

Sanoma

Extensive report

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Inderes Corporate customer

This report is a summary translation of the report “Vetovastuu on siirtynyt Learningille” published on 04/12/2021 at 07:50

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res.**

Learning is now in the driver's seat

We reiterate our EUR 15.0 target price and Reduce recommendation for Sanoma. Thanks to the M&A transactions carried out by Sanoma, the focus of the business has shifted heavily towards Learning with high profitability and stable growth outlook, which has lowered the company's risk profile. This defensive business currently brings some 2/3 of the Group's result while the weight of conventional media is clearly smaller. Examined from several viewpoints, the valuation of the share is at a justified level in our opinion. Thus, the expected return for the next few years leans, in our view, especially on the dividend, which in our opinion is not enough to justify additional purchases regardless of the low risk profile.

Learning's weight is already clearly bigger

Over the past year, Sanoma has continued implementing its strategy of inorganic growth that started several years ago. As a result of the acquisitions, the focus of the company's value creation has moved to Learning income that is more attractive and valuable for investors. These highly predictable, scalable and profitable business operations with reasonable growth prospects currently constitute approximately two-thirds of Sanoma's operative result. As a result of the shift in the focus, the share of regressing print media income in Sanoma's net sales has decreased to around 25%. We expect the focus shift to continue as the company's inorganic growth strategy focuses on M&A transactions more heavily in Learning. As the focus of income changes, the susceptibility of the business to economic development decreases, which is reflected in the business risk profile.

Moderate growth and scalability

In the short term, Sanoma suffers from the drop in advertising sales and event business income caused by COVID but growth generated by completed acquisitions pushes the Group's 2020 net sales to clear growth. In the medium term, Sanoma's income is affected by trends developing in different directions, as roughly one-quarter of net sales comes from print media which continues decreasing driven by the change in media consumption and digitalization of advertising. Correspondingly, income from learning materials and digital learning platforms that form around one-half of Sanoma's net sales grow together with digital content and advertising income. Considering this overall picture, we expect the company's net sales to reach slight organic growth in the medium term (2022-2024 ~ 2%) but due to the increase in the relative share of higher-margin income we expect operating profit growth to be roughly double compared to net sales growth.

Examined from several viewpoints, valuation is at a justified level

Sanoma's earnings-based valuation is quite high in the short-term (2021e P/E adjusted 20X and EV/EBIT 18x) but we expect the earnings growth in coming years to depress the valuation multiples to a justified level in the longer term. Our sum of the parts model and DCF calculation (EUR 15.4-15.8 per share) indicates that the share is correctly priced. Thus, examined from several viewpoints the overall valuation is neutral and the expected return over the next 12 months is in our view close to 4% supported by increasing dividend yield. This does not, in our opinion, warrant additional purchases even though the risk profile is modest in our view. Sanoma's Learning business is progressing nicely in its plan to conquer Europe, but with the current valuation levels we find it justified to wait for a more attractive return/risk ratio before making additional purchases.

Recommendation

Reduce
(previous Reduce)

EUR 15.00
(previous 15.00)

Share price:
14.56



Key indicators

	2020	2021e	2022e	2023e
Net sales	1,062	1236	1282	1301
Growth %	16 %	16 %	4 %	2 %
EBIT adjusted, excluding PPA	154	195	214	221
EBIT % adjusted	14.5 %	15.8 %	16.7 %	17.0 %
Net profit	236.8	112.8	126.0	136.3
EPS (adjusted)	0.58	0.75	0.80	0.87

P/E (adjusted)	23.6	19.5	18.1	16.7
P/B	3.2	3.3	3.1	3.0
Dividend yield %	3.8 %	3.7 %	4.0 %	4.1 %
EV/EBIT (adjusted)	22.1	18.3	16.1	14.5
EV/EBITDA	6.6	8.6	7.9	7.3
EV/Revenue	2.8	2.4	2.3	2.2

