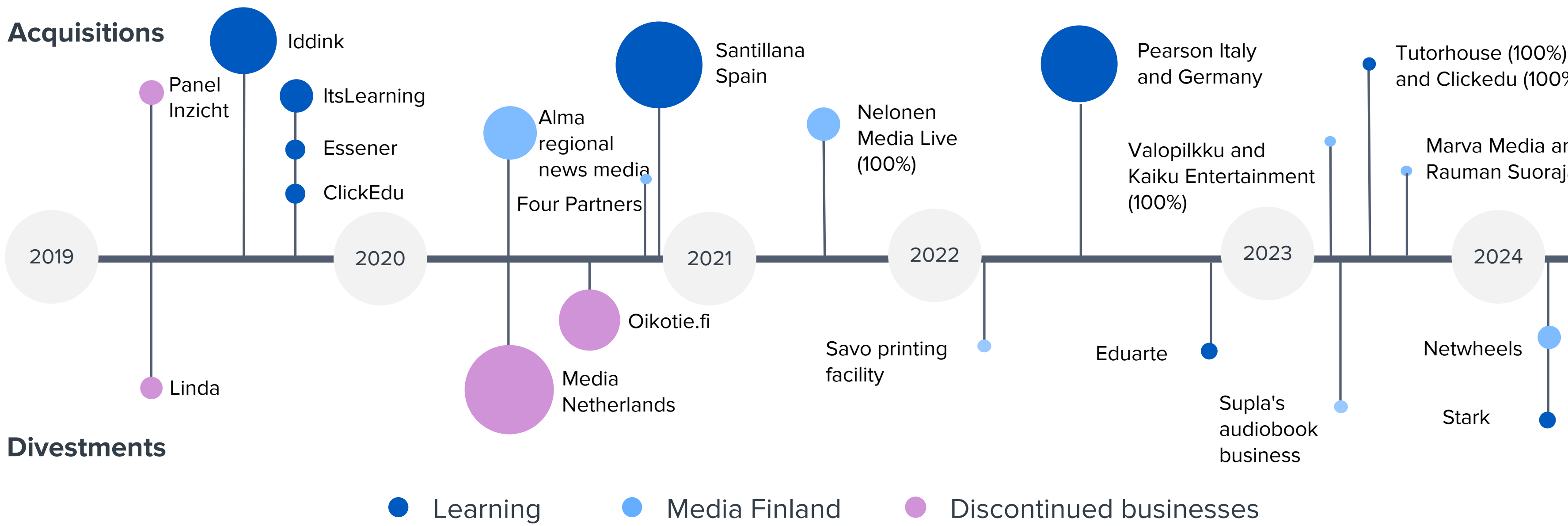
Sanoma also aims to increase its consolidated revenue to above 2 billion by 2030, with over 75% of revenue coming from the Learning business.

In the light of the latest reported figures (Q4'23), gearing (2.8x) fell short of the target level and solvency (43%) was within the target range. The company issued a hybrid bond of 150 MEUR in March 2023. A hybrid bond is included in equity but is not included in net debt due to accounting practice. This improves balance sheet indicators, although ultimately these assets are not shareholders' assets.

In its dividend policy, Sanoma has emphasized dividend growth, which is tied to the development of free cash flow. However, the path of growing dividends broke in spring 2023, as the company cut its dividends due to the weakened free cash flow. The dividend to be distributed for 2024 is of the same magnitude as last year and represents 58% of free cash flow.

All in all, we consider Sanoma's financial targets to be justified with emphasis on stable development. They are a good fit with Sanoma's current business profile, where regressing traditional media still generates good cash flow and acquisitions, growing digital income, and synergies generate earnings growth. The company has also set financial targets for the segments, which are discussed in separate segment-specific sections.

Sanoma's acquisitions in 2018-2024 and segments' M&A strategy



Source: The color of the ball reflects the business area in which the company is/was incorporated

Business activities' M&A strategy

Learning

- The importance of acquisitions is high
- Acquisition target areas include basic education learning solutions (K12) and related markets
- Increasing economies of scale and market share in the markets of current core businesses
- Expansion in existing market areas (short term)
- Geographical expansion to new target countries in Europe (medium and long term)

Media Finland

- The importance of mergers and acquisitions is complementary
- Possible small complementing acquisitions in areas where synergies with core businesses is high
- Partnerships and consolidation possible if opportunities appear
- Small divestments can be made to develop the portfolio

Source: Inderes

Sanoma's strategic and operational development

2017 - 2019

2020 - 2023

2024-

Stabilization of core operations and becoming active in M&A transactions

- Divestment of non-core, non- synergistic businesses
- Restructuring of financing
- Focus on improving profitability and cash flow
- Iddink and other complementing acquisitions in Learning
- Learning implemented the ”High Five” program to improve efficiency

Significant M&A transactions in both businesses

- Core businesses in a stable development phase, despite the pandemic
- Divestment of Oikotie
- Structural revolution of media continued, and the pandemic accelerated the growth of digital media while strengthening the decline in print
- Santillana and Pearson acquisitions in the Learning business and acquisition of Alma Media's regional news media business in the Media business
- High cost inflation and a contraction in advertising started depressing profitability

Strengthening profitability and balance sheet position before new acquisitions

- Structural revolution of media continues and, thus, also the shift in the focus of the media business towards digital products and services
- Progress of the Solar efficiency program in Learning, continuous efficiency improvement in Media business
- Strengthening of cash flow and financial position ahead of the next major acquisitions

Strategic and operational development trends

Actualized

- revenue have decreased significantly with structural arrangements, but the risk level is also more moderate
- Business structure is more focused and profitable, focus shifted clearly to the Learning business
- Profitability risen to good levels in all businesses (2015: adj. EBIT% around 5% -> 2023: operational EBIT-% 12.6 %)
- With acquisitions, gearing has risen clearly

Near future, 1-3 years

- Focus on operational efficiency, Solar program in Learning and continuously improving efficiency in Media Finland
- Investments in the digital development of the learning business will continue, and content investments will decrease
- In capital allocation, the priority list is topped by decreasing indebtedness, digital investments and dividends
- Small complementary acquisitions can be made, e.g., in the current operating countries of Learning

Long-term

- Managing the structural change in media and gradually strengthening profitability as consumption continues to shift from print to digital
- Learning business, digital services and acquisitions as growth drivers
- Sanoma strives for a clearly higher market share than the current 17% in the 4-5 BNEUR European learning markets (K12) through organic growth and acquisitions
- Expansion beyond Europe is possible in the Learning business

Source: Inderes

Sector review – Learning 1/2

Structural, educational reform and efficiency improvement linked demand drivers

In our view, the learning sector's outlook and demand are influenced by three key drivers: the structural change of demand driven by digitalization, the ongoing curriculum and education system reforms, as well as the need to improve in learning results and make teaching more efficient.

The structural change of demand driven by digitalization has also affected the learning market for some time but due to the slow rate of overall change in the curricula and education systems, the change has been significantly slower, more predictable and controlled than on the media market. Digitalization is reflected in the learning market primarily in the declining use of printed learning materials and, at the same time, the higher demand for digital learning solutions, new business and pricing models, as well as competitors offering new purely digital solutions.

The key driver of the learning market are still country-specific curriculum, education system and learning material reforms that typically occur in 4-8-year cycles. While these changes dramatically affect demand in the short term, long-term trend growth is slow.

The third driver steering and increasing demand in the learning market in the long term is the increasing need to improve learning results and, especially, the need of the private education sector to improve the efficiency of education investments. This provides learning companies with new business expansion opportunities both in basic education and digital learning platforms.

Key trends of the learning market

In our opinion, the key trends affecting the learning market are:

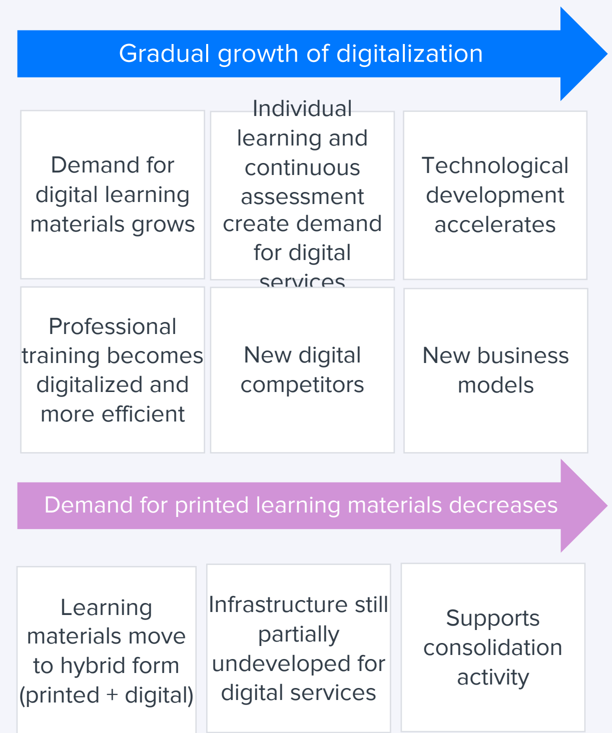
- The market share of combined printed and digital learning materials and purely digital learning solutions is growing.
- Individual learning and continuous assessment of learning are becoming more commonplace, which shapes the demand for learning solutions and increases the demand for digital services, specifically.
- The requirements for educational methods increase, and the rate of change accelerates, which together with the teacher shortage increases the need for solutions that support teaching.
- Professional learning solutions become digitalized and efficiency requirements increase.
- The number of competitors increases with new digital operators, and the consolidation of traditional operators continues.
- The sector will adopt recurring subscription fee-based business models.

We believe, the switch to distance learning driven by the COVID pandemic has increased the demand for digital learning solutions, contributing to the gradual growth of digitalization. The rate of growth varies considerably on Sanoma's target markets and the starting points on the markets also vary.

Outlook for learning materials market

According to Sanoma, the share of the learning material markets and digital learning platforms in total

Key trends of the learning market



Source: Inderes

Sector review – Learning 2/2

education expenditure is only about 3% of the total costs of education in the company's market areas. We estimate that this part of the market will grow slowly in the long term (+0-2% p.a.) as the use of printed learning materials decreases and age cohorts diminish. With the digitalization of learning materials and new teaching methods, the market shares are redistributed based on which players are able to invest in digital solutions. We believe Sanoma is well-positioned in this revolution as it has a comprehensive and well-developed digital solution product portfolio and the ability to invest in it.

Outlook for learning platforms

The share of learning platforms and administrative systems for education is still relatively small in the revenue of learning companies like Sanoma (about 10-20%). These costs are covered by the education budget for administration, systems and development which is significantly larger than that for learning materials. The size of this budget is normally around 15% of total costs.

As a result of the above-mentioned trends and the learning market's bigger market potential, the long-term growth outlook of this sector is, in our view, clearly more positive (>5% p.a.) than those of the learning material market.

Competitive field mainly consists of local learning companies

The learning sector requires strong country-specific expertise, tailoring and competence, as well as an extensive local sales and distribution network. For example, in Finland, teachers have a high level of autonomy and freedom to choose learning material formats and solutions, which decentralizes decision-making across a large group. Subsequently, the market entry threshold is extremely high, and competition mainly occurs between local operators. Furthermore, the number of operators in the sector is typically fairly small because profitable learning material publishing requires a relatively large-scale.

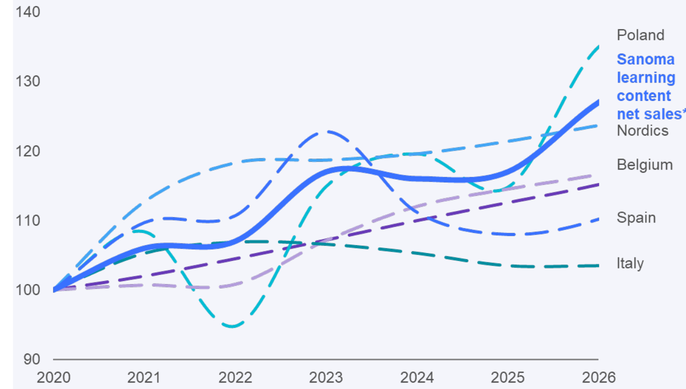
The competitive field for digital platforms and applications is, however, much more fragmented and international because competition also occurs between technologies, not just contents and methods and, thus, competition is not quite as dependent on local level expertise. Nonetheless, according to players in the field, the infrastructure of schools still suffers from shortcomings in some countries, which slows down the adoption of digital materials.

Sanoma's main competitors in publishing learning materials are Otava in Finland, Noordhoff and ThiemeMeulenhoff in the Netherlands, Plantyn and Pelckmans in Belgium, WSiP in Poland, Liber, Natur & Kultur and Gleerups in Sweden, Grupo Anaya in Spain, and Mondadori and Zanichelli in Italy.

Noordhoff, Plantyn and Liber are owned by Infinitas Learning, while ThiemeMeulenhoff is owned by the German Klett.

