Sanoma

Extensive report

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Inderes corporate customer

This report is a summary translation of the report “Ilmakuoppia opintopolulla” published on 5/1/2023 at 9:40 pm

Turbulence on the learning path

Sanoma's normally stable and predictable performance is in the short term hit by cost inflation that bruises earnings. We expect the company to be able to compensate for this with its strong market position, especially in the Learning business, but in our estimates it takes several years for margins to recover. With our estimates the expected return for the next few years is based on dividend yield and a slight upside in the valuation and is slightly above the required return. Reflecting our estimate changes, we lower our target price to EUR 8.5 (previous 9.5) and raise our recommendation to Accumulate (previous Reduce).

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 growth in Learning that has expanded significantly in Europe, its earnings represented just over half of Sanoma's net sales, but thanks to higher profitability, they accounted for good 2/3 of the company's earnings (2022). Thus, the role of the Media business has decreased and, in particular, the role of declining print media in the company's business operations has shrunk (2022: 23%). We expect the focus of change in income flows to continue in the short term as a result of the profitability pressures in the Media business, but also in the long term, as inorganic growth emphasizes acquisitions in the Learning business also in the future.

Profitability will take a hit this year, we expect gradual improvement

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 estimate that the company's medium-term growth rate is about 2% but expect the company to continue to accelerate growth through acquisitions, especially in the Learning business. In the short term, inflation depressed Sanoma's profitability so we expect 2023 EBIT (excluding PPA) to fall clearly from the previous year. However, in the coming years, we expect the company to be able to push its profitability back to the growth track thanks to price increases, which is why we expect earnings development to be positive in the next few years. We consider margin pressure to be a key short- and medium-term risk, which may prove stronger than we expect if the company fails to implement price increases and/or inflation remains high. We find the key risks in the longer term to be usual risks associated with acquisitions.

Current price does not set the bar of expectations too high

With the low earnings level of the current year, the share valuation is highish (2023e adj. P/E 19x and EV/EBITA 12x). However, the gradually improving earnings and cash flow that absorbs indebtedness, turn the valuation moderate with our 2025 estimates (adj. P/E 12x and EV/EBITA 11x). Thus, the upside in valuation turns into a slightly positive share price driver in the next few years, while the 2% dividend yield forms the base of the expected return. Overall, we believe that the risk/return ratio of the share is positive, although the expected return for the next few years is back loaded due to the gradually improving result and decreasing indebtedness in our estimates. The valuation framework (EUR 7.7-10.2 per share) formed by the cash flow model and sum of the parts calculation also indicate a moderate share price expectation.

Recommendation

Accumulate

(previous Reduce)

EUR 8.50

(previous EUR 9.50)

Share price:

7.88

Key figures

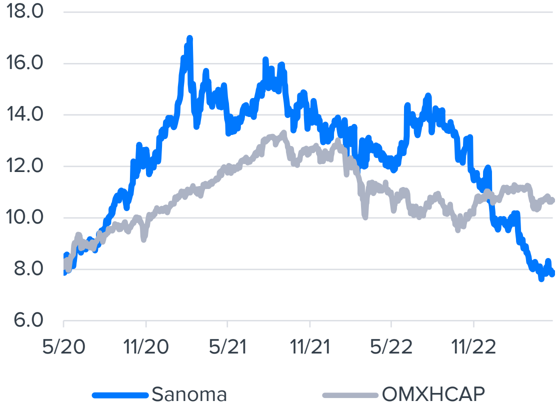
	2022	2023e	2024e	2025e
Revenue	1298	1383	1427	1458
growth-%	4%	7%	3%	2%
EBIT adj. excl. PPA	189	171	185	194
EBIT-% adj.	14.6 %	12.4 %	12.9 %	13.3 %
Net Income	76.2	54.3	85.4	105.0
EPS (adj.)	0.65	0.42	0.52	0.63
P/E (adj.)	15.3	18.7	15.1	12.5
P/B	2.3	1.5	1.5	1.5
Dividend yield-%	3.7 %	4.8 %	4.9 %	5.1 %
EV/EBIT (adj.)	16.4	16.4	13.8	12.1
EV/EBITDA	7.5	6.5	5.8	5.6
EV/S	1.9	1.5	1.4	1.4

Source: Inderes

Guidance (Unchanged)

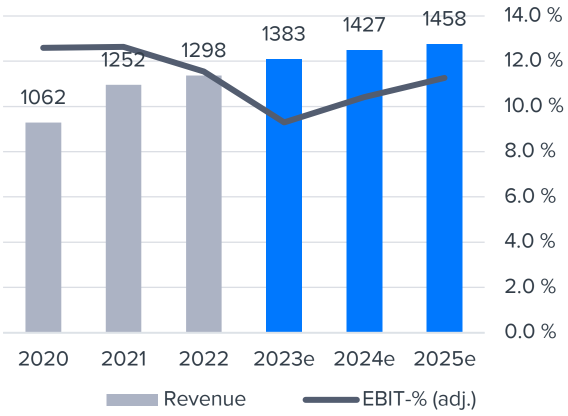
In 2023, Sanoma expects that the Group's reported net sales will be EUR 1.35–1.4 billion (2022: 1.3) and operational EBIT excl. PPA is expected to be EUR 150–180 million (2022: 189 MEUR).

Share price



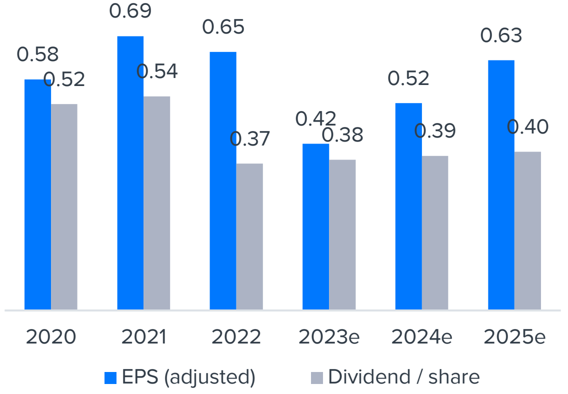
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Growth in digital income and services
- Improved net sales structure with growth in digital income and Learning business
- The margin potential of price increases and efficiency potential 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	2023e	2024e	2025e
Share price	7.88	7.88	7.88
Number of shares, millions	163	163	163
Market cap	1287	1287	1287
EV	2105	2050	1991
P/E (adj.)	18.7	15.1	12.5
P/E	27.3	17.0	13.5
P/B	1.5	1.5	1.5
P/S	0.9	0.9	0.9
EV/Sales	1.5	1.4	1.4
EV/EBITDA	6.5	5.8	5.6
EV/EBIT (adj.)	16.4	13.8	12.1
Payout ratio (%)	131.6 %	84.0 %	68.4 %
Dividend yield-%	4.8 %	4.9 %	5.1 %

Source: Inderes

Contents

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

2020-2022

- Business focus shifts more strongly to Learning following the Santillana and Pearson acquisitions
- Acquisition of regional news media business and divestment of Oikotie
- The pandemic hurt the media business temporarily, strong rise in cost inflation starts to be reflected in profitability

2023-

- Operating environment is challenging, especially due to high cost inflation
- In the short term, focus on operational efficiency, integration of the Pearson acquisition and digital development of the Learning business
- Acquisitions will continue in the Learning business in coming years, in line with long-term objectives

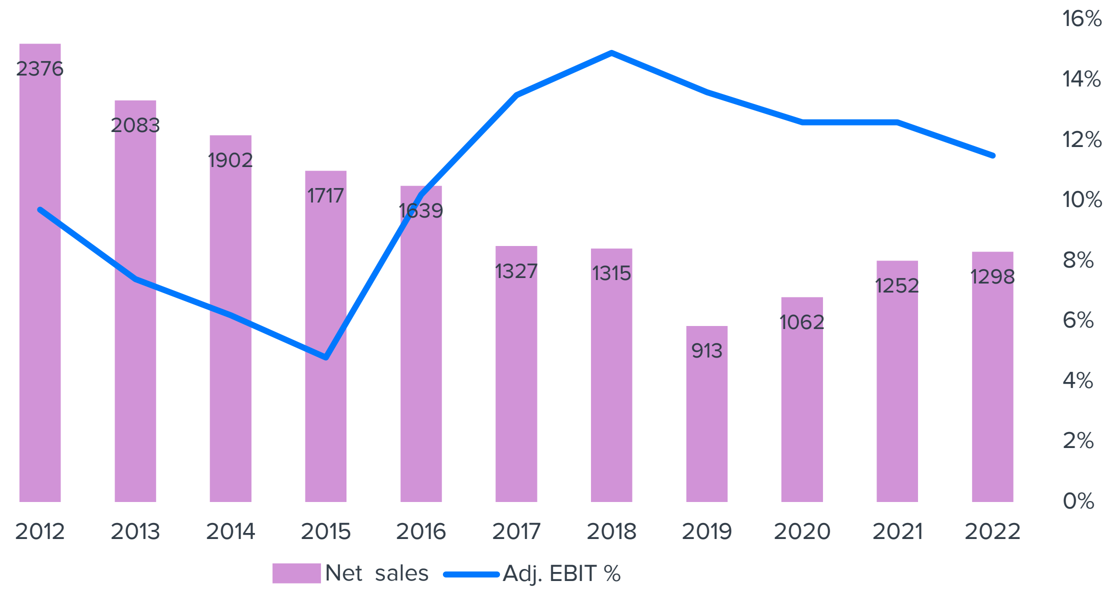
1,298 MEUR

Net sales 2022

14.6%
Operational EBIT-% excluding PPA, 2022

52% / 70% Learning's share of net sales and operational EBIT excluding PPA, 2022

18% / 23%
Share of advertising sales/print media of net sales, 2022



Source: Inderes, Sanoma

Sanoma’s 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.

Group net sales totaled EUR 1,298 million in 2022. Operational EBIT excluding PPA (hereinafter operational EBIT) was EUR 189 million or 14.6% of net sales. Similarly, reported EBIT for 2022 was EUR 112 million, which corresponds to an 8.6% EBIT margin.

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 2022, the business constituted 52% of the Group’s net sales and 70% 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 Group net sales was 48% and 30% of operational EBIT in 2022.

Under the Other operations segment the company also reports the Group’s other expenses not allocated to business segments.

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** (2022: 52% of net sales) 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 on Q2 and especially on Q3, which also results in strong seasonal fluctuation in Sanoma Group’s income and cash flow. Moreover, Learning income may annually vary considerably from country to country. This is based on the demand for learning solutions, typically driven by curriculum reforms in individual education markets every 5-10 years.

Sanoma’s business structure, 2022

Sanoma Group
Net sales 1,298 MEUR
EBIT (adjusted excl. PPA) 189 MEUR

Media Finland

Revenue 618 MEUR
EBIT* 66 MEUR
EBIT % 10.7%

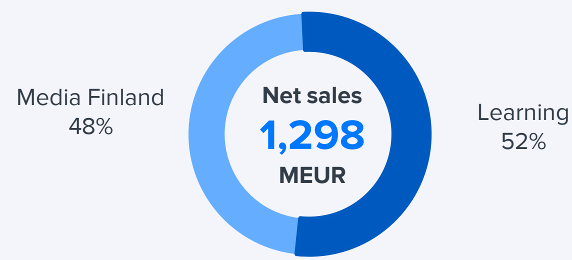
- Newspapers
- Online media
- TV & Radio
- Magazines
- Festivals
- Other services

Learning

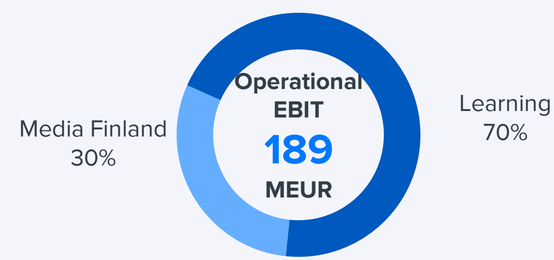
Net sales 681 MEUR
EBIT* 132 MEUR
EBIT % 19.4%

- Learning materials
- Digital learning platforms
- Learning material distribution

Net sales distribution, 2022



EBIT* distribution 2022



* Operational EBIT excl. PPA

Sanoma’s business model 2/3

Due to the growth and geographical 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** (2022: 22% of Sanoma’s net sales) 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 net sales comprises recurring subscription income that represents some 19% of Sanoma’s net sales, and the corresponding percentage of single-copy sales is only 3%. The primary customer target group for content income is consumer customers.