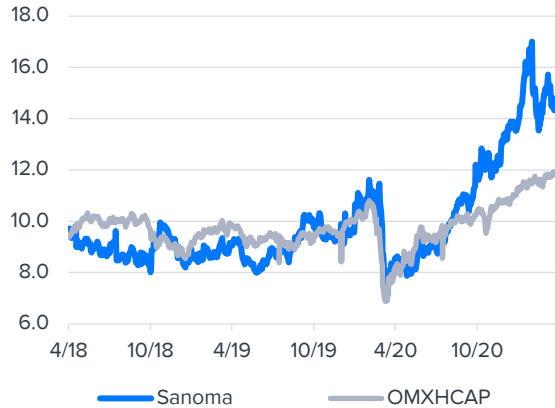
Source: Inderes

Guidance

(Unchanged)

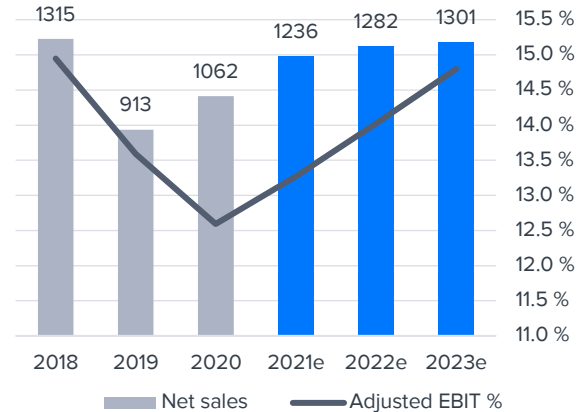
In 2021, Sanoma expects the group's reported net sales to be EUR 1.2-1.3 billion (2020: EUR 1.1 billion) and operational EBIT % excluding PPA depreciation to be 14-16% (2020: 14.7%)

Share price



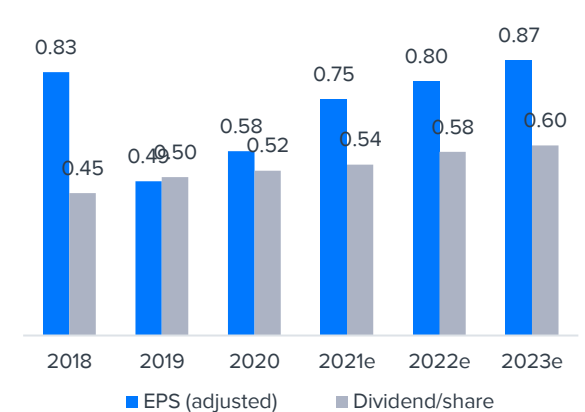
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growth in digital income and services
- Improved cost efficiency and net sales structure
- Strengthening cash flow and financial position
- Synergy benefits from completed acquisitions
- Acquisitions that create value



Risk factors

- Acceleration in the drop in print media
- Weaker competitive position, especially compared to global competitors
- Failure in acquisitions
- Cyclical risks
- Political risks and risks related to regulations



Valuation

- Organic growth outlook is modest so earnings growth leans especially on inorganic growth
- Strong operational cash flow enables together with inorganic growth good dividend yield that grows over time
- Slight earnings growth neutralizes valuation multiples over the next couple of years
- DCF calculation and sum of the parts indicate a slight upside in the share

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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.

EUR 1,167 million (EUR 1,062 million)

Pro forma net sales* 2020, (2020 reported net sales)

15.8% (14.7 %)

Pro forma adjusted EBIT margin excluding procurement cost depreciations* (operational EBIT %), 2020

52% / 67% (47% / 61%)

Learning's share of net sales and operational EBIT excluding PPA depreciations, 2020 pro forma* (with reported figures)

20% (22%)

The percentage of cyclical advertisement income of net sales, 2020 pro forma*, (reported figures)