According to Sanoma, all the above individual, country-specific companies mainly operate solely on their home market and none of them have significant operations in several countries even if they have the same owner. To our understanding no major publishers of digital K12 materials have so far emerged in any of the target countries where Sanoma Learning operates.

Growth forecasts for the K12 learning materials market



* Learning's content revenue excluding the effect of the Pearson acquisition in 2022-2023

Source: Sanoma

Sanoma Learning 1/3

Learning is Sanoma's larger segment

As a result of acquisitions, the Learning segment has become Sanoma's largest segment measured by revenue. Sanoma Learning's revenue in 2023 was 795 MEUR or 57% of Sanoma's revenue. Learning is also the larger segment measured by operational result. In 2023, its operational EBIT was 148 MEUR or 18.7 % of revenue.

The Learning business comprises the sales income of printed, digital, and blended learning materials and solutions. The main segment of the company's products and services is the K12 segment that covers comprehensive and secondary education, as well as vocational education.

Most of Learning's income come from the steadily developing basic education market

Most of Learning's income is generated by the steadily developing and highly predictable basic (primary and lower secondary) education learning material and learning solutions market.

By product and service type, around 75% of Learning's revenue was generated from learning materials in 2023, which includes both printed and digital material. This is also the most profitable business in Learning's income sources, as according to Sanomat, its profitability is 15-35%, depending on the local market. Correspondingly, in 2023, 15% of revenue came from material distribution, which is at a low profitability level of 0-5%. Due to the low profitability of the distribution business, the company has also abandoned some distribution agreements. The remainder, i.e. 10%,was divided between teaching platforms, administration platforms and test and analytics services, where margins are around 5-10%.

Geographically, more than 90% of the Learning segment's business comes from markets where it has an extensive service portfolio and where it is among the three largest operators. The strong market position of the segment's operations is based on the local companies' long history as learning material publishers, developers, and distributors, and the industry's barriers to entry.

Sanoma Learning's companies include, e.g., Sanoma Pro in Finland, Nowa Era in Poland, Van In in Belgium, Malmberg in the Netherlands, Sanoma Utbildning in Sweden, Iddink in the Netherlands, Belgium and Spain, Santillana in Spain, and Sanoma Italia in Italy.

Financial targets and strategy

Sanoma's long-term financial targets for Learning are 2-5% annual comparable revenue growth and over 23% operational EBIT excluding PPA, which it aims for with the help of the Solar efficiency program by 2026. In addition, 75% of the Group-level revenue target of over 2 billion should come from the Learning business in 2030. This means that the company's goal is to nearly double the size class of Learning by the end of this decade. Learning targets organic growth via curriculum reforms and increasing digitalization. In addition, the segment continues to make targeted investments in content and digital platforms. We estimate that acquisitions will also be a key growth driver in the future.

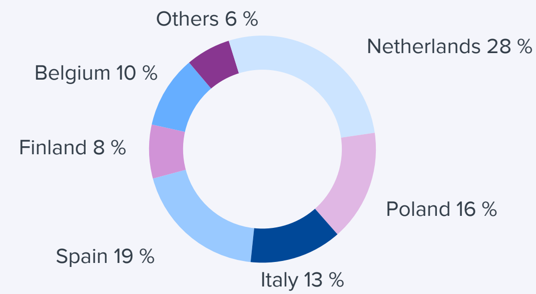
Learning in brief, 2023

795 MEUR (2022 : 681 MEUR)
revenue 2023

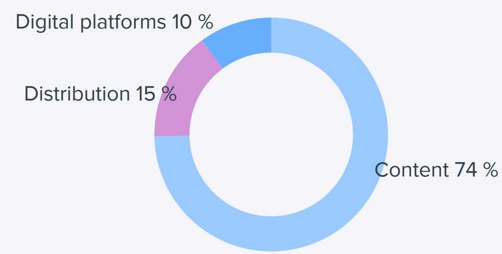
18.7% (2022: 19.4 %)
Profitability, operational EBIT %*

~ 17% market share
On Europe's 4-5 BNEUR K12 market

Revenue by country, 2023



Revenue by product type, 2023



Source: Inderes, Sanoma
* Operational EBIT excl. PPA

Sanoma Learning 2/3

From time to time, fluctuations in education cycles have a significant impact on the segment's revenue development (see p. 14 graph). For example, the end of the Spanish curriculum reform is expected to decrease revenue this year and according to the company, Learning's revenue will reach the 2023 level in 2026, due to these timing factors.

We estimate that Learning will try to strengthen its hold, especially on the digital learning platforms on various markets also in future, because this position is strategically attractive due to the stable nature of income. In addition, on the platform side, we expect purchases to have long life cycles because the threshold to change platforms is high due to costs and usage habits. Whereas we suspect that changing learning materials is a bit easier when the curriculum changes. Here, the company can expand by introducing platforms it already owns to markets where the level of digitalization is rising or inorganically by acquiring platforms with a strong foothold on these markets.

We believe, the focus of Sanoma's acquisition strategy will be, above all, on expanding Learning. Here we believe the main target market is the K12 market in Europe, but wo do not believe expansion on the K12 market outside Europe is out of the question either in the longer term.

Estimates for the next few years

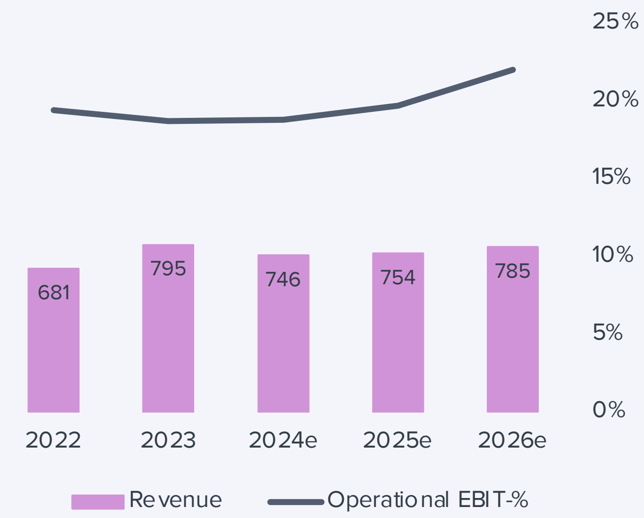
We estimate that Learning segment's revenue will fall by 6% in 2024, driven in particular by the decrease in country-specific revenue that we expect as a result of the end of the Spanish curriculum reform. In addition, we expect that the low-profit distribution agreements terminated by Learning will depress revenue development. Correspondingly, we estimate that revenue will be further boosted by price increases due to high inflation. Against this background, our revenue forecast for 2024 is 746 MEUR (2023: 795 MEUR).

In 2025, too, we also expect revenue growth to continue to be supported by price increases, as inflation remains slightly elevated, although it has clearly moderated. Despite this, the revenue growth drivers in 2025 are not especially strong, as the overall market volume outlook is somewhat stable, as Sanoma's largest target markets are even expected to contract slightly. In our estimates, the 2025 revenue will thus grow by good 1% to 754 MEUR. In 2026, we expect revenue growth to strengthen to around 4%, especially reflecting market growth in Poland, and our revenue forecast is 785 MEUR.

We predict that Learning's 2024 operational EBIT will decrease by 5% reflecting the decrease in revenue and cost drivers that point in different directions. According to our estimate, wage inflation will continue to increase costs in 2024, while the fall in paper prices in particular should reduce costs slightly. We do not expect the Solar program to strengthen the operating result in 2024, but we estimate that it will result in one-off items that depress the segment's reported result. As a result, our 2024 operational EBIT forecast is 140 MEUR, which corresponds to an operational EBIT margin of 18.8%.

We expect 2025 operational EBIT to reach nearly 149 MEUR, driven, in addition to the slight growth in revenue, by the first efficiency measures we expect from Solar, which however will be small considering

Learning's estimates



Income statement (MEUR)	2022	2023	2024e	2025e	2026e
Revenue	681	795	**746**	**754**	**785**
Operational EBIT	131.8	148.4	**140.4**	**148.7**	**173.1**
EBIT adj.	99.4	113.9	**106.4**	**120.7**	**153.1**
EBIT	67.2	70.5	**70.4**	**116.7**	**149.1**
Non-recurring items	-32.2	-43.4	**-36**	**-4**	**-4**

Growth and profitability	2022	2023	2024e	2025e	2026e
Revenue growth %	6.9 %	16.8 %	**-6.2 %**	**1.1 %**	**4.4 %**
Growth in operational EBIT %	- 1.6%	12.6 %	**-5.4 %**	**5.9 %**	**16.4 %**
Operational EBIT-%	19.4 %	18.7 %	**18.8 %**	**19.7 %**	**22.0 %**
Adj. EBIT-%	14.6 %	14.3 %	**14.3 %**	**16.0 %**	**19.5 %**
EBIT-%	9.9 %	8.9 %	**9.4 %**	**15.5 %**	**19.0 %**

Source: Inderes

Sanoma Learning 3/3

the size class of the program. However, a significant impact of the earnings improvement is only reflected in our forecasts in 2026, when lower content investments result in lower depreciation and faster revenue growth boosts our operational EBIT forecast to 173 MEUR. This corresponds to an operational EBIT margin of 22.0% and is therefore slightly below the company's target level of over 23%.

Thanks to Learning's long-term stable outlook, we feel the related forecasting risks are more moderate than for the average business. Negative estimate uncertainty is generated by the timing of curriculum reforms and the inflation outlook, which could maintain a greater pressure on Learning's profitability than we expect. We believe the key positive risks are related to a faster and more effective efficiency program than we expect.

Learning's valuation

We have identified six listed peer companies for the Learning segment but, due to the different development stage of some operators we feel their valuation as a whole does not currently work as a relevant yardstick for Learning. In our estimate, Pearson, John Wiley & Sons Inc and Wilmington are most suitable among the peer companies for the valuation comparison, and we have determined Learning's acceptable valuation multiples based on the average EV/EBIT multiples for 2024 and 2025, which are around 12x. With our 2024 and 2025 operational EBIT estimates for Learning and the multiples of the peer companies, Learning's value is aroundv1,700 MEUR. We consider the absolute valuation multiples of the peer companies justified for the next few years, considering the stable and predictable demand and fairly good profitability level of Sanoma's Learning business.

We also believe that the valuation of Learning can be compared to the valuation multiples of the Santillana Spain and Pearson acquisitions. The enterprise value (EV) of the Santillana transaction was 465 MEUR and the average operational EBIT excluding PPA of the acquired target in 2018-2020 was 34.6 MEUR. Thus, the EV/EBITA ratio of the transaction was good 13x. We expect that Learning's operational EBIT for 2024 will be 140 MEUR, in which case the acquisition valuation multiple would indicate that Learning's EV is around 1,882 MEUR. The Pearson transaction's EV was 190 MEUR and the average operational EBIT (excluding PPA) for 2020-2021 was 17.5 MEUR, which is nearly 11 EV/EBITA. This would give Learning a value of 1,525 MEUR.

Therefore, Learning's value is 1,713 MEUR calculated on the average of the methods presented above. Thus, Learning's valuation has not changed substantially from the previous extensive report (2023 estimate: 1,691 MEUR). This is based on the fact that there has been no significant change in our forecasts of the valuation multiples of peers.

Learning's peer group

Peer group Company	EV MEUR	EV/EBIT 24e	 25e	EV/S 24e	 25e
Bloomsbury Publishing PLC	481	8.7	n.a.	1.2	1.5
Pearson PLC	8651	12.2	11.3	2.0	1.9
John Wiley & Sons Inc	2694	73.2	13.7	1.6	1.7
Wilmington PLC	372	12.0	11.7	2.4	2.3
2U Inc	797	14.9	13.6	1.1	1.0
Chegg Inc	711	7.9	7.7	1.2	1.2
Average		**21.5**	**11.6**	**1.6**	**1.6**
Median		**12.1**	**11.7**	**1.4**	**1.6**

Source: Inderes, Refinitiv

Sector review – media 1/2

Structural and cyclical drivers

The growth of the media sector is currently influenced by several structural, legislative, and cyclical drivers.

The main driver of the media sector has for a long time been the structural revolution arising from digitalization and demographic factors, which shapes consumer and advertiser demand, as well as the competitive field of the media industry, while disrupting business models. The revolution is most evident in the sharp trend-like decline of print media income and growth in digital media.

The general economic trend (GDP change), which has historically had a clear correlation especially with advertising income trends, has been left in the shade of structural change as a demand driver. However, short- and medium-term GDP changes still have a significant effect on advertising income.

In addition, media companies are strongly affected by technological development, the partial blurring of media sector boundaries, as well as legislative and cultural factors that shape the competitive dynamic between media companies and social media, in particular.