3) **Media advertising income** (2022: 18% of net sales) consists of advertising income from newspapers and magazines, TV and radio channels and related online services. We estimate that the share of digital media as well as TV & radio advertising in advertising income was around 75% in 2022 and thus plays a clearly bigger role than print media. The main customer target group for advertising income is corporate customers. Advertising income is cyclical by nature because companies’ advertising investments are typically strongly dependent on general economic development.

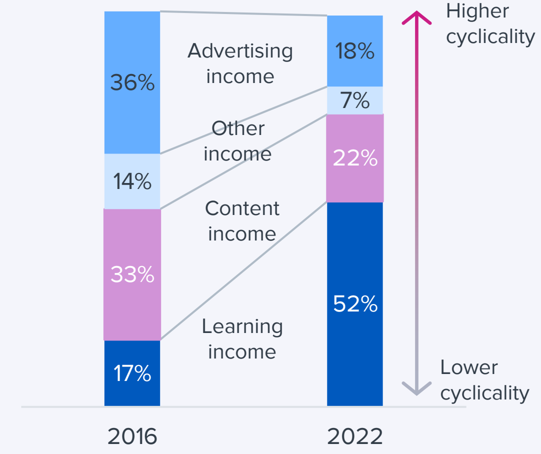
4) **Other income** (2022: 7% of the net sales) consist of Finnish festival operations, marketing services, corporate publications, as well as books and printing services. The main customer target group for other income is businesses, but most of the income from festival business that forms a significant share of other income comes from consumers. Other income was higher in 2022 than in the previous two years, burdened by COVID, but we believe it was slightly lower than the historical levels.

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 net sales was 23% in 2022. 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) in Sanoma’s net sales was 25% in 2022.

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 significant growth in the learning business, the effect of structural trends on the company’s business has changed and the share of income types from regressing print media has decreased considerably. At the same time, the dependency of business income on general economic development, i.e., cyclicality has decreased.

Sanoma’s net sales distribution 2022



Estimated effect of trends on Sanoma’s income

Income type	Impact of trends on income
Learning income	Reasonable growth +2–5% p.a.
Content income	Clear growth in digital content +5-10% p.a.
	Decline in traditional content -0-5% p.a.
Advertising	Clear growth in digital advertising +5-10% p.a.
	Clear decline in printed advertising 510% p.a.
Other income	Stable +/-2% p.a.

Source: Inderes

Sanoma's business model 3/3

Overall risk profile of Sanoma's business model is moderate

In our view, the risk profile of Sanoma's business model is moderate overall, although in the short term strong inflation has shown how challenging sudden price increases are.

The business model's risk level is specifically reduced by the moderate share of cyclical income, 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 net sales was 72% in 2022, 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 net sales 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, pricing power has recently been particularly tested by high levels of cost inflation, which so far has been challenging to transfer to prices.

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. We believe that Sanoma abandoned the Savo newspaper printing business in early 2022 as a result of this regression.

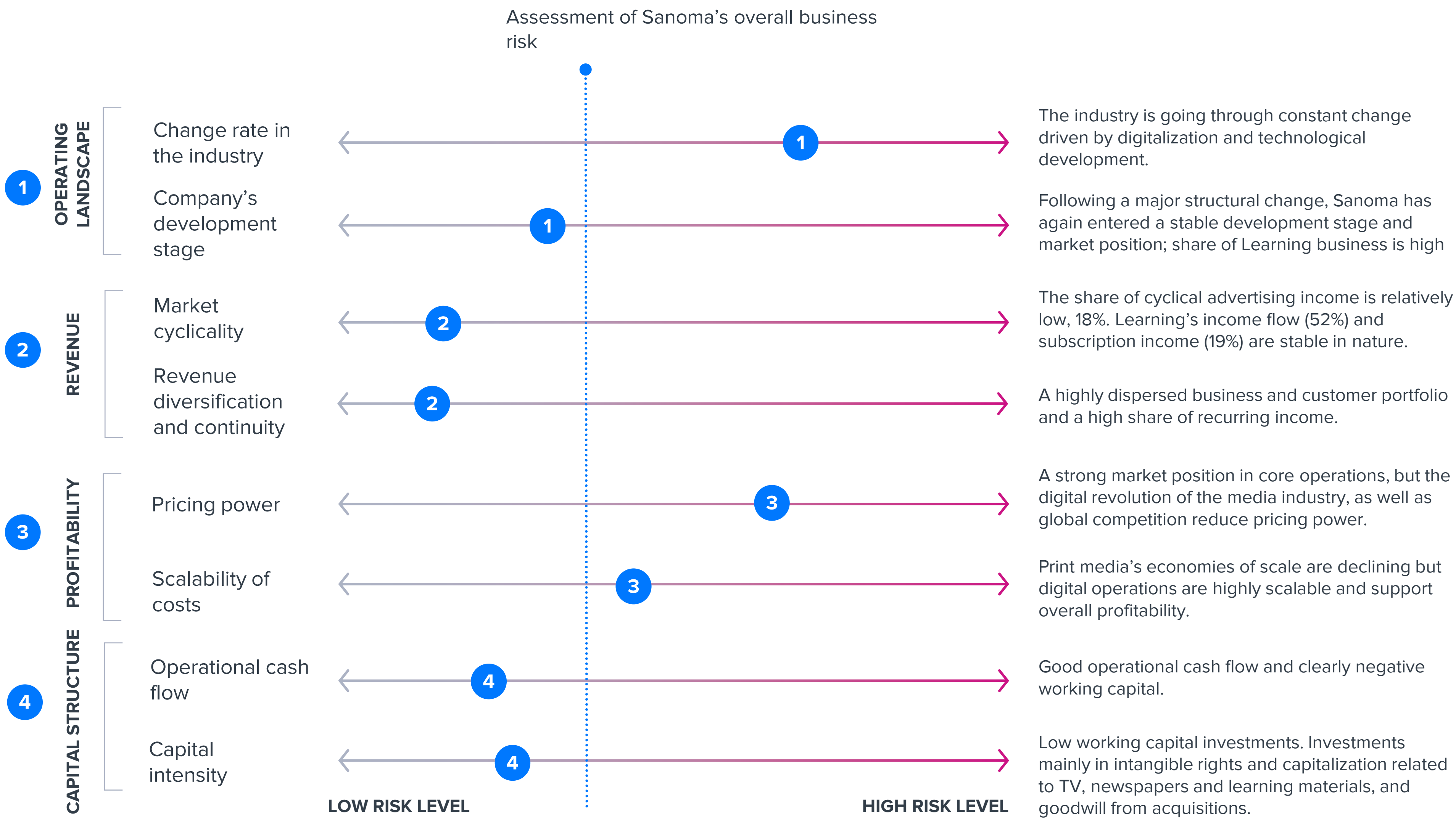
The economies of scale are much higher and relative profitability is better in strongly growing digital income, which compensates for print media's diminishing profitability potential.

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 content income are typically very front loaded and include a lot of advance payments, which typically results in working capital being clearly negative at 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 and investments in the Learning business are currently slightly elevated. Thus, Sanoma's free cash flow relative to EBIT fell to a lower level than usual in 2022. In the short term, we also expect it to remain at a lower level, as EBIT is under pressure and the hybrid bond will increase financing costs that are already on the rise.

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; its 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 Sanoma's 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 net sales, 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 net sales, which has clearly lowered the risk profile of the business and demand dependency on economic development.

In our opinion, Sanoma's strategic focus in the next few years will be on organic growth that utilizes the scalability of its core businesses, managing the effects of cost inflation and improving cash flow. In executed acquisitions the company has completed the integration and cost synergies have largely been achieved, but this process is still ongoing for the Pearson acquisition.

Acquisitions are an integral part of the strategy

Acquisitions are an important part of Sanoma's strategy, as they are needed to increase net sales 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 2023. But in the future we still expect acquisitions to focus on the Learning segment, where the aim is to penetrate new markets both geographically and in terms of services, as well as improve economies of scale and the market position. We estimate that Media Finland could carry out small-scale acquisitions that strengthen the value chain and economies of scale.

Financial objectives

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.

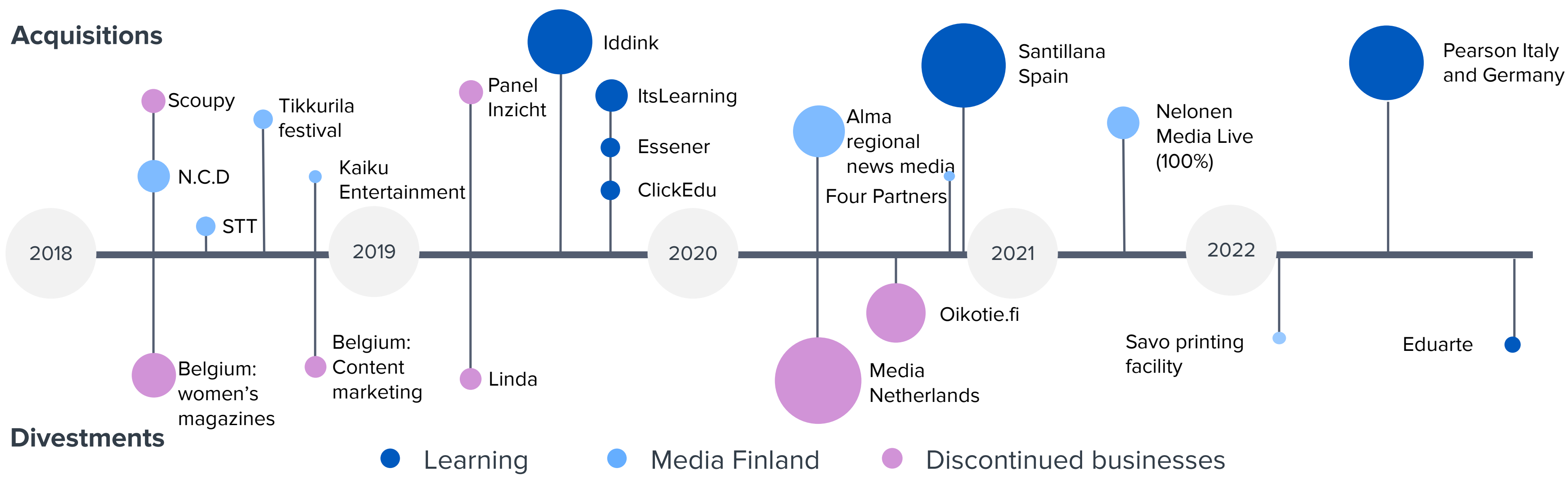
Sanoma also aims to increase its consolidated net sales to above 2 billion by 2030, with over 75% of net sales coming from the Learning business.

In the light of the latest reported figures (Q4'22), gearing (3.2x) exceeded the target level and solvency (36%) was at the bottom end of the target range. The company issued a hybrid bond of EUR 150 million in March 2023, due to which we expect the company to meet both target levels at the end of this year.

In its dividend policy, Sanoma has emphasized dividend growth, which is tied to the development of free cash flow. However, the path of growing dividend will break in spring 2023, as the company cuts its dividends due to the weakened free cash flow. The dividend distributed for 2022 is 93% of free cash flow adjusted by the Pearson acquisition and a non-recurring item.