2013-2015

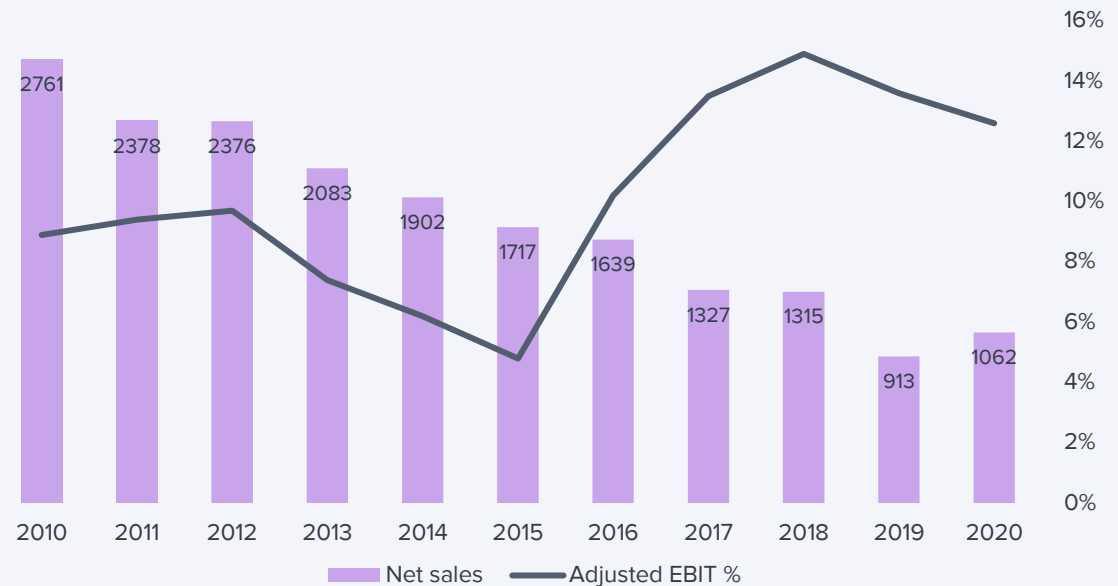
- Accelerating structural change in the media industry, a subdued economic environment and restructuring costs depress the income and profitability of Sanoma's media business.
- First write-down from SBS acquisition
- Learning developing stably
- Company's gearing rises

2016-2019

- Increased business focus, divestments of non-synergic 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-

- Business focus shifting more towards Learning as the company acquires Santillana Spain
- Increasing relative share of recurring net sales
- Regional media business acquisition and Oikotie divestment
- Pandemic gnaws at the media business, profitability still remains good



Source: Inderes, Sanoma

* Pro forma figures include reported figures and the Santillana Spain acquisition

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 11 countries while media business focuses on Finland.

Pro forma net sales, that includes the group's continuing operations and the Santillana Spain acquisition was EUR 1,167 million in 2020. Pro forma operating profit, that includes the acquisition but excludes PPA depreciations (hereinafter operational EBIT) was EUR 184 million or 15.8% of net sales. In 2020, reported net sales was EUR 1,062 million and operational EBIT EUR 157 million. We use pro forma figures that consider the acquisition because they describe Sanoma's current business structure and size class better.

Sanoma has a leading market position on the Dutch, Spanish, Polish, Finnish and Belgian learning materials and solutions markets and on the Finnish media market. The company's known media brands and products in Finland are, 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 hybrid learning materials and solutions. In 2020, the business constituted 52% of the Group's net sales and 67% of its operational EBIT.

Sanoma's other business unit, **Media Finland**, is the leading media company in Finland. The segment's income primarily comprises content and advertising income of the newspaper, news and magazine media, advertising and subscription income of TV, radio and related online services. In addition, it includes other service income consisting of, e.g., income from festivals, events, marketing services, event marketing, corporate publications, books, and printing services. Media Finland's share of the Group's 2020 net sales was 48% and 33% of operational EBIT.

In addition, the company reports the Group's other expenses not allocated to business segments under Other operations and eliminations.

Four income components

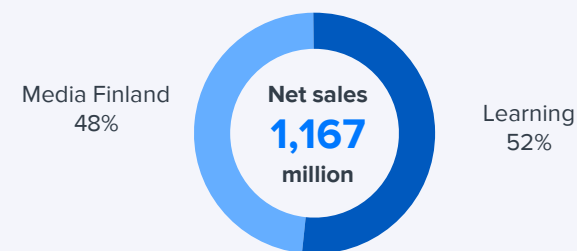
Sanoma's business model can be divided into four main components by income type, which differ from each other in terms of the recurrence of income, customer type and cyclicity.

1) Learning income (2020: 52% of net sales) consist fully of the income from the Learning segment's learning materials (incl. distribution) and digital learning platforms. The main customer target group for Learning income is the public sector. 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 is strongly concentrated on Q2–Q3, which also results in strong seasonal fluctuation in Sanoma Group's net sales and operating result.