Key trends of the media sector

In our view, the key media sector market trends for investors are:

- The use of and demand for traditional media (newspapers, magazines, books, and linear TV) decreases, which gradually reduces the content and advertising income of print media and weakens their profitability.
- The consumption of digital content and services increases and becomes more diverse, e.g., as mobile devices and applications become increasingly popular, which increases digital content and advertising income and improves relative profitability.
- The competitive media field is globalizing, and access to content and data becomes faster and easier, which especially weakens the competitiveness of small media companies specializing in print media and increases competition for content income and advertising investments.
- Willingness to pay for digital content increases and the pricing models develop, supporting the growth of digital content income.
- Advertising becomes automated and more efficient, which will shape the structure and pricing of the digital advertising market.
- The quantity and importance of data increases, creating new business opportunities and services.
- Data protection and privacy requirements increase. One of these drivers is the EU's General Data Protection Regulation (GDPR), which levels the playing field between local media companies and global platform operators.
- Technological expertise and investment ability are emphasized as competitive factors.

Advertising market development and outlook

In the past few years, the most influential trend on the Finnish advertising market has been the sharp decline of print media and, equally, the increase of digital advertising. The growth rate of the Finnish advertising market is clearly lagging the GDP trend, which is explained, e.g., by the relatively large share of print media of the overall market. Coverage of statistics describing total advertising has become slightly less comprehensive in recent years, as a significant part of advertising investments is directed at global operators excluded from the calculation, such as Facebook and Google. Advertisers have also invested heavily in the deployment of new advertising technologies, which has decreased direct investment in media advertising.

Examined by advertising channel, the development of the advertising market has been very divaricated for a long time. In Finland, advertising in magazines and newspapers has halved in the 2010s, and the amount of TV advertising has also dropped clearly. By contrast, the amount of digital advertising has more than doubled since the beginning of the 2010s and according to Kantar TNS its share of total advertising (incl. Facebook and Google) was a bit over half of all advertising in 2023.

Major global players like Facebook and Google have taken a large share of the value of digital advertising and are competing with national players in this market. The fastest-growing trends within digital advertising have been social media marketing, mobile marketing, and native advertising. We expect the structural trends in the advertising market to continue as unchanged in the big picture in the coming years. This means that we expect the decline in print advertising to continue and the relative share of digital advertising to increase. Thus, we expect the overall market value development to be fairly stable in Finland, depending, however, on economic growth.

Media sector drivers and trends

Digitalization
New devices, new digital services and applications, faster network connections and the growing share of “digital natives” among the population digitalizes media consumption heavily.

Economic trend
Conventionally, the media sector has been very sensitive to economic fluctuations because over 50% of the income come from advertising. With digitalization, the percentage of content income of revenue grows, which makes the sector less sensitive to economic fluctuations.

Technological development
New technologies change the earning models and competition dynamic. Especially the role of data and analytics as a competitive factor becomes highlighted. The main competitors are global platforms and technology companies.

Regulation and culture
Data protection and privacy regulation becomes stricter, which increases the importance of fixed customer relationships. So-called ‘fake news’ emphasize the role of well-known and trusted content providers.

Strong growth of digital media

Internet and mobile-based media consumption grows	Advertising becomes automated, its volume and effectiveness increases, and prices drop	Data volume and value increases
Media consumption becomes fragmented, and availability improves and becomes faster	The use of digital content increases	The importance of data protection and privacy increases

Declining demand for print and linear media

Decreasing print content and advertising income	Economies of scale and profitability weaken	Continuous need for improved efficiency and consolidation

Sector review – media 2/2

According to Kantar TNS, the volume of online advertising in Finland has grown roughly 5-10% per year in recent years, but in 2023 it remained at the previous year's level, reflecting the sluggish economic development. Overall market growth fell to -2%, where the 12% drop in printed advertising was one of the biggest drivers.

We believe the growth in online advertising will continue to be brisker than general market growth in the medium term. We expect the linear TV advertising trend to continue on a slight decline (-5–0%) in the medium-term, as some of the investments previously made in TV advertising will be redirected to digital advertising and streaming services.

Content income trends

There is no detailed statistics on the market development of content income but based on the development of media sector companies we estimate that content income has decreased slightly (0-3%) in a historical review. We believe, the decline has been sharpest in single copy sales of tabloids and magazines.

The decrease of content income has been curbed by price increases and, especially, the accelerated growth of digital content sales. Even though the share of digital content sales overall is still relatively low, the largest media operators, like Sanoma and Alma Media, have successfully managed to increase the number of subscribers paying for digital content. At the moment, subscribers of only the digital magazine are the largest customer segment of Helsingin Sanomat. The number of users paying for digital subscriptions of news media has grown to good 95% of the total number of subscribers.

The growth in the number of digital subscribers has been driven by, e.g., greater willingness to pay for digital content as the popularity of digital services, such as Netflix and Spotify, has increased, the discussion concerning fake news, the measures to develop paywalls and chargeable content, as well as improved accessibility and quality of digital services. Growth of digital content sales has, however, strongly focused on news and financial media, while digital subscription income development in magazines has to our understanding been relatively muted. We estimate that overall growth in content income will be low in the next few years, as the growth of digital content income does not yet fully compensate for the decline in print media income due to the higher prices of print media.

Growth of digital content improves relative profitability

One of the positive effects of the digital revolution of the media sector is that the growth of the relative share of digital income improves the sector's relative profitability. The improved relative profitability is based on the gross margin of digital products and services, which is typically clearly higher than that of print media products due to lower distribution and material costs. The scalability of digital operations is also markedly better than that of print media.

According to our estimate, the EBIT % of media operations relying solely on digital content and advertising income is roughly 20-30%, whereas the EBIT % of print media has historically typically been within the 5-10% range.

We estimate that strong cost inflation has put pressure on the profitability of print media, while their volumes have fallen significantly in recent years. This makes it even more difficult to achieve reasonable profitability in print media, which we estimate accelerates structural changes in print media.

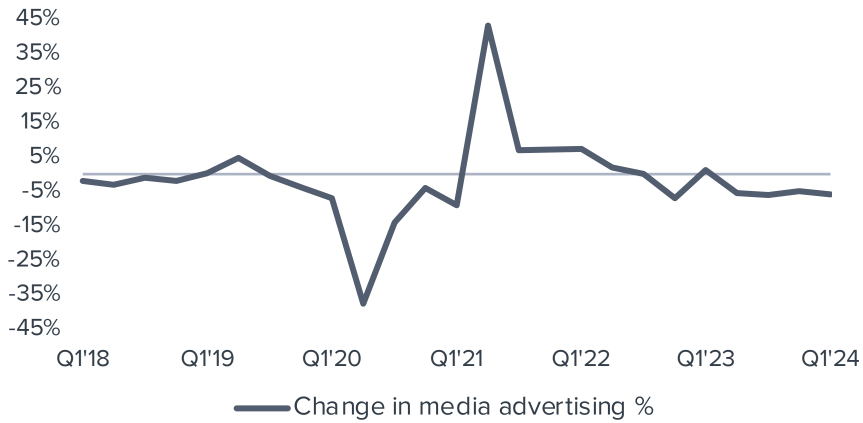
Global giants rule the competitive field

Digitalization will increasingly shape the competitive media field, and competition in advertising takes place more against global platform companies, like Facebook and Google, instead of between local media companies. In terms of content income in print media and services, competition is still local, but TV and digital media increasingly compete with global companies, as well as companies outside the media industry (such as Apple or telecom operators).

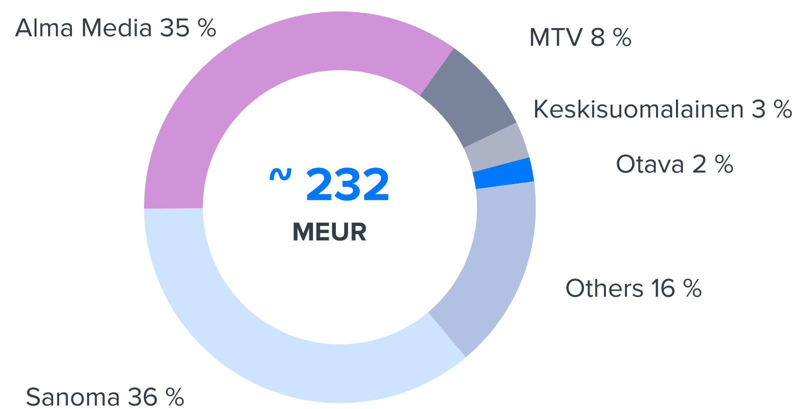
So far, leading Finnish media companies have fared relatively well in the competition against the likes of Facebook and Google, and their share of the digital advertising and content market has remained high in a global comparison. In terms of content income, Finnish media companies are supported by the high threshold to enter a small market and language region, long and strong relationships with readers in print media, and strong brands. Sanoma also benefits relatively from its multichannel approach, which other Finnish or international platform or media companies do not have.

Development and competitive field of the media sector

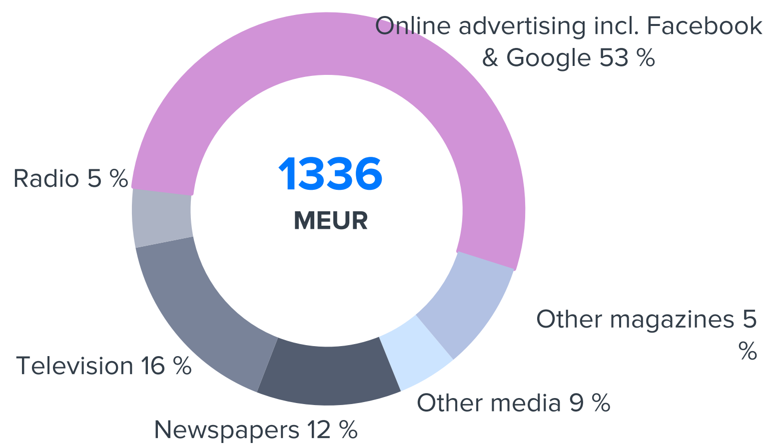
Development of Finnish media advertising



Online advertising by domestic players in Finland 2023



Distribution of Finnish media advertising, 2023



Source: Kantar TNS, IAB and Inderes

Media Finland 1/3

Finland's largest commercial media company

Media Finland's revenue was 598 MEUR in 2023, which corresponded with 43% of Sanoma's revenue. Measured by operational EBIT, Media Finland is, however, clearly the smaller segment (operational EBIT 40 MEUR or 21% of Sanoma's operational EBIT excluding Other Operations).

The segment's strategy focuses on three units, which are journalism (news & feature), entertainment and B2B marketing solutions. Journalism consists of news media HS, regional media (e.g. Aamulehti), Ilta-Sanomat and a number of magazines. In addition, Sanoma Lifestyle that focuses mainly on printed magazines (e.g. Aku Ankka, ET and Kodin Kuvalehti) is part of the unit. Correspondingly, entertainment includes, e.g., TV and radio (Nelonen Media), the audio content service Supla and live events. B2B marketing solutions cover advertising and marketing solution sales.

Media Finland is among Finland's largest commercial media companies, measured by both the number of newspaper and magazine users and subscribers, printed and online media advertising, as well as TV and radio advertising. Compared to the Finnish media advertising market calculated by Kantar TNS (some EUR 1.34 billion), Media Finland's market share is roughly 16 % of the whole market.

Income highly dispersed – weight of print media still relatively high

Media Finland's business model is widely distributed between different income sources, which is the result of the segment's multichannel operating model and comprehensive product portfolio that covers the entire Finnish media sector.

Content income has become the largest form of income for Media Finland. In 2023, the share of content income was around 48 % of the segment's revenue (2022: 46 %), which introduced stability to revenue. Of this, recurring subscription income made up 87% and single copy sales only some 13%. We estimate that a significant share of content income is currently generated by printed and digital newspapers' content, even though the subscription income of video services (Ruutu.fi and Supla) has increased in the longer term.

Advertising income formed 37 % of the segment's revenue in 2023 (2022: 38 %). According to our calculations, some 78% of advertising income came from more stable TV and radio advertising and growing online advertising, while around 22% of income came from declining print media in 2023.

Other business income comprised nearly 16% of the segment's revenue in 2023 (2022: 16%). The COVID pandemic depressed other income and the event business heavily in 2020-2021. We believe that this income was at a quite normal level l in 2023, but in the longer term, we suspect that at least printing services in other income is a declining source of income. Other sources of income in other income include marketing services and book publishing services.

Segment's financial targets and strategy

Sanoma's long-term financial targets for Media Finland are +/-2% comparable revenue growth and operational EBIT % excluding PPA of 12–14%.

Media Finland in brief, 2023

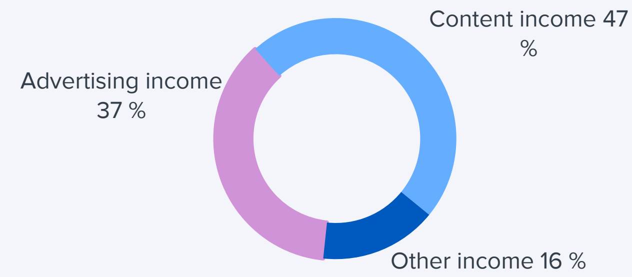
598 MEUR (2022: 618 MEUR)
Revenue 2023

6.7% (2022: 10.6 %)
Profitability, operational EBIT %*

54% / 46%
Share of non-print media/share of print media of revenue, 2023

#1 and #2 market position
News media, magazines, TV & Radio, events

Revenue by income type, 2023



Source: Inderes, Sanoma
* Operational EBIT excl. PPA

Media Finland 2/3

The revenue growth outlook of Media Finland is subdued and ambiguous in the long term, as close to half of the segment's income continues to be based on the print media market that is declining strongly thanks to structural trends. Despite the structural decline of print media, the company believes in sustainable growth of digital content demand so the segment’s strategy focuses on a leading position in the news & feature segment. Therefore, the strategy is built around maintaining a leading position throughout the shift from print to digital, which was also the basis for acquiring Alma Media’s regional news media operations.