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 2018-2022 and segments' M&A strategy



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

Business activities' M&A strategy

Learning

- Importance of M&A transactions 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 the value chain in current market areas
- Geographical expansion into new countries in Europe

Media Finland

- Role of M&A transactions is complementing
- Focus of M&A transactions in complementing the value chain and strengthening growth
- 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 development

2017 - 2019

2020 - 2022

2023-

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 new media business in the Media business
- Strong cost inflation started to affect profitability

Strengthening profitability and balance sheet position before new acquisitions

- Strengthening profitability and cash flow and combating cost inflation
- Geographic expansion and expansion of the product and service portfolio continues in Learning
- Structural revolution of media continues and, thus, also the shift in the focus of the media business towards digital products and services
- Conversion of Learning’s net sales to the subscription model

Strategic and operational development trends

Actualized

- Net sales have decreased significantly with structural arrangements, but the risk level is also more moderate
- Business structure is more focused and profitable, focus shifted to the Learning business
- Profitability risen to good levels in all businesses (2015: adj. EBIT% around 5% -> 2022: operational EBIT-% 14.6%)
- With acquisitions, gearing has risen clearly and is at the top of the target range

Near future, 1-2 years

- Focus on integrating the Pearson acquisition, operational efficiency, price increases and restricting cost increases
- Investment in the digital development of the Learning business continues and raises organic investments slightly
- Inorganic growth in the Learning business continues, although in an optimal situation only after the balance sheet position has strengthened from the current level

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 EUR 4-5 billion 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 and education system reforms that typically occur every 5–10-years. While the changes in these cycles 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:

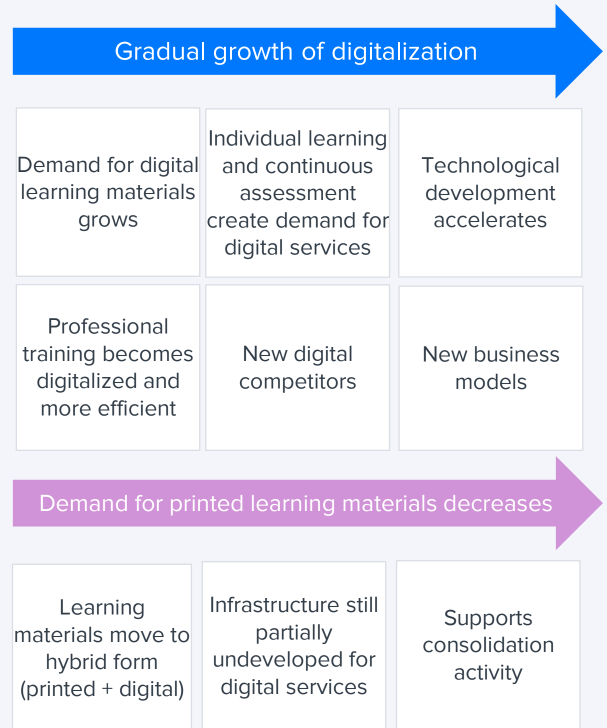
- The market share of combined printed and digital learning materials and purely digital learning solutions is growing.
- Individual learning and continuous assessment of learning are becoming more commonplace, which shapes the demand for learning solutions and increases the demand for digital services, 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 materials market and digital learning platforms that make up the net sales of learning companies is only about 3% of the total costs of education in the company's market areas.

Key trends of the learning market



Source: Inderes

Sector review – Learning 2/2

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 net sales 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.

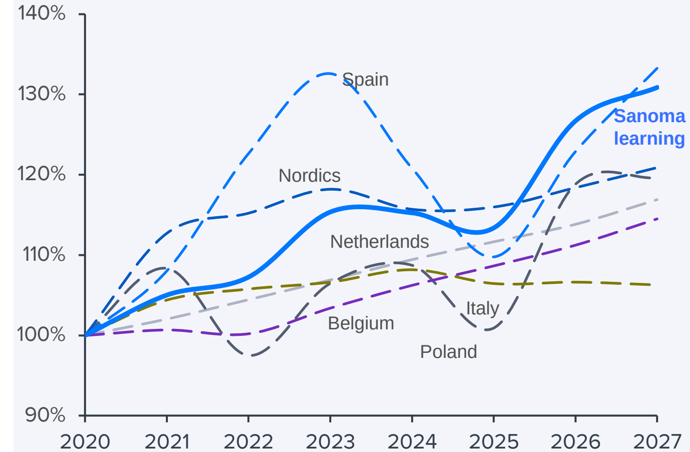
The competitive field for digital platforms and applications is, however, much more fragmented and international because competition also occurs between technologies, not just contents and methods and, thus, competition is not quite as dependent on local level expertise. Nonetheless, according to players 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 has 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 outlook for the learning material market



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 net sales. Sanoma Learning's net sales in 2022 were EUR 681 million or 52% of Sanoma's net sales. Learning is also the larger segment measured by operational result (operational EBIT 132 MEUR in 2022, or 70% of Sanoma's operating profit)

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, 70% of Learning's net sales were generated from content in 2022, which includes both printed and digital content. This is also the most profitable business of Learning's income sources, as its profitability according to Sanoma is above segment level profitability. Correspondingly, 15% of net sales came from material distribution in 2022 and the remaining 15% was divided between teaching platforms, administration platforms and test and analytics services. The profitability of distribution and digital platforms, on the other hand, is lower than the average profitability and we estimate that especially profitability of the distribution business has suffered significantly by cost inflation.

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, Sanoma Italia in Italy, and STARK in Germany.

Financial targets and strategy

Sanoma's long-term financial targets for Learning are 2-5% annual comparable net sales growth and over 23% operational EBIT excluding PPA. In addition, 75% of the Group-level net sales target of over 2 billion should come from the Learning business in 2030. In practice, this means that the company's goal is to more than 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, 2022

681 MEUR **(2021 : 637 MEUR)**

Net sales 2022

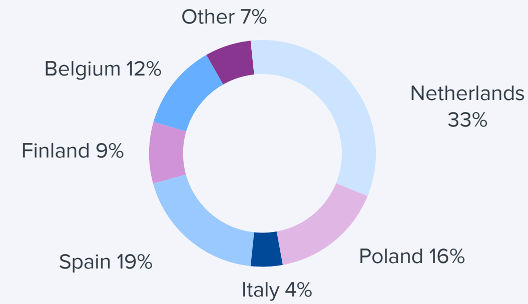
19.4% **(2020: 21.0%)**

Profitability, operational EBIT %*

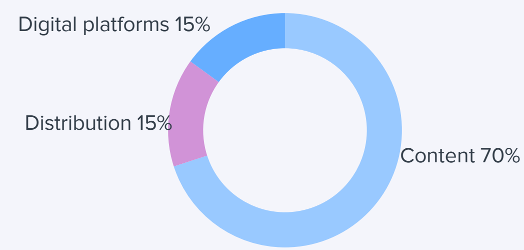
~ 17% **market share**

On Europe's EUR 4-5 billion K12 market

Net sales by country, 2022



Net sales by product type, 2022



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 net sales development (see p. 14 graph). For example, the Spanish curriculum reform is expected to further increase net sales this year and the Polish market will also return to growth with the new curriculum reform in 2023.

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 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.

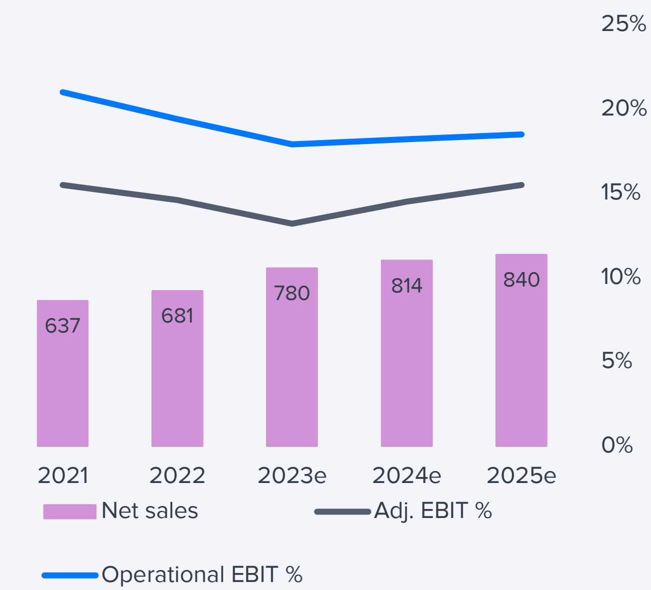
Estimates for the next few years

We estimate that the reported net sales of the Learning segment will grow by 14% in 2023, a majority of which will consist of the growth generated by the acquired Pearson business in Italy. We expect organic growth to be particularly driven by the growth from the Spanish curriculum reform and by price increases, while the Dutch distribution business, whose profitability is weaker due to high inflation, opting out of tendering will slightly slow down organic growth. Reflecting these factors, we expect organic net sales growth to reach 4%. Thus, our 2023 net sales estimate is EUR 784 million (2022: 681 MEUR).

In 2024, we expect net sales growth to continue to be supported by price increases, because Sanoma has indicated that it will take 1-2 years for recent price increases to be reflected in prices. Thus, despite the relatively stable volume outlook, we estimate that 2024 net sales will grow by good 4% to EUR 814 million. Further in 2025, we expect net sales to increase by good 3% to EUR 852 million, also based on a fairly stable overall market outlook, but including the assumption of price increases based on inflation.

We estimate that Learning's operational EBIT for 2023 will increase by 6%, in line with the rising cost level. Income growth is driven by inorganic growth, i.e., the Pearson acquisition, while organically we expect EBIT to decrease as a result of extensive cost inflation. As a result, the operational EBIT for 2023 increases to EUR 139 million in our estimates, which corresponds to an operational EBIT margin of 17.9%. Our corresponding operational EBIT estimate for 2024 is 18.2%, which corresponds to an operational EBIT of EUR 148 million.

Learning's estimates



Income statement (MEUR)	2021	2022	2023e	2024e	2025e
Net sales	637	681	**780**	**814**	**858**
Operational EBIT	133.9	131.8	**139.2**	**148**	**155**
EBIT adjusted	101.6	99.4	**103.2**	**118**	**130.2**
EBIT	90.5	67.2	**85.2**	**112**	**126.2**
Non-recurring items	-11.1	-32.2	**-18**	**-6**	**-4**

Growth and profitability	2021	2022	2023e	2024e	2025e
Net sales growth %	27.3%	6.9%	**14.5%**	**4.4%**	**3.2%**
Growth in operational EBIT %	39.6%	- 1.6%	**5.6%**	**6.3%**	**4.8%**
Operational EBIT %	21.0%	19.4%	**17.9%**	**18.2%**	**18.5%**
Adj. EBIT %	15.5%	14.6%	**13.2%**	**14.5%**	**15.5%**
EBIT %	14.2%	9.9%	**10.9%**	**13.8%**	**15.0%**

Source: Inderes

Sanoma Learning 3/3

In our 2024 profitability estimate, we expect price increases to bring an operating leverage to performance, which means that the 6%growth rate exceeds the volume growth rate. Therefore, we expect Learning to make up for the drop in earnings caused by cost inflation in 2024. In line with these factors, our operating profitability estimate in 2025 rises to 18.5%, and thus the operating leverage will move in the right direction also in our 2025 estimates.

Uncertainties in estimates

In our opinion, the positive risks for our estimates are acquisitions that accelerate growth and profitability that rises more than expected, which we believe would require price increases that generate stronger growth than we expect or clear efficiency measures. Negative estimate uncertainty is generated by the timing of curriculum reforms and the continued high inflation, which could also maintain a greater pressure on Learning's profitability than we expect.

Learning's valuation

We have identified seven 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 2023 and 2024, which are 13x and 11x. With our 2023 and 2024 operational EBIT estimates for Learning and the multiples of the peer companies, Learning's value is around EUR 1,538-1,803 million. We consider the peer companies' absolute valuation multiples for the current year justified but feel that next year's valuation multiples are already moderate considering the Learning business' stable and predictable demand and profitability level.