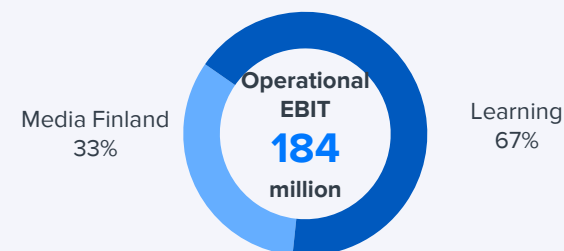
Sanoma's business structure, 2020

Sanoma Group (pro forma**)	
Net sales EUR 1,167 million	
EBIT (adjusted excl. PPA) EUR 184 million	
Media Finland	Learning
Net sales EUR 563 million	Net sales EUR 605 million
EBIT* EUR 67 million	EBIT* EUR 124 million
EBIT % 11.8%	EBIT % 20.5%
<ul style="list-style-type: none"> • Newspapers • Online media • TV & Radio • Magazines • Festivals • Other services 	<ul style="list-style-type: none"> • Learning materials • Digital learning platforms

Net sales distribution, 2020 pro forma**



Net sales distribution, 2020 pro forma**



* Operational EBIT excl. PPA depreciations
 ** Reported + Santillana Spain acquisition

Sanoma's business model 2/3

In addition, the annual Learning income may vary quite a lot because demand for learning solutions is highly dependent on the curriculum reforms that typically occur every 5–10 years on individual education markets. Due to business growth and geographical expansion, the fluctuation in operational income, however, decreases as the curriculum reforms in the current target countries do not occur in the same years.

2) Media content income (2020: 23% 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 20% of Sanoma's net sales, and the corresponding percentage of single-copy sales is close on 4%. The primary customer target group for content income is consumer customers.

3) Media advertising income (2020: 20% 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 in advertising income was around two-thirds in 2020 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 (2020: 5% of the net sales) consist of Finnish festival operations, marketing services, corporate publications, as well as books and printing

services. Although the main customer target group for other income is businesses, most of the income from festival business that typically forms some 40% of other income comes from consumers. In 2020, other income was clearly lower than usual as due to the COVID pandemic festival activities were shut down.

Structural trends affect income flows

In addition to normal demand drivers, Sanoma's income development is guided by several structural trends of different magnitude.

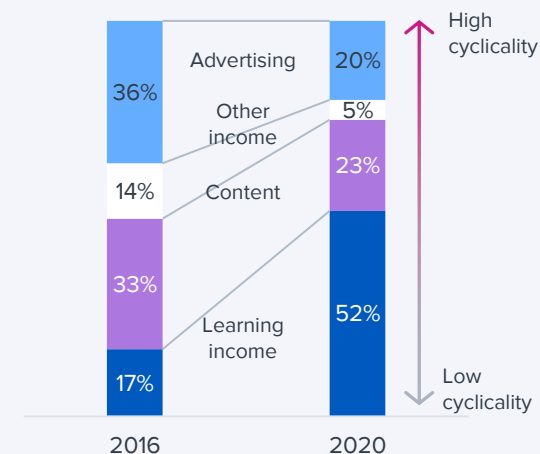
The structural trend that most affects Sanoma is the regression of print media resulting from the digitalization of media consumption that strongly affects both the development of print media content income and, especially, print media advertising. The share of print media income of Sanoma's net sales is 25% (2020).

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 23% (2020).

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 more heavily regressing print media has decreased.

Sanoma's net sales distribution, 2020 pro forma**



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. Slight drop in traditional content -0-3% p.a.
Advertising	Clear growth in digital advertising +5-10% p.a. Clear decline in printed advertising -5-10% p.a.
Other income	Stable +/-2% p.a.

Source: Inderes

** Reported net sales+ Santillana Spain acquisition

Sanoma's business model 3/3

At the same time, the dependency of business income on general economic development, i.e., cyclicity has decreased.

Overall risk profile of Sanoma's business model is moderate

In our opinion, the overall risk profile of Sanoma's business model is moderate (see graph on the next page). The business model's risk level is specifically reduced by the moderate share of cyclical income, high percentage of recurring and predictable income, strong market position, as well as predictable and strong operational cash flow. The business model's risk level is primarily increased by factors related to the revolution of the media sector that strongly reduce in particular the demand for print media, undermine Sanoma's pricing power, and reduce the scalability advantages of print media operations.