However, due to the lower unit price of digital media, the shift from print to digital has a negative effect on the company’s revenue. However, digital is much more scalable due to its cost structure and, consequently, more profitable. Accelerating the shift is not, however, strategically attractive as quickly scaling down the distribution of print media and printing costs is not possible. In addition, it would weaken advertising income quickly and not all consumers are ready to move fully to digital consumption. Thus, Sanoma lets the consumer control the change pace instead of actively seeking to speed it up itself, which we feel is justified.

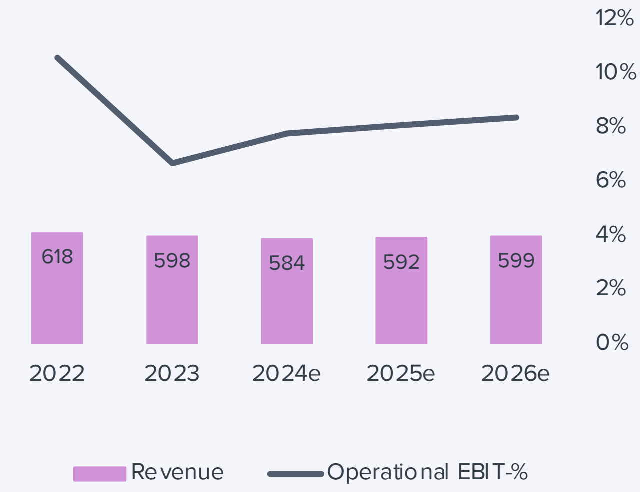
Media Finland's estimates for the next few years

We expect Media Finland's revenue to decline by 2% in 2024 to 584 MEUR reflecting the drop we expect in advertising, single copy sales and other income (Netwheels' divestment). Similarly, in 2025, we expect advertising sales to recover with the pick-up in economic growth. This, together with a slight increase in subscription income, turns our revenue forecast to a goos 1% growth in 2025. Thus, in our 2025 forecasts revenue will grow by 1.5% to 592 MEUR. We estimate that 2026 revenue will also grow by around 1% to 599 MEUR reflecting the longer-term growth potential of the current business portfolio in a growing economic environment.

We expect that Media Finland's operational EBIT for 2024 will increase to nearly 46 MEUR which corresponds to an operational EBIT of 7.8%. The operating result is supported by a decrease in certain cost items from paper and printing. In addition, we estimate that the decrease in personnel numbers will lower personnel costs and at least compensate for the impact of wage inflation. We expect that Media Finland’s non-recurring items for 2024 will be exceptionally positive, which reflects the sales gain from Netwheels that we suspect will be recorded in Q1.

The 2025 operational EBIT % is expected to climb to 8.1% and thus operational EBIT will be 48.2 MEUR. In our forecasts, this is driven in particular by the growth of advertising, so the revenue growth we expect will be effectively transferred to earnings. We also estimate that the growth in subscription income should strengthen profitability in 2025 forecasts. In line with the same overall picture and gradually digitalizing subscription income, we expect the EBIT for 2026 to increase by 5% to 50.5 MEUR. This corresponds with an 8.4 % operational EBIT margin.

Media Finland's estimates



Media Finland's estimates

Income statement (MEUR)	2022	2023	2024e	2025e	2026e
Revenue	618	598	**584**	**592**	**599**
Operational EBIT	65.8	39.8	**45.9**	**48.2**	**50.5**
EBIT adj.	58.9	33.0	**39.1**	**43.2**	**45.5**
EBIT	54.3	-8.4	**40.1**	**39.7**	**42.0**
Non-recurring items	-4.6	-41.3	**1.0**	**-3.5**	**-3.5**

Growth and profitability	2022	2023	2024e	2025e	2026e
Revenue growth %	0.5 %	-3.3 %	**-2.3 %**	**1.3 %**	**1.1 %**
Growth in operational EBIT %	- 10.5 %	-44.1 %	**18.5 %**	**10.6 %**	**5.3 %**
Operational EBIT-%	10.6 %	6.7 %	**7.8 %**	**8.1 %**	**8.4 %**
Adj. EBIT-%	9.5 %	5.5 %	**6.7 %**	**7.3 %**	**7.6 %**
EBIT-%	8.8 %	-1.4 %	**6.9 %**	**6.7 %**	**7.0 %**

Source: Inderes

Media Finland 3/3

Uncertainties related to estimates

We consider faster-than-expected growth in advertising and subscription income and more effective efficiency measures than expected to be the key positive risks related to our forecasts. However, at the outset, we do not expect Media Finland to have a significant potential for quickly biting efficiency measures after the substantial measures taken in history. We consider Finland's economic growth, and hence factors related to the development of advertising, as a negative risk. In addition, we find the possibilities of Media Finland to raise prices in consumer-driven businesses to be limited in the current economic situation. Therefore, we believe that continued high inflation could undermine the conditions for the profitability improvement we expect in the coming years.

Media Finland's valuation

We have examined the value of the Media Finland segment based on the valuation multiples of an extensive peer group consisting of international media companies. We have defined altogether 14 peer companies for the Media Finland segment. Primarily, the peer group comprises combined print & digital media companies, similar to Sanoma, as well as a few TV companies. In response to the media transformation, many previously traditional media companies have acquired other sources of revenue alongside conventional media sources, just as Sanoma has done. Thus, there is a difference between players in, e.g., how far their income has been digitalized and to what extent they have other income sources next to traditional media. There are also differences in their market positions. Thus, we only consider the value determined for Media Finland through the peer group as indicative.

We use the peer group's 2024-2025 median EV/EBIT multiples and 2024 EV/S multiple in our valuation. The median EV/EBIT multiples of the peer group for 2024-2025 we use are 12x and 10x. Similarly, the peer group's median EV/S ratio for 2024 is 1.1x.

With these above-mentioned valuation multiples and Media Finland's revenue and operational EBIT estimates, Media Finland's enterprise value (EV) is 469-652 MEUR with the average being 553 MEUR.

Thus, Media Finland's value has changed only slightly from our last extensive report (2023 estimate: 580 MEUR). This is caused by a slight change in both earnings forecasts and valuation multiples.

Media Finland's peer group

Peer group	EV	EV/EBIT		EV/S	
Company	**MEUR**	**24e**	**25e**	**24e**	**25e**
Alma Media	955	13.2	12.4	3.1	3.0
Future PLC	1334	5.2	5	1.5	1.4
Gannett	1219	18.3	9.7	0.5	0.5
ITV PLC	3963	7.2	6.7	0.9	0.9
Lagardere	7550	14.2	13.4	0.9	0.8
Arnoldo Mondadori Editore	725	7.5	7.2	0.8	0.8
News Corp	14911	18.6	15.4	1.6	1.5
New York Times	6215	18.9	16.6	2.6	2.5
Promotora de Informaciones	1177	9.7	8	1.2	1.2
Prosiebensat 1 Media	3879	10.3	9.6	1.0	1.0
Rizzoli Corriere	580	5.8	n.a.	0.7	n.a.
Roularta Media Group	86	7.4	7.0	0.2	0.2
Schibsted	6747	52.1	37.1	5.6	5.5
TX Group	1795	16.3	10.5	1.8	1.8
Average		**13.7**	**11.3**	**1.5**	**1.5**
Median		**11.7**	**9.7**	**1.1**	**1.2**

Source: Inderes and Refinitiv

Financial position and development 1/ 2

Balance sheet entails considerable intangible assets

Sanoma's balance sheet total was 2,037 MEUR at the end of 2023. The assets of the balance sheet are largely composed of intangible assets. These consist of goodwill of 812 MEUR (40% of the balance sheet) and other intangible assets of 720 MEUR (35% of the balance sheet). Goodwill and intangible assets are mostly the result of acquisitions, in addition to which other intangible assets include capitalization of broadcasting rights and content production costs. 86% of goodwill is allocated to the Learning business, reflecting its large acquisitions in recent years.

The business ties up reasonable amounts of long-term tangible assets consisting mainly of buildings, i.e., premises. At the end of 2023, tangible assets stood at 185 MEUR, or 9% of the balance sheet total. We consider the asset items in the balance sheet to be current and do not expect extensive intangible assets to result in material write-downs. The underlying reason is that goodwill mainly targets the Learning business, which is a very profitable. Impairment testing carried out by the company, which we believe have been carried out with reasonable parameters, also support this view.

Working capital is clearly negative

The company's net working capital is typically clearly negative because the company accrues significant advance payments and non-interest-bearing debts are typically clearly higher than accounts receivable. At the end of 2023, net working capital was a negative 200 MEUR or -14% of revenue (2022: -11 %). This is lower than usual relative to the company's historical level, which we suspect is partly explained by the change in the focus of the business as the relative share of the Learning business has increased. Thus, we do not expect the net working capital would fall to the historical level of about -20 % with the current structure.

Indebtedness is elevated, but under control

At the end of 2023, the company had 706 MEUR in interest-bearing liabilities (incl. lease liabilities), 66 MEUR in cash assets and, thus, interest-bearing net debt was 640 MEUR. It should be noted, however, that the balance sheet contains a hybrid bond of 150 MEUR, which, per accounting practice, is included as equity. It thus reduces net debt and improves balance sheet indicators. However, the capital of the hybrid bond is ultimately not shareholders' capital, and thus we consider this decrease in net debt to only be technical. The indebtedness in 2023 was 2.8x measured with the net debt/EBITDA ratio. This is within the company's target level and as a whole, we consider it a sustainable level considering the risk profile of the business.

At the end of 2023, the company's financial loans consisted of long-term loans of approximately 250 MEUR and short-term loans of approximately 300 MEUR. The long-term loans consist of a syndicated loan of 250 MEUR, maturing in August 2026. The short-term loans included a bond of 200 MEUR that matured in March 2024. Regarding the refinancing of this loan, the company has agreed on a 100 MEUR loan agreementwith a maturity of 12 months including an option for a 10-month extension. In other words, large loans will for due for the company in the coming years, but we do not expect their refinancing to become a problem. The company also already has a 300 MEUR committed credit facility, which was fully unused at the end of 2023.

Free cash flow is at a good level

Sanoma's operational cash flow in 2019-2023 has been at 137-181 MEUR and in 2023 it reached 148 MEUR. On average, cash flow from operating activities has been just under 14% relative to revenue, i.e. at a fairly good level.

However, the impact of IFRS16 should be included, since, despite relatively moderate fixed asset investments (on average 42 MEUR in the period), in the current size class, Sanoma's lease liability repayments have been roughly 30 MEUR per year.

Considering fixed asset investments and lease liability repayments, free cash flow in 2019-2023 averaged approximately 87 MEUR and decreased to 74 MEUR in 2023. The average free cash flow for the period has been some EUR 0.54 per share and the free cash flow for 2023 corresponds to EUR 0.45 per share.

During the same period, Sanoma has paid an average dividend of approximately EUR 0.46 per share, leaving little of the free cash flow for debt repayment. The 2023 dividend was set at EUR 0.37 per share. The company's financial position allows for a dividend of this size, and there is no immediate need in the balance sheet

Financial position and development 2/ 2

to decrease net debt, as we believe the level is sustainable. On the other hand, to continue growing inorganically and achieve the growth targets of the Learning business, the company must strengthen its financial position unless it makes significant use of equity financing.

We, therefore, estimate that the company's dividend is currently at a sustainable level, and in the coming years, the cash flow that will strengthen through a contraction in content investments will be used to reduce indebtedness. This provides better opportunities for continued inorganic growth in the medium term, although we believe large acquisitions would require equity financing in the coming years. In practice, this could mean, for example, raising equity through a share issue.

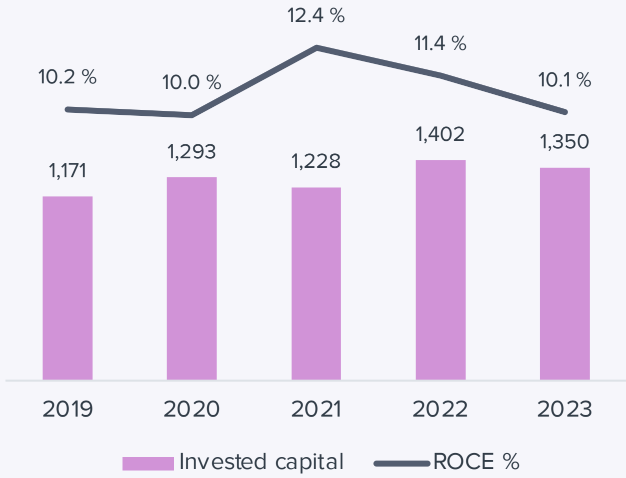
Learning's inorganic growth has tied up capital which, however, generates reasonable income

As a result of pruning non-core activities in 2016-2019 and the resulting reduction in the balance sheet, Sanoma's balance sheet and capital employed has grown considerably again in recent years, which is based especially on inorganic growth in Learning. Despite a clearly inflated balance sheet, the company's ROCE has reached a good level, as over the last five years it has averaged close on 11. Therefore, the business has created value, since the achieved ROCE exceeds the required return on capital we find justified for the company.