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 EUR 465 million and the average operational EBIT excluding PPA of the acquired target in 2018-2020 was EUR 34.6 million. Thus, the EV/EBITA multiple of the transaction was 13.4x. We expect that Learning's operational EBIT for 2023 will be EUR 139 million, in which case the acquisition valuation multiple would indicate that Learning's EV is around EUR 1865 million. The Pearson transaction's EV was EUR 190 million and the average operational EBIT (excluding PPA) for 2020-2021 was EUR 17.5 million, which is about 10.9 EV/EBITA. This would give Learning a value of EUR 1,511 million.

Therefore, Learning's value is EUR 1,691 million calculated on the average of the methods presented above. Thus, Learning's valuation has not changed substantially from the previous extensive report (2022 estimate: 1,696 MEUR). This is based on the fact that there have been no significant changes in our estimates or in the valuation multiples of the peers, as inorganic growth has compensated for the earnings pressure from cost inflation.

Learning's peer group

Peer group	EV	EV/EBIT		EV/S	
Company	MEUR	23e	24e	23e	24e
Bloomsbury Publishing PLC	389	11.3	10.6	1.3	1.3
Pearson PLC	7642	12.4	11.1	1.8	1.8
John Wiley & Sons Inc	2648	16.7	11.0	1.4	1.3
Wilmington PLC	254	9.8	9	1.9	1.8
Koninklijke Brill NV	47	7.9	7.9	0.9	0.9
2U Inc	1048	15.6	14.4	0.9	0.9
Chegg Inc	2087	14.6	13.4	3.0	2.9
Average		**12.6**	**11.1**	**1.6**	**1.6**
Median		**12.4**	**11.0**	**1.4**	**1.3**

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 strong 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, accelerating 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 know-how as a competitive factor becomes emphasized.

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 TNS Kantar its share of total advertising (incl. Facebook and Google) was a bit over half of all advertising in 2022.

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 clear decline in print advertising to continue and the relative share of digital advertising to increase. Thus, we expect the value development of the total market to be relatively stable or slightly positive in Finland.

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 TNS Kantar, online advertising volume in Finland has grown in the last few years roughly by 5-10% p.a., and in 2022 growth reached 10%. We believe the growth 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. For example, Sanoma has managed to keep the total number of Helsingin Sanomat subscribers growing slightly in recent years, and Helsingin Sanomat currently has over 430,000 subscribers. The number of users paying for digital subscriptions has grown to some 85% 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 content income growth 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 sales 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 cost inflation puts increasing 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 suspect could accelerate structural changes in print media.

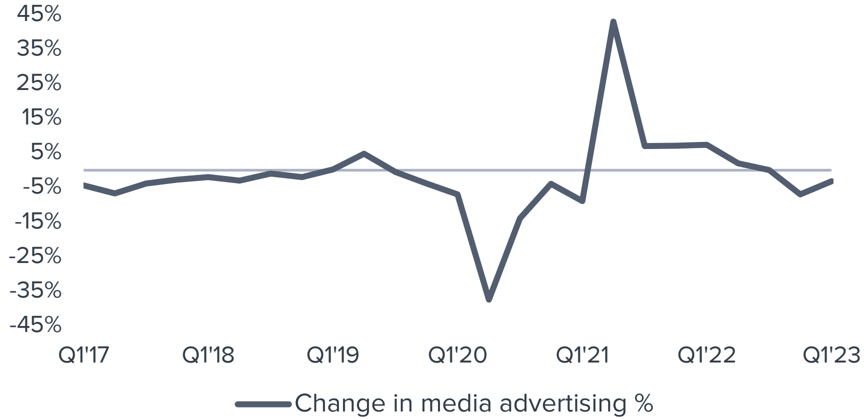
Global giants rule the competitive field

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).

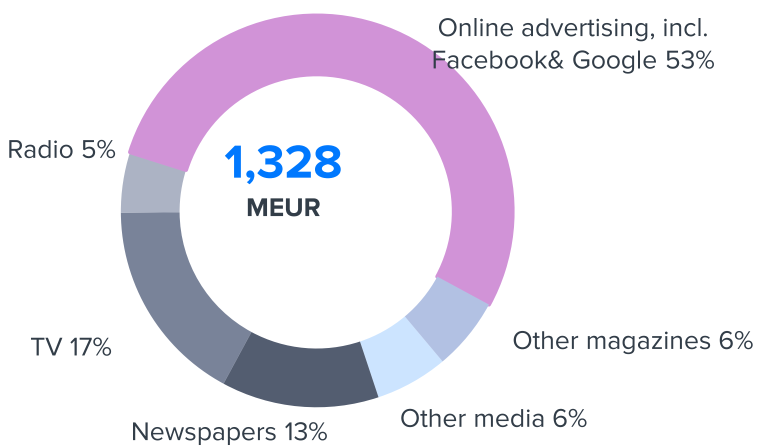
So far, leading Finnish media companies have fared relatively well in the competition against the likes of Facebook and Google, and their share of the digital advertising and content market has remained high in a global comparison. In terms of content income, Finnish media companies are supported by 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

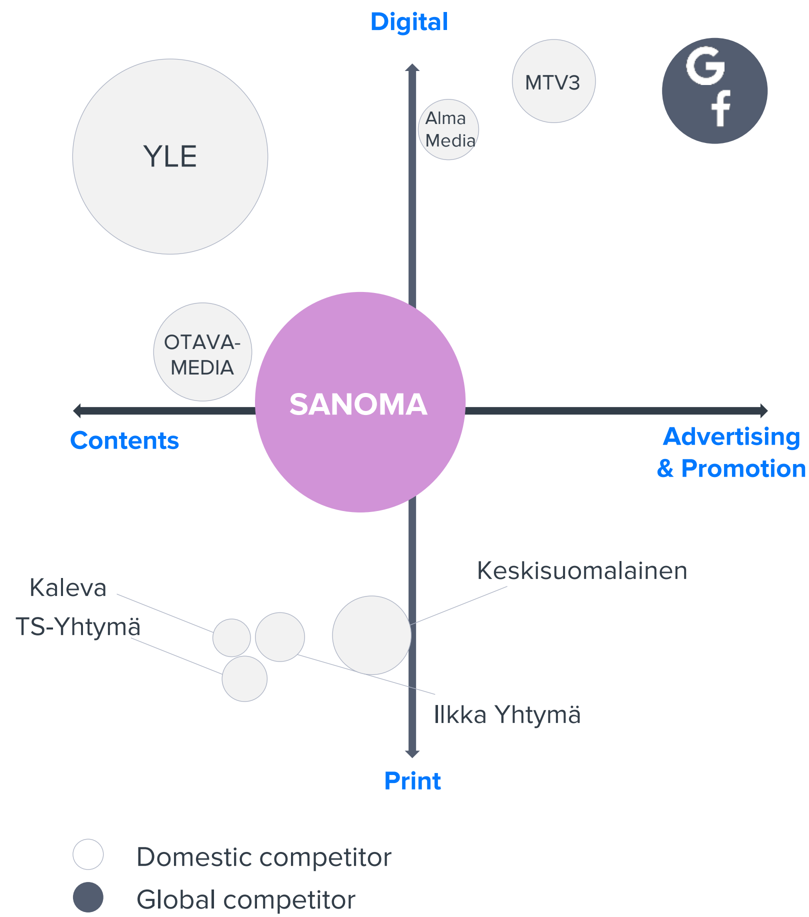


Distribution of Finnish media advertising, 2022



Source: Kantar TNS, IAB, Statistics Finland, Inderes

Competitive field of the Finnish media market*



The size of the sphere depicts the size of the Finnish media operations based on financial statements and Inderes' estimates. In terms of content income, YLE has been deemed a competitor of media companies, even though its operations are financed by public funds.
* Illustrative graph based on Inderes' estimates where data are not available

Media Finland 1/3

Finland's largest commercial media company

Media Finland's net sales was EUR 618 million in 2022, which corresponded with 48% of Sanoma's net sales. Measured by operational EBIT, Media Finland is, however, clearly the smaller segment (operational EBIT 66 MEUR or 30% of Sanoma's operational EBIT).

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 several 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 1.33 billion), Media Finland's market share is roughly 18% 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 2022, the share of content income was around 48% of the segment's net sales (2021: 47%), which introduced stability to net sales. Of this, recurring subscription income made up 86% and single copy sales only close to 14%. 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 38% of the segment's net sales in 2022 (2020: 40%). In 2022, we estimate that roughly 75% of advertising income came from more stable TV and radio advertising and growing online advertising, while only some 25% of income came from declining print media.

Other business income comprised nearly 16% of the segment's net sales in 2022 (2021: 13%). The COVID pandemic depressed other income clearly in 2020-2021 and did not, in our opinion, fully reach the pre-COVID level in 2022 either. Thus, the relative share of the Other business would be even slightly higher in a normal operating environment. A share of other income comes from marketing services and book publishing and printing services.

Segment's financial targets and strategy

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

Media Finland in brief, 2022

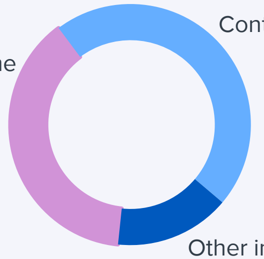
EUR 618 million (2021: MEUR 615)
Net sales 2022

10.6% (2021: 11.9%)
Profitability 2022, operational EBIT %*

52% / 48%
Share of non-print media/share of print media of net sales, 2022

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

Revenue by income type, 2022



Source: Inderes, Sanoma
* Operational EBIT excl. PPA

Media Finland 2/3

The net sales growth outlook of Media Finland is subdued and ambiguous in the long term, as about 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 net sales. 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.

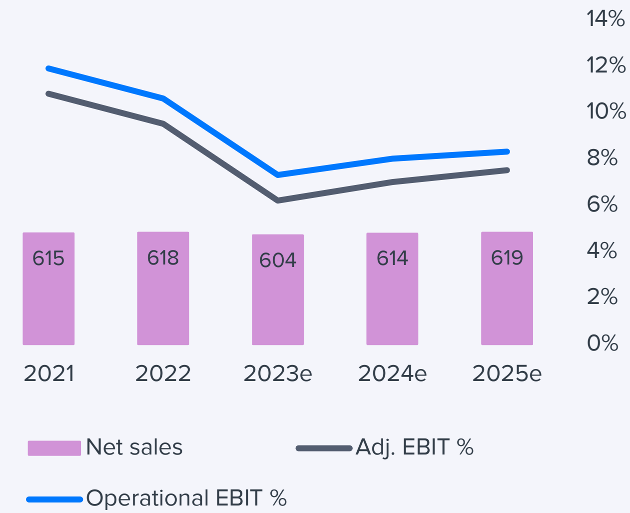
Estimates for the next few years

We expect Media Finland's net sales to decline by 2% in 2023 to EUR 604 million reflecting the drop we expect in advertising, single copy sales and content income. Similarly, in 2024, we expect advertising sales to recover thanks to the upturn in the economic growth picture. We also expect subscription income to reach a slight growth in 2024, while the fall in single copy sales will continue to slow down growth. In our estimates, 2024 net sales will grow by 1.5% to EUR 614 million. We estimate that 2025 net sales will grow by close on 1% to EUR 619 million reflecting the longer term growth image of the current business portfolio.

We expect that Media Finland's operational EBIT for 2023 will decrease by about a third and reach EUR 44.2 million, which corresponds to an operational EBIT of 7.3%. Profitability is depressed by both the fall in net sales from high-margin advertising sales and the widespread cost inflation, which in particular reduces the profitability of print media. This is caused by a significant increase in distribution and printing costs. In 2023, we expect profitability to increase a smidgen (operational EBIT growth 2%), reflecting our estimate of alleviating cost pressure.

The 2024 operational EBIT % is expected to climb to 8% and thus operational EBIT will be EUR 48.9 million. The driver for the profitability improvement is growth in advertising, which means that the growth we expect will flow to earnings with a good leverage in 2024. However, we do not expect profitability to reach the levels seen in recent history based on the inflation that still raises costs (especially wages). In line with the same overall picture and gradually digitalizing subscription income, we expect the EBIT for 2025 to increase by 8% to EUR 51.4 million. This corresponds with an 8.3% operational EBIT margin.