High share of easily predictable income

The share of businesses with recurring income flows in Sanoma's net sales was some 72% in 2020, and they comprise very stable and predictable Learning income and media content subscription sales.

The share of advertising income, which is heavily dependent on consumer demand and economic cycles, of Sanoma's net sales has decreased markedly because of the restructuring in recent years. The share of advertising income of the Group's net sales was 20% in 2020, having been 36% in 2016.

While the share of advertising income has decreased, content income based on recurring subscription sales has taken foothold and generate 20% of net sale in 2020. The share of Learning income subject to stable and predictable demand also increased to 52% due to recent restructuring (2016: 17%). The share of non-recurring content income (single copy) has dropped very low, to some 4%. In addition, expansion to new business operations in value chains parallel to the core businesses is evident in other income, which constitutes 5% of the net sales.

It should be noted that COVID was heavily reflected in the relative income shares and especially in terms of advertising income and other income in 2020. The pandemic depressed, for example, the net sales of the festival business (2019: EUR 35 million) practically to zero. In terms of 2021, there is still a lot of questions surrounding the festival and event business related to the development of the pandemic.

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 very strong pricing power. However, reduced coverage of print media, fragmentation of media consumption, as well as the competitive pressure introduced to a large degree by Google and Facebook, have weakened the advertising pricing power of local media companies.

According to our estimate, the speed of change is leveling out, with larger media companies improving their technological solutions and winning market share from small domestic operators. We believe, the COVID pandemic has strengthened this change on the local market.

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

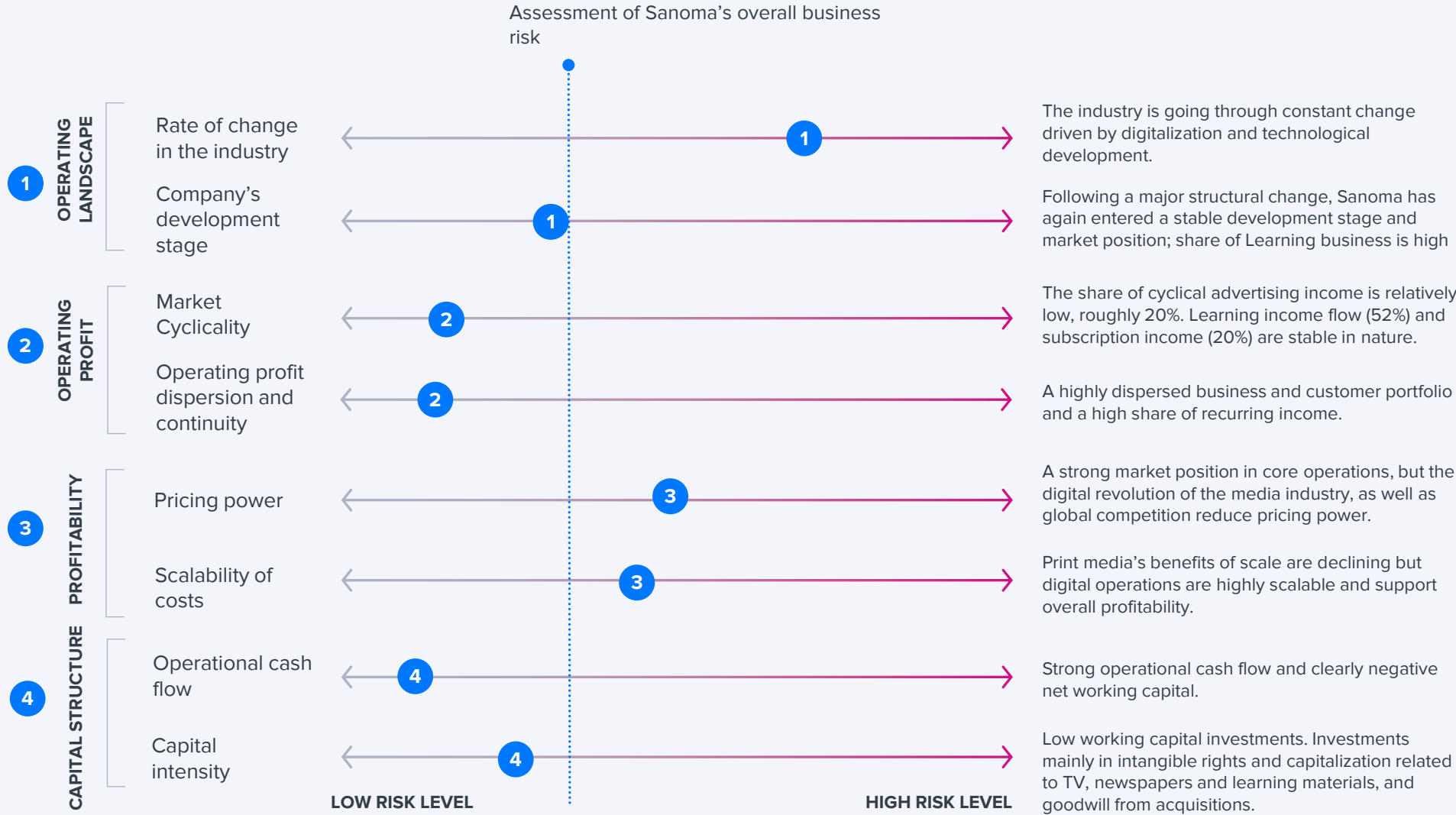
Most of Sanoma's cost structure is fixed, as is typical for newspaper, magazine, and learning material publication. As a result of the regression of print media, Sanoma's benefits of scale have, in our opinion, decreased in print media, which means the company has had to constantly cut its fixed costs and improve operational efficiency.