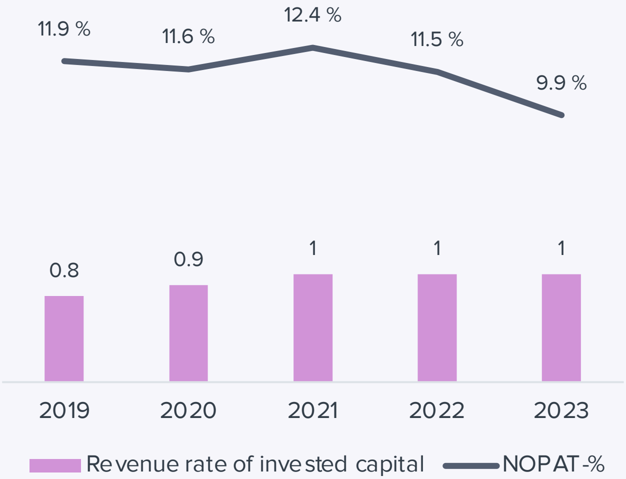
When examining the ROCE it should be noted that the EBIT of recent years do not fully reflect the results of acquisitions made during the financial year for the whole year. This reduces ROCE, as the capital used for the arrangements is fully reflected in the balance sheet as committed capital. We have used the average capital invested in the previous two years to calculate ROIC.

We estimate that over time, the ROCE of the current businesses will be slightly higher than in the last five years if the company succeeds in the ongoing significant profitability improvement program in Learning and sustainably achieves the targeted higher profitability level in its business.

Development of return on invested capital



ROCE components

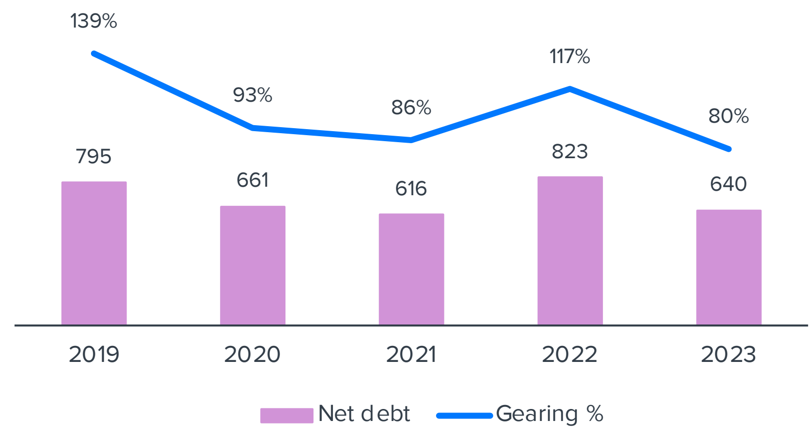


Source: Inderes

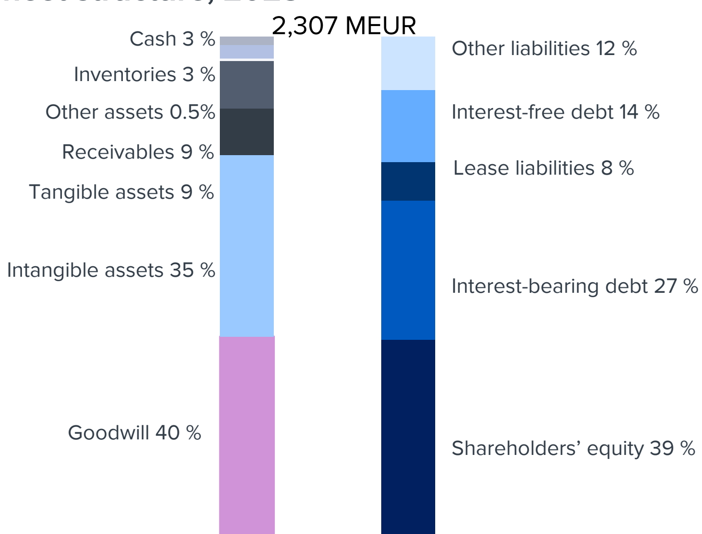
Financial position

Revenue and operational EPS

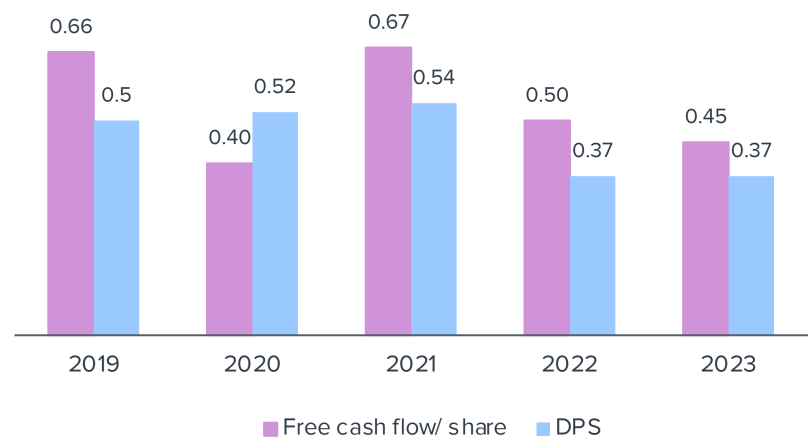
Net debt (MEUR) and gearing %*



Balance sheet structure, 2023



Free cash flow** and dividend per share



Source: Inderes, Sanoma
* NB! Hybrid bond treated as equity
** Free cash flow = cash flow from operating activities – com. Investments — IFRS16 payments

Group level estimates

This year the company struggles with cost inflation

Sanoma expects the Group's reported revenue to be 1.29-1.34 BNEUR (2023: 1.4 bn) and operational EBIT excluding PPA to be 160-180 MEUR in 2024 (2023: 175 MEUR). Our 2024 revenue estimate is 1,330 MEUR, which corresponds to a 4.5% revenue growth. The decline in revenue is driven by both segments. We forecast that operational EBIT will in practice develop stably from the previous year and be 174 MEUR. Our forecast is slightly above the midpoint of the guidance range. Below the operational items, we expect ent financial costs to increase from the year before with higher interest rates and refinancing of liabilities, while we expect the tax rate to be at a typical level. Thus, we forecast the adjusted EPS for 2024 to be EUR 0.41 per share. We expect the company to pay a similar dividend in 2024 as in the year before, that is EUR 0.37 per share.

Forecasts for 2025-2026: earnings improvement from efficiency measures

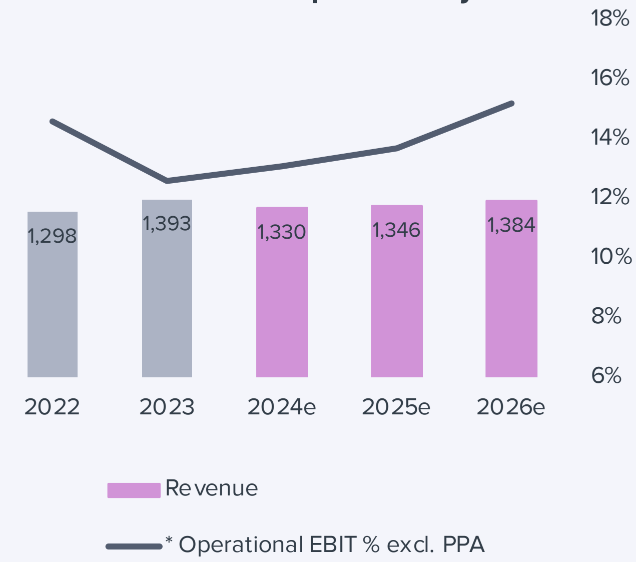
In 2025-2026, we expect Sanoma's revenue to grow by some 1% and 3%. The growth in 2025 reflects the picking up of Media Finland's revenue with economic development and the stable revenue development of the relatively larger Learning. In 2026, we expect Learning to achieve significantly faster growth, which will turn the Group-level revenue into clear growth.

The consolidated EBIT margins in 2025 and 2026 are 13.7 % and 15.2 % with our estimates. The significantly larger margin improvement in 2026 forecasts is based in particular on Learning's Solar efficiency program, which has a significant impact on Group-level profitability. In line with operational earnings growth, we expect EPS to remain on a growth path in the next few years as gearing decreases and lowers financing costs. We also expect interest rates to fall from the current level in our forecasts. With operational earnings growth, we expect the company to raise its dividend to EUR 0.39 per share in 2025 and further to EUR 0.40 per share in 2026. The free cash flow in the next few years should strengthen even faster than the operational result. This is based on content investments decreasing reflecting the Solar efficiency program and curriculum reform. Certain non-recurring items still burden this year but especially in 2025-2026 these factors should significantly strengthen the free cash flow.

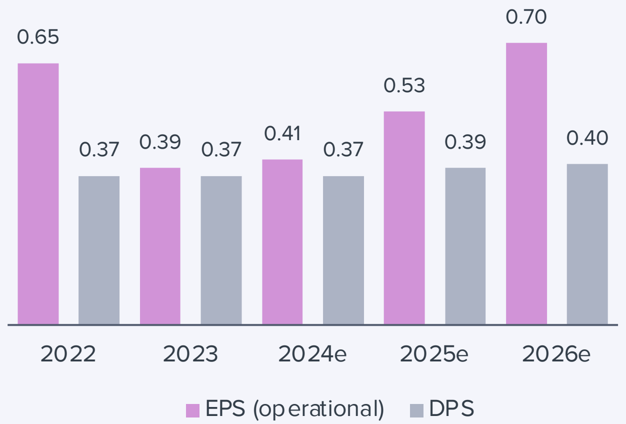
Long-term earnings estimates

In our forecasts, Sanoma's long-term revenue growth is 2%. This reflects a 2-5% growth in the Learning business and a steadily developing Media business. After the profitability improvement in the coming years, we expect a somewhat stable long-term profitability development, as we expect Learning to reach its profitability potential and we do not expect the Media business to reach its long-term profitability target.

Revenue and profitability



EPS and dividend



Source: Inderes

Estimate revisions

Estimate revisions 2024e-2026e

- In this update, we have not really make any changes to our operational forecasts
- At the level of the reported result, we revised the sales gain from Netwheels slightly to more moderate than our previous forecast
- We also slightly raised the net financial expenses forecasts for the current year, which depressed the forecast of the adjusted EPS for this year

Estimate revisions	2024e	2024	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	1330	1330	0%	1346	1346	0%	1383	1384	0%
EBIT (exc. NRIs)	134	133	0%	151	151	0%	186	186	0%
EBIT	101	98	-3%	143	143	0%	178	178	0%
PTP	67.0	60.5	-10%	113	113	0%	151	150	0%
EPS (excl. NRIs)	0.42	0.41	-5%	0.53	0.53	0%	0.71	0.70	0%
DPS	0.37	0.37	0%	0.39	0.39	0%	0.40	0.40	0%