Media Finland's estimates



Media Finland's estimates

Income statement (MEUR)	2021	2022	2023e	2024e	2025e
Net sales	615	618	**604**	**614**	**619**
Operational EBIT	73.5	65.8	**44.2**	**48.9**	**51.4**
EBIT adjusted	66.7	58.9	**37.4**	**42.9**	**46.4**
EBIT	60.6	54.3	**33.9**	**-39.4**	**42.9**
Non-recurring items	-6.1	-4.6	**-3.5**	**-3.5**	**-3.5**

Growth and profitability	2021	2022	2023e	2024e	2025e
Net sales growth %	9.3%	0.5%	**- 2.2%**	**1.5%**	**0.8%**
Growth in operational EBIT %	10%	- 10.5%	**-32.9%**	**10.8%**	**5%**
Operational EBIT %	11.9%	10.6%	**7.3%**	**8.0%**	**8.3%**
Adj. EBIT %	10.8%	9.5%	**6.2%**	**7.0%**	**7.5%**
EBIT %	9.9%	8.8%	**5.6%**	**6.4%**	**6.9%**

Source: Inderes

Media Finland 3/3

Uncertainties related to estimates

As a positive risk to our estimates, we see faster than expected growth in digital media advertising in coming years and/or efficiency measures. However, we do not expect Media Finland to have a significant potential for 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. Therefore, we believe that continued high inflation could undermine the conditions for the gradual profitability improvement we expect in the coming years.

Media Finland’s valuation

We determine 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 15 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. As a whole, we estimate that the business models and growth outlook of the peer group reflect Media Finland’s business model relatively well, as well as the growth outlook of the industry, although there is a difference between the degree of income digitalization among the players.

We use the peer group’s 2023-2024 EV/EBIT multiples and 2023 EV/S multiple in our valuation. The average EV/EBIT multiples for 2023-2024 of the peer group we use are 12x and 10x and the corresponding median multiples are 13x and 11x. The average EV/S multiple of the peer group for 2023 is, in turn, 1.2x and the median is 1.4x.

Using the peers’ 2022-2023 median valuation multiples and Media Finland’s net sales and operational EBIT estimates, Media Finland’s enterprise value (EV) is EUR 532–635 million, the average being EUR 580 million.

Thus, Media Finland’s value has decreased by good one-third from our last extensive report (2022 estimate: 940 MEUR). This is largely a result of lower earnings estimates, while the change in valuation multiples has been relatively small.

Media Finland’s peer group

Peer group	EV	EV/EBIT		EV/S	
Company	**MEUR**	**23e**	**24e**	**23e**	**24e**
Alma Media	870	12.9	11.9	2.8	2.8
Future PLC	2057	7.1	6.7	2.2	2.2
Gannett	1213	17.2	17.1	0.5	0.5
ITV PLC	4417	8.2	7.3	1.1	1.0
Lagardere	6764	14.1	13.0	0.9	0.8
Arnoldo Mondadori Editore	680	7.6	7.3	0.7	0.7
News Corp	11320	18.7	14.0	1.3	1.2
New York Times	5536	21.8	18.9	2.5	2.4
Promotora de Informaciones	1187	14.0	10.9	1.3	1.3
Prosiebensat 1 Media	3924	9.8	8.5	1.0	0.9
Rizzoli Corriere	587	6.4	6.1	0.7	0.7
Roularta Media Group	163	-	-	0.6	0.5
TX Group	1194	13.0	-	1.2	1.1
Average		**11.6**	**10.1**	**1.2**	**1.2**
Median		**13.0**	**11.0**	**1.4**	**1.3**

Source: Inderes

Financial position and development 1/ 2

Balance sheet entails considerable intangible assets

Sanoma's balance sheet total was EUR 2,104 million at the end of 2022. The assets of the balance sheet are largely composed of intangible assets. These consist of goodwill of EUR 812 million (39% of the balance sheet) and other intangible assets of EUR 739 million (35% of the balance sheet). Goodwill and intangible assets are mostly the result of acquisitions, while other intangible assets are 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 2022, tangible assets stood at EUR 205 million, or 10% 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 2022, working capital was a negative EUR 145 million or -11% of net sales (2021: -17%). This is low 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 working capital would fall to the historical level of about -20 % with the current structure.

Debt level has increased

At the end of 2022, the company had EUR 864 million in interest-bearing liabilities (incl. lease liabilities), EUR 41 million in cash assets and, thus, interest-bearing net debt was EUR 823 million. Sanoma issued a hybrid bond of EUR 150 million (interest rate 8%) in Q1'23. This means that interest-bearing net debt has fallen to EUR 714 million, as the hybrid is recognized as equity. However, hybrid capital is not shareholders' capital, and this is why we consider this decline in net debt to be purely technical. It will lower the gearing ratios reported by the company, which in turn is likely to have a positive effect on the cost of refinancing future liabilities.

The company has a EUR 200 million bond that matures in 2024 (fixed rate 0.625%), so it will have to restructure financing soon. At the current interest rate level, we expect this will raise the net financing costs.

As a result of acquisitions, Sanoma's gearing has thus increased to 3.2x at the end of 2022 measured by the net debt/ EBITDA ratio. Thanks to the hybrid, this decreased to 2.6x. However, in the early part of the year, due to seasonality, the cash flow from operating activities is clearly negative, which means that gearing will be higher in H1'23 than one would expect based on the end of the year and the hybrid bond.

Free cash flow is at a good level

Sanoma's operational cash flow in 2018-2022 has been at EUR 141-181 million and in 2022 it reached EUR 165 million. On average, operational cash flow has been close to 14% relative to net sales.

It should be noted that from 2019 onwards, comparability is weakened by the effects of the IFRS16 standard that transferred lease liabilities to financial cash flow (previously operational cash flow). The revision of the standard has had a positive impact of some EUR 30 million on operational cash flow in recent years.

The company's capital expenditure has been reasonable in recent history and reached EUR 53 million in 2022. In the last three years, investments (2021: 42 MEUR) have risen due to investments related to development work of digital platforms and IT systems, and because of Learning's recent acquisitions, i.e., growth. Investment growth is natural as the business size increases and, as a whole, we consider organic investment needs to be moderate.

Due to the low investment need, the company's reported free cash flow has historically been good. In 2022, it reached EUR 112 million (2021: 140 MEUR) and the decrease from the previous year is explained by a slight decrease in EBIT, increased taxes and investments. Similarly, cash flow was substantially strengthened (47 MEUR) by the timing of the Pearson acquisition and the strong cash flow from the acquired business.

Financial position and development 2/ 2

Free cash flow in 2022 was EUR 0.68 per share (2021: EUR 0.86 per share). The free cash flow in 2022, considering lease liability repayments, was EUR 81 million (2021: 109 MEUR) or EUR 0.50 per share (2021: EUR 0.67 per share).

Rising interest costs destroy cash flow that determines the dividend level

The company's dividend policy is to pay 40–60% of the reported free cash flow as dividends annually. The 2022 dividend is EUR 0.37 (2021: EUR 0.54 per share) or 54% of reported free cash flow. However, this corresponds to 93% of the non-recurring advance VAT payment and the free cash flow adjusted for the operational cash flow generated by the Pearson acquisition.

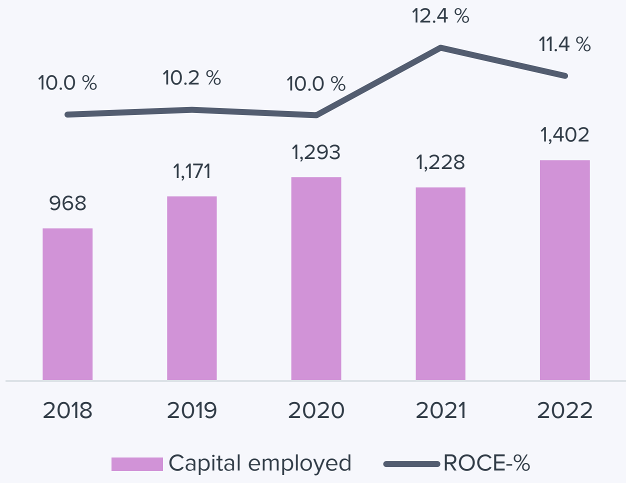
Sanoma's free cash flow will be consumed by the interest expenses of the hybrid bond that are EUR 12 million per year. In addition, the interest rate level of other debt financing has increased, which reduces operational cash flow and dividend capacity.

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

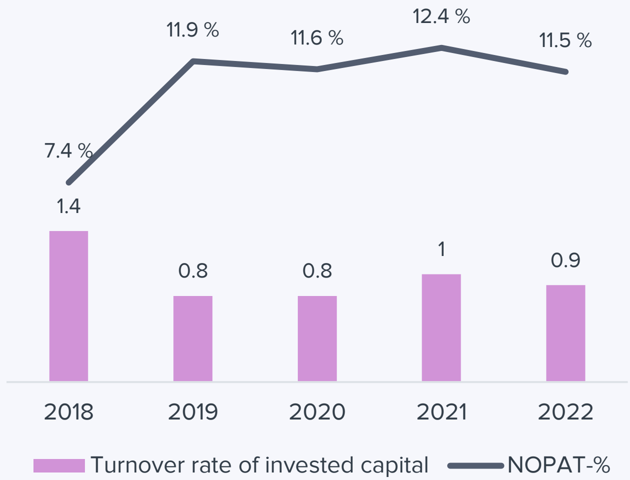
As a result of pruning non-core activities in 2016-2019 and the resulting reduction in the balance sheet, Sanoma's balance sheet and capital employed has grown considerably again in recent years, which is based especially on inorganic growth in Learning. Despite a clearly inflated balance sheet, the company's ROCE has reached a rather good level, with an average of 11% over the last five years. 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. Therefore, we estimate that, over time, ROCE in current businesses will be slightly higher than the level of the past five years if the company succeeds in returning to historical profitability levels and the profitability level of the current year does not reflect the normal level of the current business portfolio.