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

Strong operational cash flow and modest investment needs

Overall, the ability of Sanoma's business units to generate cash flow is excellent as: 1) content and advertising income's cash flows are typically very front-heavy and they contain a lot of advance payments; 2) the Group's net working capital is typically negative at the end of the year; 3) organic business growth typically ties up a low level of capital; and 4) there is little need to invest in tangible and intangible assets, apart from program rights and product development investments.

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. Furthermore, 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 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, integration of acquired operations, exploiting synergies, cost

management, and improving cash flow. In addition, growth is accelerated with inorganic growth.

Acquisitions an important part of the strategy

M&A transactions are an important part of Sanoma's strategy, as acquisitions are needed to increase net sales, reinforce the value chain, ensure continuous earnings growth and benefits of scale, and to replace the fading income from print media. Divestments have been used to steer resources to more efficient use.

Sanoma's financial position and cash flow have improved significantly in the last few years, so the company has the capacity to carry out acquisitions with income financing and debt financing. The company has assessed that it has EUR 300–400 million to spend on acquisitions by 2022. Sanoma has also said it has a relatively clear view of potential acquisition objects.

We expect that in the next few years, acquisitions will focus on the Learning segment, where the aim is to penetrate new markets both geographically and in terms of services, as well as improve benefits of scale and the market position. We estimate that Media Finland will be active in the next few years in small-scale acquisitions that will strengthen the value chain and benefits of scale.

Financial objectives

Sanoma's long-term financial targets and dividend policy updated in 2020:

1. Indebtedness: 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.

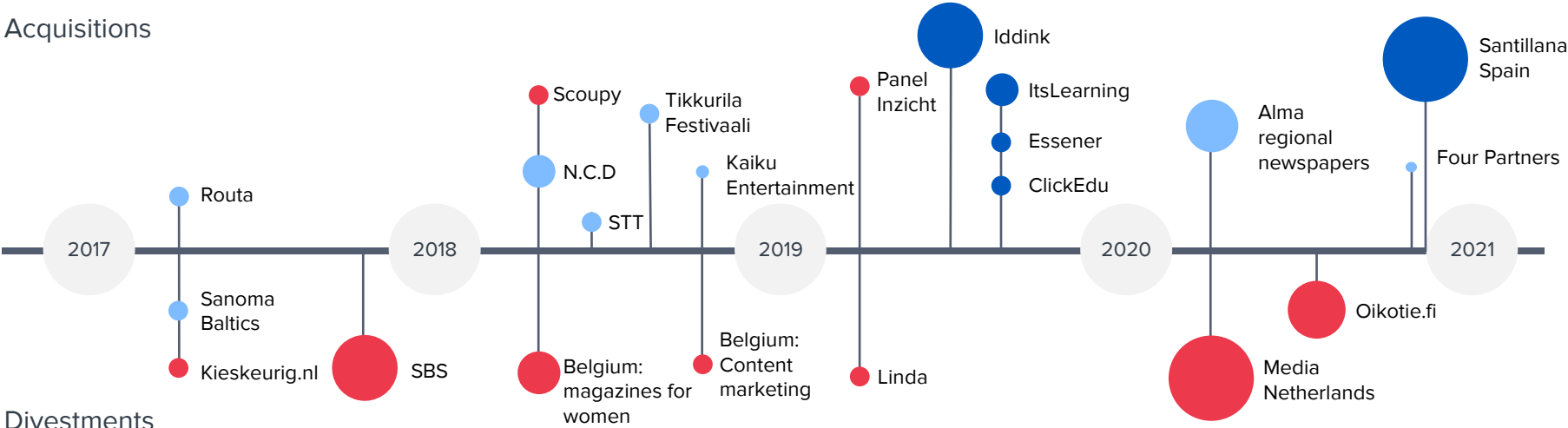
Considering the latest reported figures (Q4'20), indebtedness (2.6x) and solvency (37%) are within the company's long-term financial target levels. Net gearing at the end of the year was slightly elevated by the Santillana Spain acquisition. Our estimates expect the company to reach the levels indicated by the targets also at the end of the year.