Source: Inderes

Group level estimates

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**1298**	**218**	**341**	**580**	**254**	**1393**	**208**	**329**	**549**	**243**	**1330**	**1346**	**1384**	**1410**
Media Finland	618	142	153	150	153	598	138	148	146	152	584	592	599	605
Learning	681	76	188	431	100	795	71	181	403	92	746	754	785	805
EBITDA	**329**	**11**	**55**	**205**	**16**	**287**	**17**	**91**	**191**	**16**	**315**	**357**	**368**	**380**
Depreciation	-217	-54	-55	-58	-67	-235	-54	-54	-54	-54	-217	-214	-190	-190
EBIT excl. NRI and PPA	**189**	**-31**	**54**	**179**	**-27**	**175**	**-27**	**53**	**168**	**-19**	**174**	**184**	**211**	**219**
EBIT (excl. NRI)	**150**	**-41**	**43**	**169**	**-37**	**134**	**-38**	**43**	**157**	**-29**	**133**	**151**	**186**	**198**
EBIT	**112**	**-43**	**-1**	**147**	**-52**	**52**	**-37**	**37**	**137**	**-38**	**98**	**143**	**178**	**190**
Media Finland	59	3	7	15	7	33	4	7	15	12	39	43	45	47
Learning	99	-42	39	156	-39	114	-39	39	145	-39	106	121	153	164
NRI	-38	-2	-43	-22	-14	-82	1	-6	-21	-9	-35	-8	-8	-8
Other and eliminations	-8	-2	-3	-2	-6	-13	-3	-3	-3	-3	-12	-13	-13	-13
Net financial items	-13	-6	-8	-9	-7	-31	-9	-10	-10	-9	-38	-30	-28	-27
PTP	**99**	**-51**	**-9**	**138**	**-58**	**20**	**-46**	**27**	**127**	**-47**	**60**	**113**	**150**	**164**
Taxes	-22	11	-2	-38	14	-17	10	-6	-32	10	-18	-25	-33	-36
Minority interest	-1	0	0	0	0	-1	0	0	0	0	0	0	0	0
Net earnings	**76**	**-40**	**-14**	**97**	**-47**	**-4**	**-39**	**19**	**93**	**-39**	**33**	**79**	**108**	**118**
EPS (adj.)	**0.65**	**-0.23**	**0.14**	**0.70**	**-0.22**	**0.39**	**-0.25**	**0.15**	**0.69**	**-0.19**	**0.41**	**0.53**	**0.70**	**0.77**
EPS (rep.)	**0.47**	**-0.25**	**-0.08**	**0.59**	**-0.29**	**-0.03**	**-0.24**	**0.12**	**0.57**	**-0.24**	**0.20**	**0.48**	**0.66**	**0.72**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	3.4 %	8.9 %	12.7 %	-2.3 %	7.3 %	-4.3 %	-3.6 %	-5.4 %	-4.0 %	-4.5 %	1.2 %	2.8 %	1.9 %
Adjusted EBIT growth-%	-5.2 %	112.0 %	-3.2 %	22.9 %	196.4 %	-10.7 %	-7.4 %	1.2 %	-6.8 %	-20.7 %	-0.2 %	13.0 %	23.0 %	6.5 %
EBITDA-%	25.3 %	5.2 %	16.0 %	35.3 %	6.2 %	20.6 %	8.2 %	27.8 %	34.8 %	6.5 %	23.7 %	26.5 %	26.6 %	27.0 %
Adj. EBIT % excl. PPA	14.6 %	-14.1 %	15.7 %	30.9 %	-10.7 %	12.6 %	-13.2 %	16.3 %	30.5 %	-7.9 %	13.1 %	13.7 %	15.2 %	15.5 %
Adjusted EBIT-%	11.5 %	-18.7 %	12.5 %	29.1 %	-14.7 %	9.6 %	-18.1 %	13.2 %	28.7 %	-12.1 %	10.0 %	11.2 %	13.4 %	14.0 %
Net earnings-%	5.9 %	-18.4 %	-4.0 %	16.7 %	-18.6 %	-0.3 %	-18.7 %	5.7 %	16.9 %	-16.2 %	2.5 %	5.8 %	7.8 %	8.4 %

Source: Inderes

Investment profile

Sanoma profiled as a stable dividend company for investors

As a result of the relative growth in the Learning business, Sanoma's investment profile has changed considerably in recent years. We believe that the most important change is partial replacement of cyclical advertising income flows with stable and predictable income flows from the Learning business.

As part of the implemented structural change in revenue and earnings, we believe the longer-term risk profile of the share has decreased, and the company's operational profitability and cash flow profile have also improved. However, indebtedness, together with increased interest rates, consumes a substantial part of cash flow due to increased interest costs. In the short term, this slows down the targeted inorganic growth of the Learning business. However, inorganic growth can be expected to continue in the medium term.

Acquisitions play a major role

Acquisitions are an important part of Sanoma's strategy, and the developmental stage and trends of the sector increase the probability of acquisitions also in future.

The size class of Sanoma's acquisitions may vary significantly also in future in the long term, but we believe that it is likely that even larger acquisitions will not significantly change the company's operational risk profile in the future. Potential acquisitions are not included in our estimates before they materialize, as it is practically impossible to predict them.

In our opinion, Sanoma's key positive value drivers for investors are:

Creating shareholder value through acquisitions: Accelerating earnings growth through acquisitions in the long term is, in our view, quite likely. We believe, the focus of acquisitions will continue to be on the more stable Learning operations. Therefore, acquisitions provide the opportunity to change the revenue and earnings structure towards even more stable income components.

Growth of digital business: We believe Sanoma's digital media operations have reasonable growth prospects and their profitability is good, so they form a value driver for the share.

Improved profitability: We see potential for Sanoma to improve profitability in both segments, which, if successful, strengthens cash flow and reduces its indebtedness. The Solar program in the Learning business will bring significant earnings improvements if successful, whereas the need for efficiency in the Media business is continuous reflecting the structural change in operations.

In our opinion, Sanoma's key negative value drivers and risks for investors are:

Reduced print media income: We expect the decline of Sanoma's print media revenue to continue far into the future, which will subdue the company's overall growth and depress cash flow in the Media business.

Weakening competitive position: The competitive field in the media industry is fragmented, the threshold to enter the industry has lowered and competition for advertising investments has increased through global operators (e.g. Facebook and Google), which means the competitive position of national, regional and local media companies has weakened.

Technological risks: The key risks in the field of digital business operations are linked to technological changes that may rapidly change the markets and business models, as well as significantly increase the costs of product development and advertising. Currently, such risks include, e.g., the increasing popularity of ad blockers and the strengthening position of social media tech platforms.

Risks related to the operating environment: The cyclical sensitivity of Sanoma's business has decreased considerably, but the weak economic cycle elevated inflation weaken earnings expectations, especially in Media Finland, where we believe price increases are more challenging. Long-term demand trends also require continuous adjustments in the media business.

Acquisitions risks: Sanoma has many unsuccessful acquisitions in the past that have destroyed shareholder value and serve as a reminder of the risks involved. However, with the current business structure, we feel the probability is more moderate than before, and weak acquisitions have been made before the current management of the company.

Investment profile

1. **The Learning business is defensive and grows over time**

2. **Structural change in media decelerates organic growth, growth is sought through acquisitions especially in Learning**

3. **Reasonable operational risk level: strong market position, highly diversified income, modest share of cyclical income**

4. **Elevated gearing, which together with increased debt cost weakens cash flow**

5. **Cost inflation tests pricing power and efficiency measures**

Potential

- Improving income defensiveness as the focus of business shifts increasingly towards the Learning business
- Growth in digital income and services
- Efficiency programs in both segments and profitability improvement potential
- Improved revenue structure with growth in the Learning business

Risks

- Failed acquisitions and integration
- Acceleration of the structural change in media and drop in print media
- Weakening competitive position especially against global competitors
- Risk related to technology and regulations

Source: Inderes

Valuation 1/2

Valuation methods

We examine the share's valuation with the expected total return based on the estimates for the next few years (earnings growth + dividends + expected changes in valuation multiples). In addition, we support the valuation with a sum of the parts calculation and DCF model. We have used relative valuation when defining the segment-specific values for our sum of the parts calculation. We examine the absolute valuation with the net result-based P/E ratio that also considers the interest costs of the hybrid bond and the EV/EBITA and EV/IC ratio that consider the balance sheet structure.

Share's expected total return

We believe the expected return of Sanoma's share relies substantially on dividend yield in the next few years, which with our estimates is on average nearly 6 % over the next few years.

We expect Sanoma's operational result to grow in the next few years, which is mainly based on Learning's earnings growth. This is also expected to flow into net profit due to the moderation of indebtedness and resulting lower net financial costs. Thus, we expect the company's adjusted EPS to grow substantially by 2026. Therefore, earnings growth constitutes a key driver for the expected return of the stock.

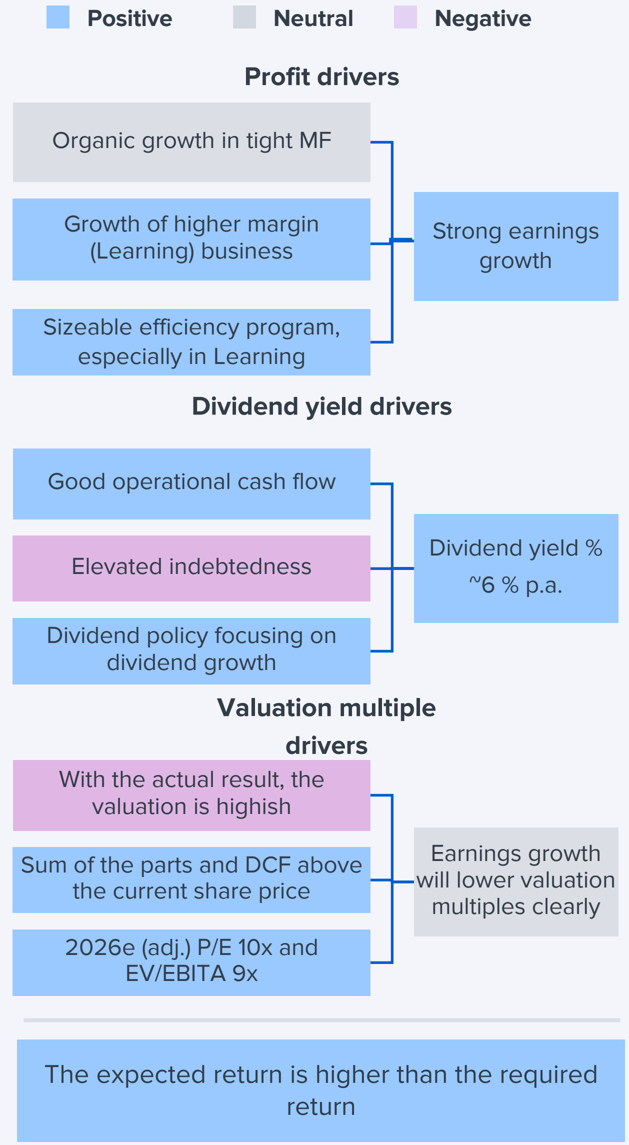
With 2023 earnings, Sanoma is valued at an adjusted P/E ratio of 18x and the corresponding EV/EBITA ratio is 11x. We find these valuation multiples high as a whole, especially considering the net profit-based valuation that takes into account the interest rates of the hybrid bond. We expect the earnings recovery to push the corresponding valuation multiples to lower levels, as the 2026 adjusted P/E is only 10x and EV/EBITA is 9x. These valuation multiples are clearly below the median valuation multiples of the past five years (2019-2023 adj. P/E 19x and EV/EBITA ~ 15x). We do not consider the historical valuation level justified at the moment when required returns have clearly increased with higher interest rates. We now consider 12-15x P/E ratios and 12-14x EV/EBIT levels justified.

However, we believe the earnings growth more than compensates for the downside in the valuation multiples, and thus earnings growth creates a bigger driver for the expected return than the downside in the valuation. This, together with the dividend yield we expect, pushes the expected return above the required return

DCF

We feel the DCF calculation can be given weight in Sanoma's valuation especially as the largest share of cash flows comes from Learning's cash flow that is stable and predictable in the longer term. Due to the steady growth of Learning (excluding possible acquisitions) and the decrease in print media, revenue reaches a 2% growth in the model in the medium- and long-term forecast periods (2027-2033). Correspondingly, in our model, the EBIT margin rises from 11.5% in 2023 to an average of 13.2% in the longer term and is 13.0% in the terminal. This reflects the higher profitability of the Learning business and an increasing relative share of revenue. In recent history, the company has also reached higher operating profitability than these levels (excl. PPA), so we do not consider these long-term

TSR drivers 2023-2026e



Source: Inderes

Valuation 2/2

profitability expectations too demanding. The weighted average cost of capital (WACC) we use in the cash flow model is 7.6%, and the cost of equity is 8.4%. Based on these parameters, the value of the stock according to our DCF model is EUR 8.3 per share.

Balance sheet based valuation also indicates that pricing is moderate

The EV of Sanoma at the end of 2023 calculated at the current price corresponds to under 1.3x of its invested capital (EV/IC) in our forecasts. Similarly, historically, the company has achieved a roughly 11% ROCE, based on which the current expected return is just over 8%. This is above the expected return we apply, and therefore, also on a balance sheet basis, the valuation turns attractive, especially when we expect the return on capital to improve through improved performance.

Sum-of-the-parts calculation

Sanoma's businesses are highly independent and there are no significant synergies between them so we believe they should be valued with different valuation multiples due to their different demand drivers, risk profiles and profitability levels. Thus we believe the sum of the parts offers a reasonable yardstick for the share's valuation and increases transparency into the company's value creation.

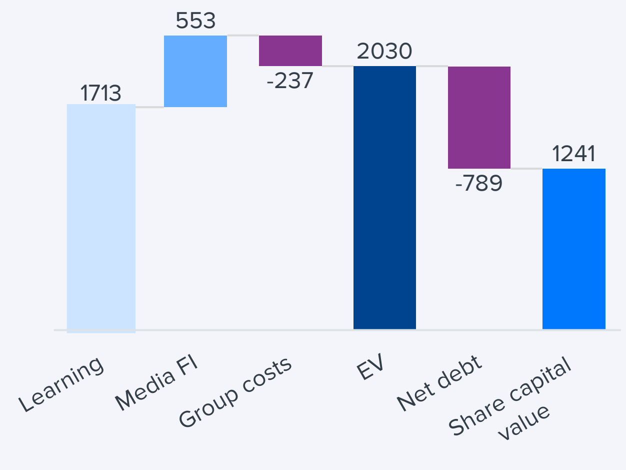
Our estimate of the gross value of Sanoma's parts is 2,266 MEUR based on the relative valuations we present in the segment reviews. Learning is equivalent to good 2/3 of the Group's EV, while Media Finland's value corresponds to roughly 1/3, reflecting its lower justified valuation level and lower earnings. By deducting the present value of the Group costs (237 MEUR) and net interest-bearing debt (incl. 150 MEUR hybrid) from the segments' EV at the end of 2023 (789 MEUR), the value of Sanoma's share capital based on the sum of the parts is 1,241 MEUR or around EUR 7.6 per share.