Development of return on investment



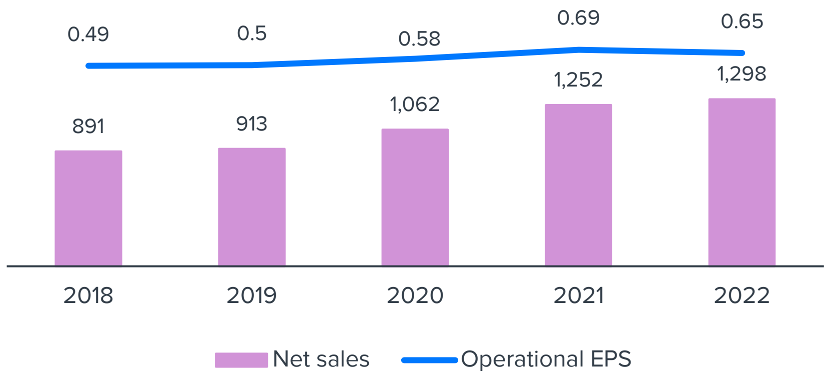
ROCE components



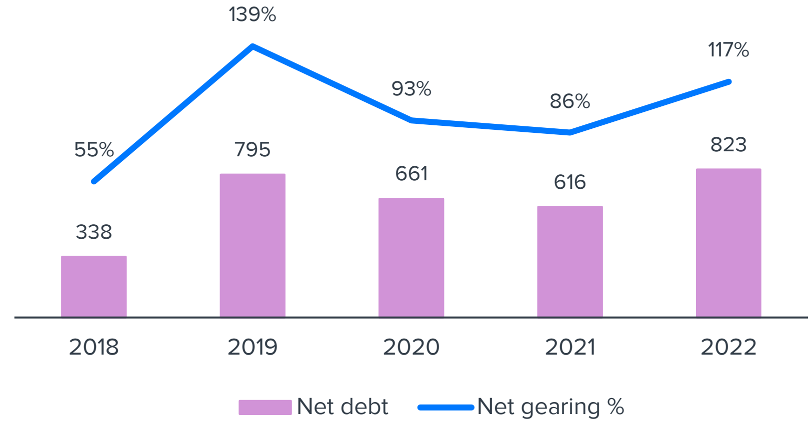
Source: Inderes

Financial position

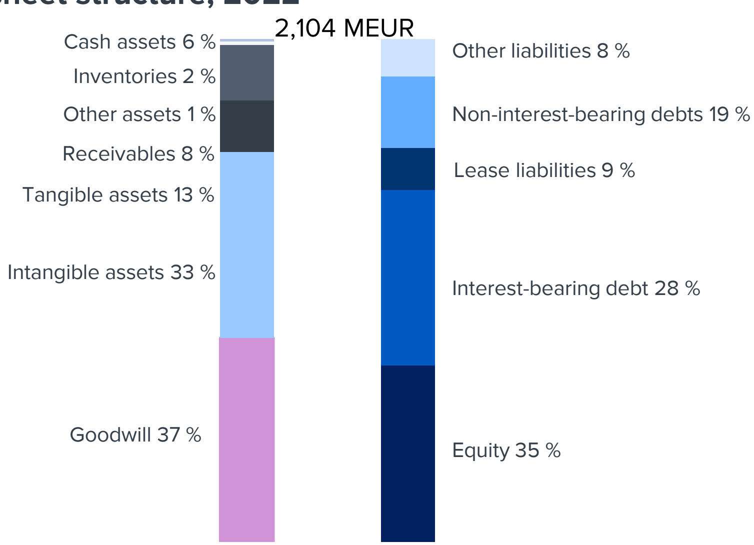
Net sales and operational EPS



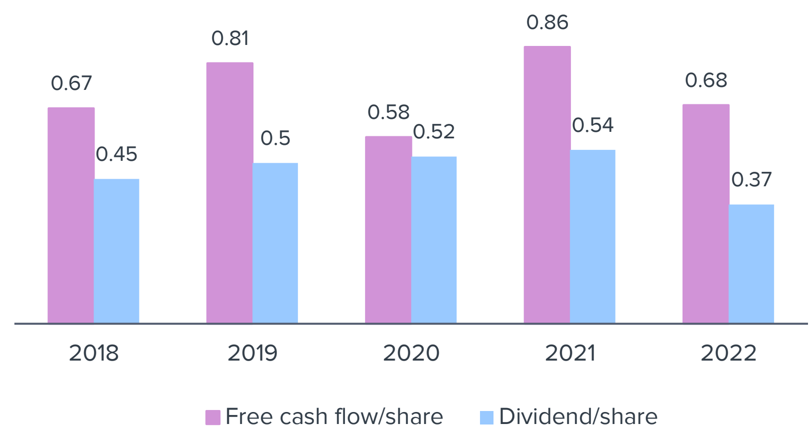
Net debt (MEUR) and gearing %



Balance sheet structure, 2022



Free cash flow and dividend per share



Source: Inderes, Sanoma

Group level estimates

This year the company struggles with cost inflation

Sanoma expects the Group's reported net sales to be EUR 1.35-1.4 billion (2022: 1.3 bn) and operational EBIT excluding PPA to be EUR 150-180 million in 2023 (2022: 189 MEUR). Our net sales estimate for 2023 is EUR 1,383 million, which corresponds to a 6% growth. Growth consists of Learning's growth, which is especially inorganic. The Group's growth is hampered by the decline in Media Finland's net sales.

We predict that the operational EBIT will decrease by some 9% to EUR 171 million and thus our estimate is above the middle of the company's guidance range. We have only made marginal adjustments to the operational earnings estimates for the current year, but our adjusted EPS estimate fell to EUR 0.42 when we included the hybrid bond in our estimates. We expect the tax rate for the current year to be at a normal level, while we expect net financing costs to rise clearly in line with the increase in interest rates. We expect the company to raise the dividend paid for 2023 to EUR 0.38 (2022: EUR 0.37 per share) despite the fact that the free cash flow for the current year is under pressure due to lower earnings and increased investments.

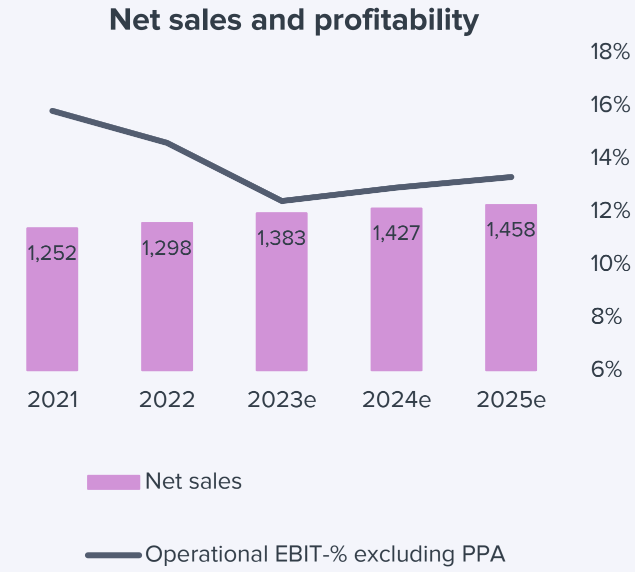
Estimates for 2024-2025: improving margins

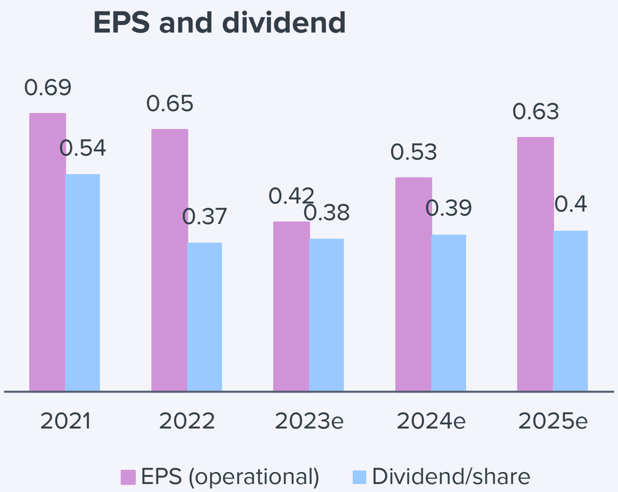
In 2024-2025, we expect Sanoma's net sales to grow by 3% and 2%. The growth in 2024 reflects the price increases implemented in Learning due to high inflation, while in Media Finland we expect the recovery of the advertising market to turn its net sales to growth. In 2025, we expect the growth of both segments to be in line with average long-term growth.

The consolidated EBIT margins in 2024 and 2025 are 12.9% and 13.3% with our estimates. Thus, we expect the segments' earnings improvements to raise Group-level profitability, but in our medium-term estimates, the company's profitability is lower than in 2022 (2022: operational EBIT % 14.6%). In line with operational earnings growth, we expect EPS to increase in the next few years as gearing decreases and lowers financing costs. However, we consider acquisitions quite likely in the medium term, which could change this overall picture. With operational earnings growth, we expect the company to raise its dividend to EUR 0.39 per share in 2024 and further to EUR 0.40 per share in 2025.

Long-term earnings estimates

We expect other than print media income to grow by 2-5% p.a., but simultaneously the income from print media that represent 23% of income to decline by around 5-10% p.a. This depresses overall net sales growth to a moderate level (2026e-2031e 1.5-2%). Improved net sales distribution and efficiency, as well as decreasing depreciation raises the EBIT margin in our estimates (2030e: 14.0%) and earnings growth slightly above net sales growth.





Source: Inderes

Estimate revisions

Estimate revisions 2023e-2025e

- The slightly decreased net sales estimates for 2023 and 2024 are based on the revisions we made to Learning's net sales estimates, while our net sales estimates for Media Finland are practically unchanged
- These cuts in net sales estimates also flowed to our EBIT estimates, which fell slightly in Learning
- For 2025, our net sales estimate for Learning also decreased marginally, but at the same time we revised the margin estimate for the business area slightly upwards. Thus, the overall impact of the estimates changes on EBIT was slightly positive
- In our estimates, we also consider the recent hybrid bond of EUR 150 million at 8% interest issued by Sanoma. This is negatively reflected in our EPS estimates.
- We revised our 2023 dividend estimates slightly upwards and expect the company to use its balance sheet to turn dividend back to growth. At the same time, however, we slightly lowered our expectations for dividend growth in the coming years

Estimate revisions	2023e	2023	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	1388	1383	0%	1440	1427	-1%	1463	1458	0%
EBIT (exc. NRIs)	129	129	0%	151	149	-1%	161	164	2%
EBIT	108	107	-1%	145	139	-4%	155	157	1%
PTP	71.0	70.1	-1%	111	110	-1%	130	135	4%
EPS (excl. NRIs)	0.47	0.42	-10%	0.57	0.52	-8%	0.66	0.63	-4%
DPS	0.35	0.38	9%	0.40	0.39	-3%	0.42	0.40	-5%

Source: Inderes

Group level estimates

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**1252**	**211**	**313**	**515**	**260**	**1298**	**218**	**341**	**572**	**252**	**1383**	**1427**	**1458**	**1482**
Media Finland	615	142	164	155	158	618	137	159	152	156	604	613	619	624
Learning	637	69	150	360	102	681	81	182	420	96	780	814	840	858
EBITDA	**349**	**26**	**87**	**177**	**38**	**329**	**15**	**91**	**194**	**26**	**326**	**352**	**358**	**370**
Depreciation	-207	-48	-49	-61	-59	-217	-55	-55	-55	-55	-219	-213	-201	-198
EBIT excl. NRI and PPA	**197**	**-10**	**65**	**147**	**-5**	**189**	**-24**	**52**	**156**	**-12**	**171**	**185**	**194**	**204**
EBIT (excl. NRI)	**158**	**-19**	**44**	**137**	**-13**	**150**	**-35**	**41**	**145**	**-23**	**129**	**149**	**164**	**179**
EBIT	**142**	**-22**	**38**	**116**	**-21**	**112**	**-40**	**36**	**140**	**-28**	**107**	**139**	**157**	**172**
Media Finland	67	8	16	19	16	59	5	10	11	11	37	43	46	50
Learning	102	-27	33	120	-27	99	-37	35	137	-31	103	118	130	142
Other and elimination	-10	-1	-5	-2	-2	-8	-3	-3	-3	-3	-12	-12	-12	-12
Net financial items	-9	-3	0	-4	-6	-13	-8	-9	-10	-10	-37	-29	-22	-22
PTP	**134**	**-25**	**39**	**112**	**-27**	**99**	**-48**	**27**	**130**	**-38**	**70**	**110**	**135**	**149**
Taxes	-32	7	-8	-27	6	-22	11	-6	-29	8	-15	-24	-30	-33
Minority interest	-1	0	0	0	0	-1	0	0	0	0	0	0	0	0
Net earnings	**100**	**-18**	**31**	**85**	**-21**	**76**	**-37**	**18**	**99**	**-32**	**47**	**76**	**95**	**114**
EPS (adj.)	**0.69**	**-0.09**	**0.22**	**0.65**	**-0.13**	**0.65**	**-0.20**	**0.15**	**0.64**	**-0.16**	**0.42**	**0.52**	**0.63**	**0.74**
EPS (rep.)	**0.62**	**-0.11**	**0.19**	**0.52**	**-0.13**	**0.47**	**-0.23**	**0.11**	**0.60**	**-0.20**	**0.29**	**0.46**	**0.58**	**0.70**

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	17.9 %	0.2 %	3.4 %	5.9 %	2.9 %	3.7 %	3.5 %	8.9 %	11.2 %	-3.0 %	6.5 %	3.2 %	2.2 %	1.6 %
Adjusted EBIT growth-%	18.3 %	0.2 %	-18.3 %	0.7 %	-6.0 %	-5.2 %	80.9 %	-6.8 %	5.5 %	82.4 %	-14.2 %	15.6 %	10.5 %	9.1 %
EBITDA-%	27.9 %	12.4 %	27.8 %	34.4 %	14.7 %	25.3 %	6.7 %	26.6 %	34.0 %	10.4 %	23.6 %	24.7 %	24.5 %	24.9 %
Adj. EBIT-% excl. PPA	15.8 %	-4.7 %	20.7 %	28.6 %	-2.0 %	14.6 %	-11.0 %	15.2 %	27.2 %	-4.8 %	12.4 %	12.9 %	13.3 %	13.8 %
Adjusted EBIT-%	12.6 %	-9.1 %	14.1 %	26.7 %	-4.8 %	11.5 %	-15.9 %	12.1 %	25.3 %	-9.1 %	9.3 %	10.4 %	11.3 %	12.1 %
Net earnings-%	8.0 %	-8.7 %	9.8 %	16.5 %	-8.2 %	5.9 %	-17.2 %	5.4 %	17.2 %	-12.9 %	3.4 %	5.3 %	6.5 %	7.7 %

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 restructuring of net sales and earnings, we believe the longer-term risk profile of the share has decreased and the company's cash flow profile has also strengthened, although in the short term, strong inflation puts these profiles to the test.

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, 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: Sanoma has great potential to accelerate its income growth by means of acquisitions. We believe, the focus of acquisitions is on the more stable Learning operations. Therefore, acquisitions provide the opportunity to change the net sales and earnings structure towards even more stable income components. This would also lower the risk profile, although we already consider Sanoma's risk profile to be moderate as a whole.

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 still see potential in Sanoma to improve its profitability by raising prices and improving the sales structure (e.g. Learning's growth) in the medium and long terms.

Strong cash flow: The company's businesses have relatively good ability to generate cash flow, which over time enables both growing dividends, organic and in-organic investments and paying off debt.

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 net sales to continue far into the future, which will subdue the company's total growth and slow down its ability to produce growing cash flow.

Weakening competitive position: The competitive field of media companies 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 and high inflation lower earnings expectations, especially in Media Finland, where we believe price increases are more challenging. This risk is particularly enhanced in the short term, as inflation is unusually high and predicting cyclical developments is challenging. However, in the long run, the long-term trend growth of the economy provides a basis for moderate growth at Group level.

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, we consider the risks associated with acquisitions to be smaller than before as the track record of current management is good.

Investment profile

1. Stable and profitable core operations that generate good cash flow over time

2. Structural change in media decelerates organic growth, growth sought through acquisitions

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
- Good cash flow and growing dividend examined over time
- Improved cost efficiency and net sales structure

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
- Strong cost inflation and gradual progressing price increases

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 ratio that considers 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 5% over the next few years.

We expect Sanoma's result to decrease clearly this year but with net sales growth, improved operational profitability and the earnings pressure from the interest of the hybrid bond over the next few years we expect adjusted EPS for 2022-2025 to develop stably. Therefore, we do not believe earnings growth is much of a driver of the expected return if the company's profitability does not increase faster than our expectations toward a clearly higher level seen in recent history.

With 2023 estimates, Sanoma is valued at an adjusted P/E ratio of 19x and the corresponding EV/EBITA ratio is 13x. 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. The earnings recovery we expect pushes the corresponding valuation multiples in 2025 to more moderate levels, the 2025 adjusted P/E is 12x and EV/EBITA 11x. These valuation multiples are clearly below the median valuation multiples of the past five years (2018-2022 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. However, we believe that the change in valuation multiples forms a positive expected return driver for the share. Thus, the total expected return on the share over the next few years is essentially composed of dividend yield and a slight upside in valuation and is, in our opinion, slightly 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. On the other hand, the reliability of the cash flow model in the short term is in our opinion undermined by uncertainty about how the company can increase its profitability, which is under strong pressure in the short term due to cost inflation. Thus, we do not base our target price directly on the DCF model, whose share value is EUR 10.2.

Due to the steady growth of Learning (excluding possible acquisitions) and the decrease in print media, net sales reaches a small growth in the model in the medium term (2025-2030).

TSR drivers 2022-2025e

Source: Inderes

Valuation 2/2

Correspondingly, the EBIT margin in our model rises from 11.5% in 2022 to 13.7% on average in the longer term and to 14.0% in the terminal, reflecting the higher profitability of the Learning business and relatively higher share of net sales. In recent history, the company has also reached higher operating profitability than these levels (excl. PPA), so we do not consider these long-term 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 at 8.4%. We have considered the hybrid bond as if it was debt capital in the DCF model and deducted it from equity per share.

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 EUR 2,071 million based on the relative valuations we present in the segment reviews. Learning is responsible for approximately 3/4 of the Group's EV, which has increased clearly from our previous extensive report. This is based on Learning's relatively stable value development, while Media Finland's valuation has decreased significantly, mainly as a result of its significantly decreased earnings estimates.

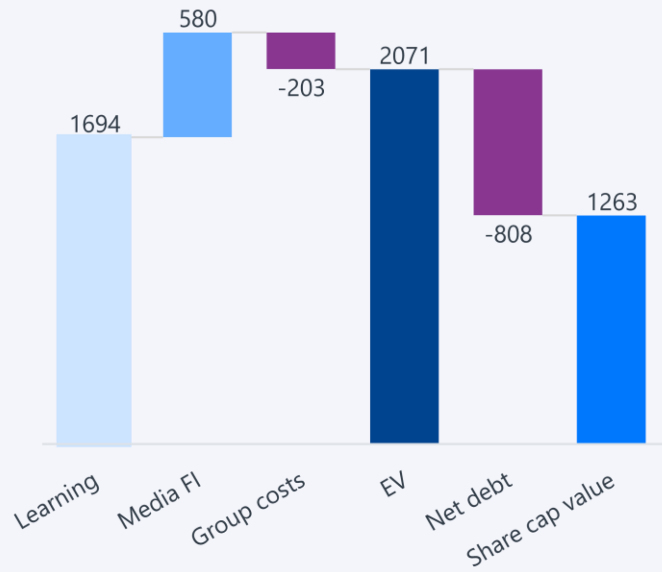
By deducting the present value of the Group costs (-203 MEUR) and net interest-bearing debt (incl. 150 MEUR hybrid) from the segments' EV at the end of 2023 (-808 MEUR), the value of Sanoma's share capital based on the sum of the parts is EUR 1,263 million or around EUR 7.7 per share.

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. We also feel the valuation levels of the Learning business peers have fallen to relatively low levels and that a higher valuation could be justified for the business.

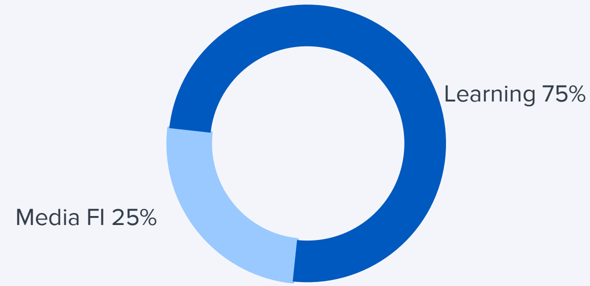
Valuation summary

We raise Sanoma's recommendation to Accumulate (previous Reduce) and lower the target price to EUR 8.5 (previous EUR 9.5) reflecting negative estimate changes. The sum of parts calculation points to a neutral valuation, while the longer-term DCF model indicates a clearly higher value for the share than the current share price. Thus, the overall valuation picture is not completely uniform with the methods we use. We feel the total expected return is slightly above the required return. However, we do not consider the bar set by our estimates for the next few years to be especially high and also find it possible that Sanoma could increase profitability faster than we expect. We believe that these factors turn the risk/return ratio positive and supports the Accumulate recommendation.

Estimate of Sanoma's sum of the parts, 5/2023



Distribution of EV, 5/2023

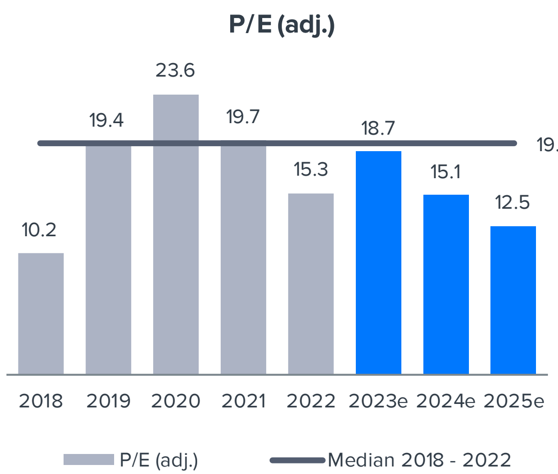


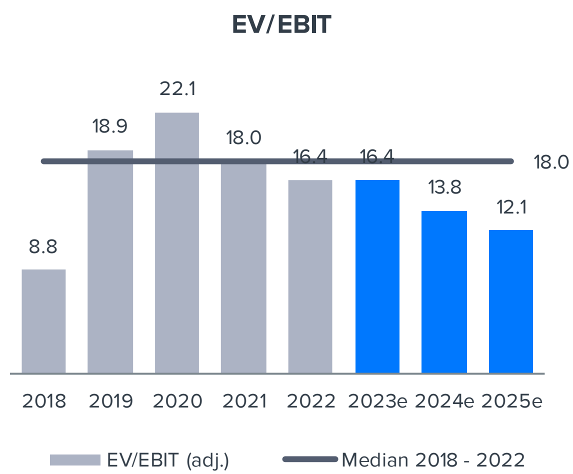
Source: Inderes

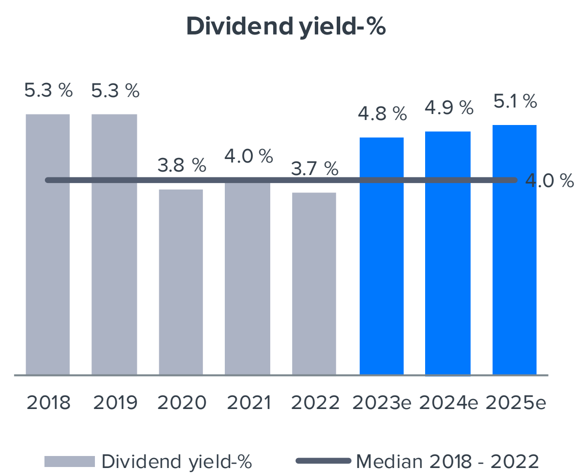
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	8.49	9.45	13.7	13.6	9.96	**7.88**	**7.88**	**7.88**	**7.88**
Number of shares, millions	163	163	163	163	163	**163**	**163**	**163**	**163**
Market cap	1380	1536	2240	2219	1625	**1287**	**1287**	**1287**	**1287**
EV	1729	2348	2951	2842	2453	**2105**	**2050**	**1991**	**1926**
P/E (adj.)	10.2	19.4	23.6	19.7	15.3	**18.7**	**15.1**	**12.5**	**10.6**
P/E	12.4	25.0	9.5	22.1	21.3	**27.3**	**17.0**	**13.5**	**11.3**
P/B	2.3	2.9	3.2	3.1	2.3	**1.5**	**1.5**	**1.5**	**1.7**
P/S	1.0	1.7	2.1	1.8	1.3	**0.9**	**0.9**	**0.9**	**0.9**
EV/Sales	1.3	2.6	2.8	2.3	1.9	**1.5**	**1.4**	**1.4**	**1.3**
EV/EBITDA	5.8	9.3	6.6	8.1	7.5	**6.5**	**5.8**	**5.6**	**5.2**
EV/EBIT (adj.)	8.8	18.9	22.1	18.0	16.4	**16.4**	**13.8**	**12.1**	**10.8**
Payout ratio (%)	65.7 %	132.3 %	35.8 %	87.6 %	79.2 %	**131.6 %**	**84.0 %**	**68.4 %**	**60.2 %**
Dividend yield-%	5.3 %	5.3 %	3.8 %	4.0 %	3.7 %	**4.8 %**	**4.9 %**	**5.1 %**	**5.3 %**