We believe that the sum of parts calculation works in creating the framework for Sanoma's valuation but we do not base our target price directly on it. The reason is that we do not expect the value of the separate components to be realized through M&A transactions, because we do not expect Sanoma Group to be split into parts. The peer groups that can be formed for both segments and especially Learning are also somewhat limited or not fully comparable. Due to this, we consider the value given by the sum of the parts as only indicative.

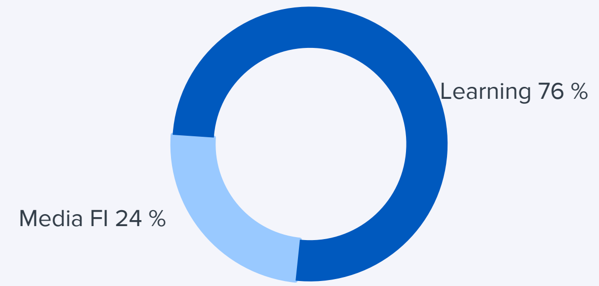
Valuation summary

Based on different methods, the fair value of the share is EUR 7-8.5 per share. The methods indicate that the share is moderately valued relative to the earnings development forecasted for the coming years. At the same time, we consider the steps of the earnings improvement program, which largely relies on the efficiency program in Learning, to be quite clear and thus we feel the risk level of the improvement program is lower than average. Against this backdrop, we find the risk/reward ratio attractive at the current price level.

Estimate of Sanoma's sum of the parts, 5/2024



Distribution of EV, 5/2024

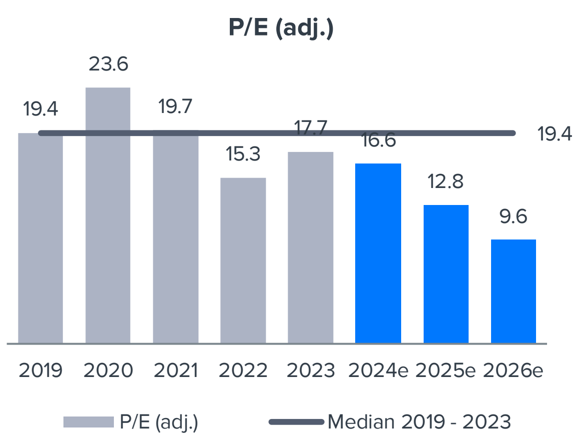


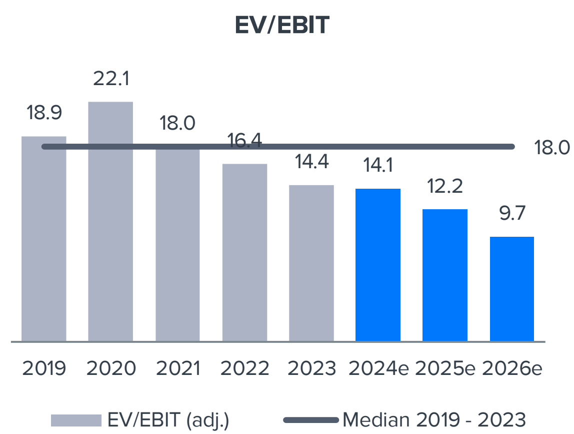
Source: Inderes

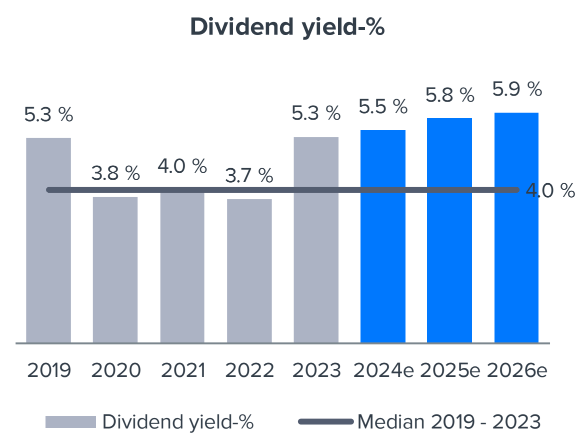
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	9.45	13.7	13.6	9.96	6.95	**6.73**	**6.73**	**6.73**	**6.73**
Number of shares, millions	163	163	163	163	163	**163**	**163**	**163**	**163**
Market cap	1536	2240	2219	1625	1135	**1100**	**1100**	**1100**	**1100**
EV	2348	2951	2842	2453	1928	**1881**	**1837**	**1796**	**1753**
P/E (adj.)	19.4	23.6	19.7	15.3	17.7	**16.6**	**12.8**	**9.6**	**8.8**
P/E	25.0	9.5	22.1	21.3	neg.	**33.0**	**14.0**	**10.2**	**9.3**
P/B	2.9	3.2	3.1	2.3	1.4	**1.4**	**1.4**	**1.3**	**1.2**
P/S	1.7	2.1	1.8	1.3	0.8	**0.8**	**0.8**	**0.8**	**0.8**
EV/Sales	2.6	2.8	2.3	1.9	1.4	**1.4**	**1.4**	**1.3**	**1.2**
EV/EBITDA	9.3	6.6	8.1	7.5	6.7	**6.0**	**5.1**	**4.9**	**4.6**
EV/EBIT (adj.)	18.9	22.1	18.0	16.4	14.4	**14.1**	**12.2**	**9.7**	**8.9**
Payout ratio (%)	132.3 %	35.8 %	87.6 %	79.2 %	neg.	**181.6 %**	**81.1 %**	**60.8 %**	**58.2 %**
Dividend yield-%	5.3 %	3.8 %	4.0 %	3.7 %	5.3 %	**5.5 %**	**5.8 %**	**5.9 %**	**6.2 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Alma Media	816	955	13.2	12.4	10.7	10.1	3.1	3.0	14.6	14.0	4.8	5.2	3.5
Future PLC	899	1334	5.2	5.0	4.7	4.6	1.5	1.4	5.5	5.1	0.5	0.5	66.2
Gannett Co	336	1219	18.3	9.7	4.8	4.5	0.5	0.5		10.0			
ITV PLC	3290	3963	7.2	6.7	6.1	5.6	0.9	0.9	8.3	7.4	7.1	7.4	1.7
Lagardere SA	2971	7550	14.2	13.4	8.4	9.1	0.9	0.8	11.7	10.7	3.9	4.1	4.1
Arnoldo Mondadori Editore	587	725	7.5	7.2	4.8	4.6	0.8	0.8	8.7	8.3	5.9	6.6	1.8
News Corp	12870	14911	18.6	15.4	10.2	9.2	1.6	1.5	32.3	26.7	0.8	0.8	1.6
New York Times	6638	6215	18.9	16.6	15.7	14.1	2.6	2.5	25.8	23.2	1.2	1.2	3.7
Promotora de Informaciones SA	355	1177	9.7	8.0	6.2	5.6	1.2	1.2	10.5	5.8			
Prosiebensat 1 Media	1695	3879	10.3	9.6	6.8	6.5	1.0	1.0	7.0	6.4	3.9	4.3	1.1
Rizzoli Corriere	427	580	5.8		4.0		0.7		7.4		7.3		1.0
Roularta Media Group	143	86	7.4	7.0	2.8	2.7	0.2	0.2	14.3	13.2	9.2	9.2	0.7
Schibsted	6129	6747	52.1	37.1	30.4	25.5	5.6	5.5	55.7	38.0	0.7	0.8	1.8
TX Group AG	1543	1795	16.3	10.5	8.4	7.2	1.8	1.8	10.0	8.9	3.6	4.5	0.4
Bloomsbury Publishing PLC	515	481	8.7		7.7	10.0	1.2	1.5	11.8	16.8	2.3	2.4	
Pearson PLC	7660	8651	12.2	11.3	9.1	8.7	2.0	1.9	15.4	13.8	2.5	2.7	1.7
John Wiley & Sons Inc	1932	2694	73.2	13.7	8.5	7.5	1.6	1.7	15.7	12.2	3.7	3.8	
Wilmington PLC	393	372	12.0	11.7	10.6	10.3	2.4	2.3	16.7	15.8	2.9	3.0	
2U Inc	19	797	14.9	13.6	7.0	6.0	1.1	1.0		6.5			0.1
Chegg Inc	515	711	7.9	7.7	4.4	4.2	1.2	1.2	5.2	5.0			0.6
Sanoma (Inderes)	**1100**	**1881**	**14.1**	**12.2**	**6.0**	**5.1**	**1.4**	**1.4**	**16.6**	**12.8**	**5.5**	**5.8**	**1.4**
Average			**16.7**	**12.0**	**8.5**	**8.2**	**1.6**	**1.6**	**15.4**	**13.0**	**3.8**	**3.8**	**6.0**
Median			**12.1**	**10.9**	**7.3**	**7.2**	**1.2**	**1.4**	**11.8**	**10.7**	**3.6**	**3.8**	**1.7**
Diff-% to median			**17%**	**12%**	**-19%**	**-28%**	**16%**	**-3%**	**41%**	**20%**	**51%**	**52%**	**-14%**
Media peers													
Average			**13.7**	**11.3**	**8.2**	**7.8**	**1.5**	**1.5**	**15.1**	**12.7**			**6.7**
Median			**11.7**	**9.7**	**6.5**	**6.5**	**1.1**	**1.2**	**10.5**	**10.0**			**1.7**
Learning peers													
Average			**21.5**	**11.6**	**7.9**	**7.8**	**1.6**	**1.6**	**12.9**	**11.7**			**0.8**
Median			**12.1**	**11.7**	**8.1**	**8.1**	**1.4**	**1.6**	**15.4**	**13.0**			**0.6**

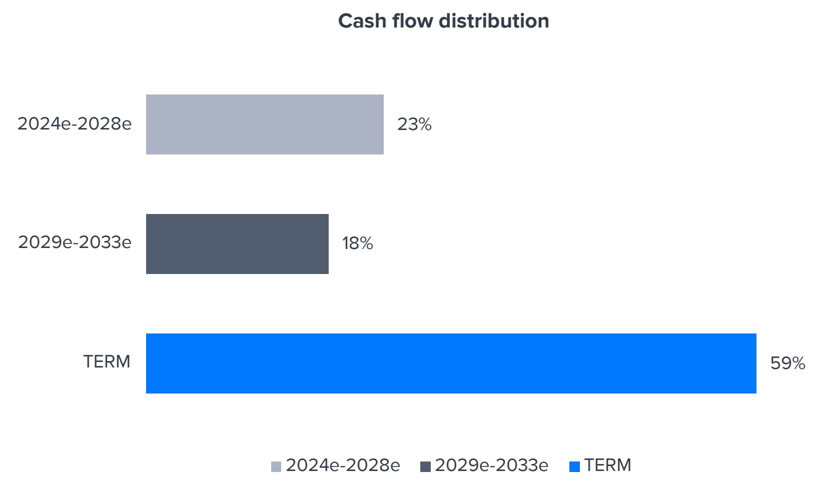
Source: Refinitiv / Inderes

DCF calculation

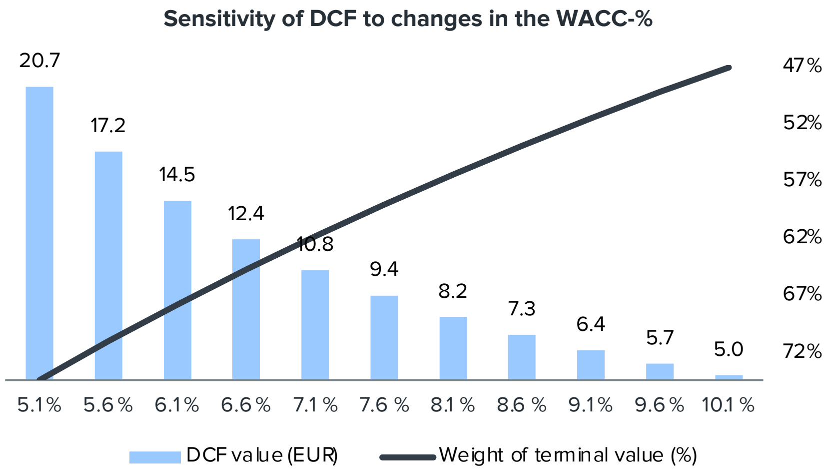
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	7.3 %	-4.5 %	1.2 %	2.8 %	1.9 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	3.7 %	7.4 %	10.7 %	12.9 %	13.5 %	13.0 %	13.5 %	13.5 %	13.0 %	13.0 %	13.0 %	13.0 %
EBIT (operating profit)	**51.5**	**98.5**	**143**	**178**	**190**	**187**	**198**	**202**	**198**	**202**	**206**	
+ Depreciation	235	217	214	190	190	180	183	192	193	195	196	
- Paid taxes	-17	-18	-25	-33	-36	-36	-40	-41	-41	-42	-43	
- Tax, financial expenses	-6.7	-11.0	-6.7	-6.1	-5.9	-4.9	-3.4	-3.1	-2.8	-2.7	-2.6	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	55	-1	-7	-6	-8	-1	-4	-4	-6	-12	0.0	
Operating cash flow	**318**	**285**	**318**	**323**	**331**	**325**	**334**	**345**	**342**	**340**	**357**	
+ Change in other long-term liabilities	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-203	-178	-181	-186	-192	-194	-196	-198	-200	-202	-204	
Free operating cash flow	**114**	**107**	**138**	**136**	**139**	**131**	**138**	**147**	**142**	**138**	**154**	
+/- Other	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	114	107	138	136	139	131	138	147	142	138	154	2796
Discounted FCFF		**102**	**122**	**112**	**106**	**92.9**	**90.9**	**90.4**	**81.1**	**73.3**	**76**	**1376**
Sum of FCFF present value		2323	2220	2099	1986	1880	1788	1697	1606	1525	1452	1376
Enterprise value DCF		**2323**										
- Interest bearing debt		-855										
+ Cash and cash equivalents		65.9										
-Minorities		0										
-Dividend/capital return		0										
Equity value DCF		**1534**										
Equity value DCF per share		**8.3**										