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**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Alma Media	738	870	12.9	11.9	10.3	9.6	2.8	2.8	14.5	13.2	4.9	5.3	3.3
Future PLC	1502	2057	7.1	6.7	6.1	5.9	2.2	2.2	7.4	6.9	0.3	0.4	1.1
Gannett Co	242	1213	17.2	17.1	4.8	5.0	0.5	0.5	95.8	50.6			0.4
ITV PLC	3665	4417	8.2	7.3	6.8	6.1	1.1	1.0	9.1	8.2	6.0	6.2	1.7
Lagardere SA	2929	6764	14.1	13.0	9.2	8.1	0.9	0.8	10.8	9.7	6.3	6.1	2.5
Arnoldo Mondadori Editore	512	680	7.6	7.3	4.9	4.7	0.7	0.7	8.3	7.9	5.6	5.5	1.8
News Corp	8893	11320	18.7	14.0	9.1	7.9	1.3	1.2	40.4	23.9	1.2	1.2	1.2
New York Times	5851	5536	21.8	18.9	16.4	14.8	2.5	2.4	31.0	27.0	1.1	1.1	3.9
Promotora de Informaciones SA	283	1187	14.0	10.9	7.5	6.4	1.3	1.3		15.3			
Prosiebensat 1 Media	2297	3924	9.8	8.5	6.5	5.7	1.0	0.9	8.7	7.3	5.9	7.2	1.4
Rizzoli Corriere	409	587	6.4	6.1	4.2	4.1	0.7	0.7	7.8	7.1	7.7	7.7	1.0
Roularta Media Group	237	163			3.5		0.6	0.5	7.1	7.0	5.6	5.6	
TX Group AG	1117	1191	13.0		6.5	5.4	1.2	1.1	12.1	9.7	6.2	4.1	0.4
Bloomsbury Publishing PLC	423	389	11.3	10.6	9.4	8.9	1.3	1.3	16.2	15.8	2.5	2.6	
Pearson PLC	6886	7642	12.4	11.1	8.7	8.2	1.8	1.8	15.3	13.9	2.7	2.8	1.4
John Wiley & Sons Inc	1902	2648	16.7	11.0	7.0	6.7	1.4	1.3	10.2	9.8	3.7	3.8	1.7
Wilmington PLC	269	254	9.8	9.0	7.8	7.2	1.9	1.8	13.4	12.5	3.3	3.6	
Koninklijke Brill NV	39	47	7.9	7.9	5.2	5.2	0.9	0.9	9.2	9.1	6.0	6.1	1.4
2U Inc	361	1048	15.6	14.4	7.4	6.1	1.2	1.1	19.6	9.3			0.9
Chegg Inc	1968	2087	14.6	13.4	9.4	8.5	3.0	2.9	15.1	13.3			2.3
Sanoma (Inderes)	**1287**	**2105**	**16.4**	**13.8**	**6.5**	**5.8**	**1.5**	**1.4**	**18.7**	**15.1**	**4.8**	**4.9**	**1.5**
Average			**12.6**	**11.1**	**7.5**	**7.1**	**1.4**	**1.4**	**18.5**	**13.9**	**4.3**	**4.3**	**1.7**
Median			**12.9**	**10.9**	**7.2**	**6.4**	**1.2**	**1.2**	**12.1**	**9.8**	**5.2**	**4.7**	**1.4**
Diff-% to median			**27%**	**26%**	**-10%**	**-9%**	**26%**	**23%**	**55%**	**54%**	**-8%**	**5%**	**10%**

Source: Refinitiv / Inderes

DCF calculation

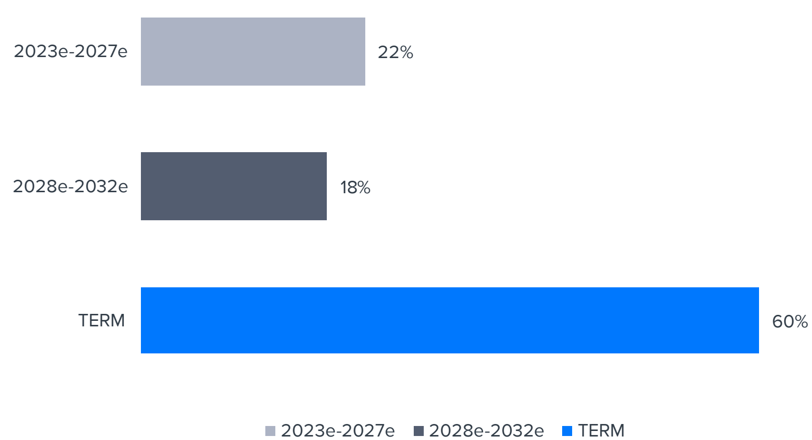
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	6.5 %	3.2 %	2.2 %	1.6 %	1.5 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	8.6 %	7.7 %	9.7 %	10.7 %	11.6 %	13.0 %	13.5 %	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %
EBIT (operating profit)	**112**	**107**	**139**	**157**	**172**	**196**	**207**	**219**	**223**	**228**	**233**	
+ Depreciation	217	219	213	201	198	175	177	178	178	179	180	
- Paid taxes	-30	-15	-24	-30	-33	-38	-41	-44	-45	-46	-47	
- Tax, financial expenses	-2.5	-8.1	-6.4	-4.8	-4.9	-5.0	-4.8	-4.6	-4.4	-4.2	-4.0	
+ 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	-69	1	9	8	3	0.3	0.5	0.5	0.5	0.5	0.5	
Operating cash flow	**227**	**303**	**330**	**331**	**335**	**328**	**339**	**349**	**353**	**358**	**362**	
+ Change in other long-term liabilities	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-324	-189	-180	-182	-184	-185	-182	-182	-183	-183	-183	
Free operating cash flow	**-100**	**114**	**151**	**149**	**152**	**142**	**157**	**167**	**171**	**174**	**179**	
+/- Other	-36	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-136	114	151	149	152	142	157	167	171	174	179	3261
Discounted FCFF		**108**	**133**	**123**	**116**	**101**	**104**	**102**	**97.2**	**92.4**	**88**	**1605**
Sum of FCFF present value		2669	2561	2428	2305	2189	2088	1985	1882	1785	1693	1605

Enterprise value DCF	**2670**
- Interesting bearing debt	-864
+ Cash and cash equivalents	41.0
-Minorities	-11
-Dividend/capital return	0.0
Equity value DCF	**1835**
Equity value DCF per share	**10.2**

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

Cash flow distribution



Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**1597**	**1673**	**1687**	**1689**	**1700**
Goodwill	753	812	812	812	812
Intangible assets	578	611	632	641	655
Tangible assets	212	211	203	197	193
Associated companies	3	4	4	4	4
Other investments	9	4	4	4	4
Other non-current assets	32	21	21	21	21
Deferred tax assets	9	11	11	11	11
Current assets	**241**	**302**	**308**	**309**	**308**
Inventories	36	71	62	61	61
Other current assets	17	11	11	11	11
Receivables	136	179	191	191	190
Cash and equivalents	52	41	44	45	46
Balance sheet total	**1932**	**2104**	**2080**	**2047**	**2027**

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**721**	**702**	**837**	**851**	**884**
Share capital	71	71	71	71	71
Retained earnings	210	205	191	205	237
Hybrid bonds	0	0	150	150	150
Revaluation reserve	0	0	0	0	0
Other equity	433	419	418	418	418
Minorities	7	7	7	7	8
Non-current liabilities	**706**	**850**	**672**	**620**	**566**
Deferred tax liabilities	127	121	121	121	121
Provisions	1	0	0	0	0
Long term debt	566	719	541	489	436
Convertibles	0	0	0	0	0
Other long term liabilities	13	9	9	9	9
Current liabilities	**506**	**552**	**571**	**576**	**577**
Short term debt	103	145	161	158	153
Payables	224	252	256	264	270
Other current liabilities	179	154	154	154	154
Balance sheet total	**1933**	**2104**	**2080**	**2047**	**2027**

Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	1062	1252	1298	**1383**	**1427**
EBITDA	446	349	329	**326**	**352**
EBIT	270	142	112	**107**	**139**
PTP	260	134	99	**70**	**110**
Net Income	250.6	100.5	76.2	**47.1**	**75.8**
Extraordinary items	135.9	-15.8	-37.9	**-21.5**	**-9.5**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	2048	1932	2104	**2080**	**2047**
Equity capital	710	721	702	**837**	**851**
Goodwill	753	753	812	**812**	**812**
Net debt	661	616	823	**658**	**602**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	446	349	329	**326**	**352**
Change in working capital	404	-6.7	-69.1	**0.8**	**8.7**
Operating cash flow	887	303	227	**303**	**330**
CAPEX	-692	-159	-324	**-189**	**-180**
Free cash flow	204	142	-136	**114**	**151**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	2.8	2.3	1.9	**1.5**	**1.4**
EV/EBITDA (adj.)	6.6	8.1	7.5	**6.5**	**5.8**
EV/EBIT (adj.)	22.1	18.0	16.4	**16.4**	**13.8**
P/E (adj.)	23.6	19.7	15.3	**18.7**	**15.1**
P/B	3.2	3.1	2.3	**1.5**	**1.5**
Dividend-%	3.8 %	4.0 %	3.7 %	**4.8 %**	**4.9 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	1.45	0.62	0.47	**0.29**	**0.46**
EPS (adj.)	0.58	0.69	0.65	**0.42**	**0.52**
OCF / share	5.44	1.86	1.39	**1.86**	**2.02**
FCF / share	1.25	0.87	-0.83	**0.70**	**0.92**
Book value / share	4.23	4.38	4.26	**5.09**	**5.17**
Dividend / share	0.52	0.54	0.37	**0.38**	**0.39**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	16%	18%	4%	**7%**	**3%**
EBITDA growth-%	76%	-22%	-6%	**-1%**	**8%**
EBIT (adj.) growth-%	8%	18%	-5%	**-14%**	**16%**
EPS (adj.) growth-%	20%	19%	-6%	**-35%**	**24%**
EBITDA-%	42.0 %	27.9 %	25.3 %	**23.6 %**	**24.7 %**
EBIT (adj.)-%	12.6 %	12.6 %	11.5 %	**9.3 %**	**10.4 %**
EBIT-%	25.4 %	11.4 %	8.6 %	**7.7 %**	**9.7 %**
ROE-%	38.8 %	14.3 %	10.8 %	**6.2 %**	**9.1 %**
ROI-%	19.0 %	9.8 %	7.4 %	**6.9 %**	**9.2 %**
Equity ratio	37.2 %	40.2 %	35.8 %	**43.2 %**	**44.6 %**
Gearing	93.1 %	85.5 %	117.3 %	**78.6 %**	**70.7 %**

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Date	Recommendation	Target	Share price
27-07-20	Accumulate	10.00 €	9.30 €
20-10-20	Reduce	12.50 €	12.84 €
30-10-20	Reduce	12.50 €	12.48 €
09-12-20	Reduce	13.00 €	13.38 €
11-02-21	Reduce	15.00 €	15.95 €
12-04-21	Reduce	15.00 €	14.56 €
03-05-21	Accumulate	15.00 €	14.44 €
29-07-21	Reduce	15.50 €	16.16 €
28-10-21	Accumulate	15.50 €	14.34 €
14-02-22	Accumulate	14.00 €	12.58 €
13-04-22	Accumulate	14.00 €	12.26 €
02-05-22	Accumulate	14.00 €	12.04 €
08-06-22	Accumulate	14.00 €	13.18 €
26-07-22	Reduce	14.00 €	14.76 €
28-07-22	Reduce	14.00 €	13.80 €
28-10-22	Reduce	11.50 €	12.16 €
10-01-23	Reduce	10.00 €	9.96 €
13-02-23	Reduce	9.50 €	9.48 €
02-05-23	Accumulate	8.50 €	7.88 €

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