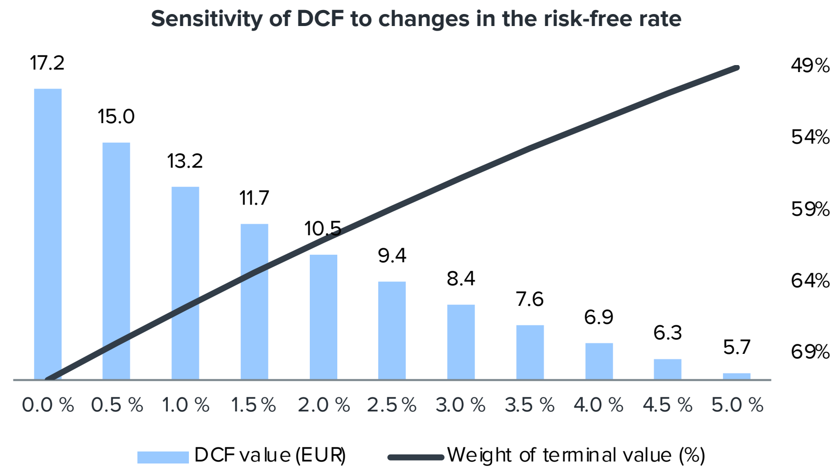
WACC	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	5.5 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.4 %**
Weighted average cost of capital (WACC)	**7.6 %**

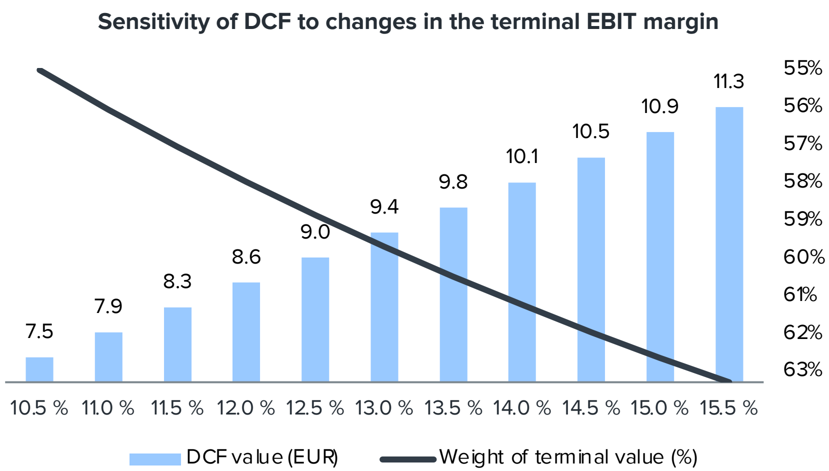
Source: Inderes

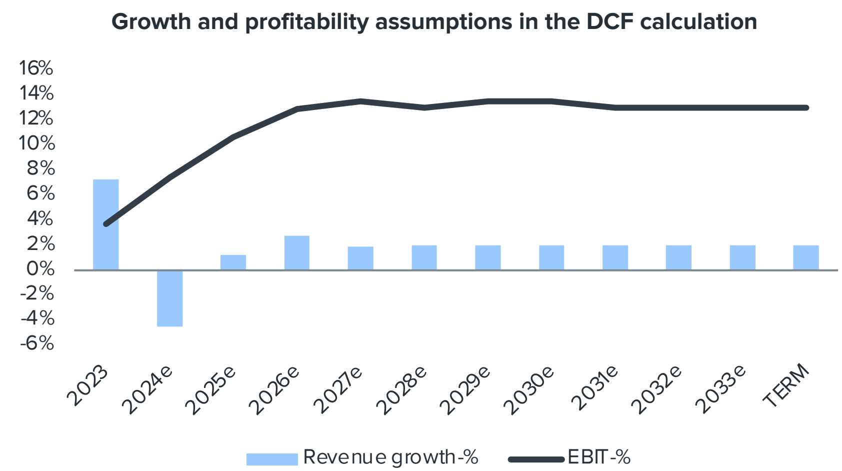


DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**1673**	**1643**	**1645**	**1645**	**1667**
Goodwill	812	812	812	812	812
Intangible assets	611	601	583	559	562
Tangible assets	211	185	205	228	247
Associated companies	4	4	4	4	4
Other investments	4	6	6	6	6
Other non-current assets	21	31	31	31	31
Deferred tax assets	11	6	6	6	6
Current assets	**302**	**273**	**261**	**273**	**287**
Inventories	71	54	51	54	55
Other current assets	11	14	14	14	14
Receivables	179	139	133	141	152
Cash and equivalents	41	66	63	64	65
Balance sheet total	**2104**	**2037**	**1985**	**1965**	**1975**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**702**	**799**	**770**	**788**	**832**
Share capital	71	71	71	71	71
Retained earnings	205	140	113	131	175
Hybrid bonds	0	149	149	149	149
Revaluation reserve	0	0	0	0	0
Other equity	419	436	436	436	436
Minorities	7	3	0	0	0
Non-current liabilities	**850**	**499**	**533**	**615**	**570**
Deferred tax liabilities	121	116	116	116	116
Provisions	0	2	2	2	2
Interest bearing debt	719	374	408	491	445
Convertibles	0	0	0	0	0
Other long term liabilities	9	7	7	7	7
Current liabilities	**552**	**738**	**683**	**561**	**574**
Interest bearing debt	145	331	287	161	167
Payables	252	242	231	236	242
Other current liabilities	154	165	165	165	165
Balance sheet total	**2104**	**2037**	**1985**	**1965**	**1975**

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	1252	1298	1393	**1330**	**1346**
EBITDA	349	329	287	**315**	**357**
EBIT	142	112	52	**98**	**143**
PTP	134	99	20	**60**	**113**
Net Income	100.5	76.2	-4.1	**33.3**	**78.6**
Extraordinary items	-15.8	-37.9	-82.3	**-35.0**	**-7.5**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	1932	2104	2037	**1985**	**1965**
Equity capital	721	702	799	**770**	**788**
Goodwill	753	812	812	**812**	**812**
Net debt	616	823	640	**632**	**588**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	349	329	287	**315**	**357**
Change in working capital	-7	-69.1	54.8	**-1.3**	**-7.5**
Operating cash flow	303	227	318	**285**	**318**
CAPEX	-159	-324	-203	**-178**	**-181**
Free cash flow	142	-136	114	**107**	**138**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.62	0.47	-0.03	**0.20**	**0.48**
EPS (adj.)	0.69	0.65	0.39	**0.41**	**0.53**
OCF / share	1.86	1.39	1.95	**1.75**	**1.95**
FCF / share	0.87	-0.83	0.70	**0.66**	**0.84**
Book value / share	4.38	4.26	4.88	**4.71**	**4.82**
Dividend / share	0.54	0.37	0.37	**0.37**	**0.39**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	18%	4%	7%	**-5%**	**1%**
EBITDA growth-%	-22%	-6%	-13%	**10%**	**13%**
EBIT (adj.) growth-%	18%	-5%	-11%	**0%**	**13%**
EPS (adj.) growth-%	19%	-6%	-40%	**3%**	**30%**
EBITDA-%	27.9 %	25.3 %	20.6 %	**23.7 %**	**26.5 %**
EBIT (adj.)-%	12.6 %	11.5 %	9.6 %	**10.0 %**	**11.2 %**
EBIT-%	11.4 %	8.6 %	3.7 %	**7.4 %**	**10.7 %**
ROE-%	14.3 %	10.8 %	-0.5 %	**4.3 %**	**10.1 %**
ROI-%	9.8 %	7.4 %	3.3 %	**6.6 %**	**9.9 %**
Equity ratio	40.2 %	35.8 %	42.2 %	**41.7 %**	**43.2 %**
Gearing	85.5 %	117.3 %	80.0 %	**82.1 %**	**74.6 %**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	2.3	1.9	1.4	**1.4**	**1.4**
EV/EBITDA (adj.)	8.1	7.5	6.7	**6.0**	**5.1**
EV/EBIT (adj.)	18.0	16.4	14.4	**14.1**	**12.2**
P/E (adj.)	19.7	15.3	17.7	**16.6**	**12.8**
P/B	3.1	2.3	1.4	**1.4**	**1.4**
Dividend-%	4.0 %	3.7 %	5.3 %	**5.5 %**	**5.8 %**

Source: Inderes

ESG

The taxonomy eligibility percentage of Sanoma's revenue reflects the fact that only the company's radio and television activities are revenue covered by taxonomy according to the company's assessment. Their relative share of the company's business is rather low and, therefore, a significant part of the business and revenue are not covered by taxonomy.

Business is not emission-intensive, but the political dimension is significant

We believe the political dimension of Sanoma's business is quite significant in terms of business continuity, as both the Learning and Media businesses involve political and regulatory factors.

Due to the significant political dimension, political decisions can have a significant impact on both business areas, which is reflected for example in the Learning business in curriculum reforms. However, we do not see that a low taxonomy eligibility and alignment percentage would increase Sanoma's business risk, which may be the case in more emission intensive industries.

The taxonomy eligibility of Sanoma's operational costs is relatively high, which reflects the cost structure linked to, e.g., broadcasting of TV programs, digital production and purchased digital traffic. As a whole, we do not currently see taxonomy to have any direct short-term financial effects on Sanoma, such as, e.g., significantly higher operating costs or lower financing costs.

In terms of emissions, Scope 3 plays a major role

Thanks to Sanoma's business model, the majority (94%) of the emissions generated by its operations consist of Scope 3 emissions, i.e. emissions in the value chain, while the share of emissions from its own operations is very small (6%). Thus, the company focuses in particular on reducing these emissions in the supply chain, and especially on reducing emissions from purchased products and services, i.e. materials and content production. However, the company is aiming to reduce Scope 1 and 2 emissions by 42% by 2030. The impact would of the 38% reduction in Scope 3 emissions the company also targets in 2030 would, however, be clearly greater. We consider achieving the Scope 3 target challenging if emissions of other sectors (energy production and logistics) do not decrease as desired.

Taxonomy eligibility	2022*	2023
Revenue	13.8 %	13 %
OPEX	51.0 %	56 %
CAPEX	20.4 %	37 %

Taxonomy alignment	2022*	2023
Revenue	0 %	0 %
OPEX	0 %	0 %
CAPEX	0 %	0 %

Climate		
Climate goal	Yes	Yes
Target according to Paris agreement (1.5 °C warming scenario)	Yes	Yes

*figures are not comparable due to taxonomy development.

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2/14/2022	Accumulate	14.00 €	12.58 €
4/13/2022	Accumulate	14.00 €	12.26 €
5/2/2022	Accumulate	14.00 €	12.04 €
6/8/2022	Accumulate	14.00 €	13.18 €
7/26/2022	Reduce	14.00 €	14.76 €
7/28/2022	Reduce	14.00 €	13.80 €
10/28/2022	Reduce	11.50 €	12.16 €
1/10/2023	Reduce	10.00 €	9.96 €
2/13/2023	Reduce	9.50 €	9.48 €
5/2/2023	Accumulate	8.50 €	7.88 €
5/5/2023	Accumulate	8.00 €	7.29 €
7/24/2023	Accumulate	7.50 €	6.72 €
7/27/2023	Accumulate	7.50 €	7.21 €
10/27/2023	Reduce	7.50 €	7.45 €
1/22/2024	Reduce	7.00 €	6.76 €
2/7/2024	Accumulate	7.00 €	6.35 €
5/2/2024	Accumulate	7.00 €	6.73 €

Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at **inderes.fi**

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Connecting investors
and listed companies.