In its dividend policy, Sanoma has emphasized dividend growth, which is tied to the development of free cash flow. We expect the company to stick to this target also in the long term. We believe the factor driving the dividend is the objective to increase the dividend every year as was seen in 2020. The dividend distributed for 2020 was 73% of free cash flow.

All in all, we consider Sanoma's financial targets to be justified with emphasis on stable development. They are a good fit with Sanoma's current business profile, where the regressing traditional media still generates strong cash flow and acquisitions, growing digital income, and efficiency measures 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 2017-2020 and segments' M&A strategy

Acquisitions



Divestments

Source: Sanoma

- Learning
- Media Finland
- Discontinued businesses

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 benefits of scale and market share in the markets of current core businesses
- Expansion in value chain in current market areas
- Expansion into new geographical markets

Media Finland

- Importance of M&A transactions complementing
- Focus of M&A transactions in complementing the value chain and strengthening growth
- Mainly 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

2015
-
2017

2018
-
2020

2021-

Turnaround and restructuring phase

- Focus on improving profitability and cash flow and focus on core operations
- Divestment of TV operations in the Netherlands
- Large-scale efficiency programs in Media Finland and Media Netherlands segments and group functions
- Financial restructuring

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

- Focus on improving profitability and cash flow
- Divestment of the last non-synergic, non-core business units (Belgian and Dutch media businesses)
- In the Media business acquiring Alma Media's regional medias (in addition small "smart" acquisitions), large Iddink and Santillana acquisitions in Learning business
- Net sales development was stabilized but organic growth slightly negative
- Learning implemented the "High Five" program to improve efficiency

Stable profitability, strong cash flow and synergic acquisitions

- Core operations in a stable development stage
- Structural revolution of media continues
- Geographic and service portfolio expansion through acquisitions in Learning (focusing on K12 market in Europe)
- Stable profitability and strong cash flow
- Capital allocation on acquisitions and growing dividend

Strategic development trends

Realized

- Business structure lighter, more focused and profitable
- Net sales fell by some 40% due to the restructuring
- Profitability rose to a healthy level across the business units (2015: adjusted EBIT % some 5% -> 2020: adjusted EBIT % close on 15%)
- The company's balance sheet decreased clearly, intangible assets shrunk
- Thanks to the improved cash flow and result, dividend per share increased from EUR 0.10 to EUR 0.52

Near future, 1 to 2 years

- The COVID pandemic creates uncertainty in the festival business and ad sales but boosts consumption of entertainment services
- Organic net sales growth modest due to COVID and the structural changes in media
- Acquisitions push overall reported net sales to clear growth
- Profitability strengthening as the relative share of Learning increases
- Gradual improvement of cash flow and business efficiency

Long-term

- Management of the structural change in media and gradual profitability improvement as the switch from print media to digital consumption continues
- Learning, digital services and acquisitions as growth drivers
- We estimate that Sanoma strives for a clearly higher market share than the current 13% in the EUR 4-5 billion European learning markets (K12)

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 educational and education system reforms, as well as the need to improve efficiency in learning results and resources.

The structural change of demand driven by digitalization has also affected the learning market for quite 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 that steers and increases 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:

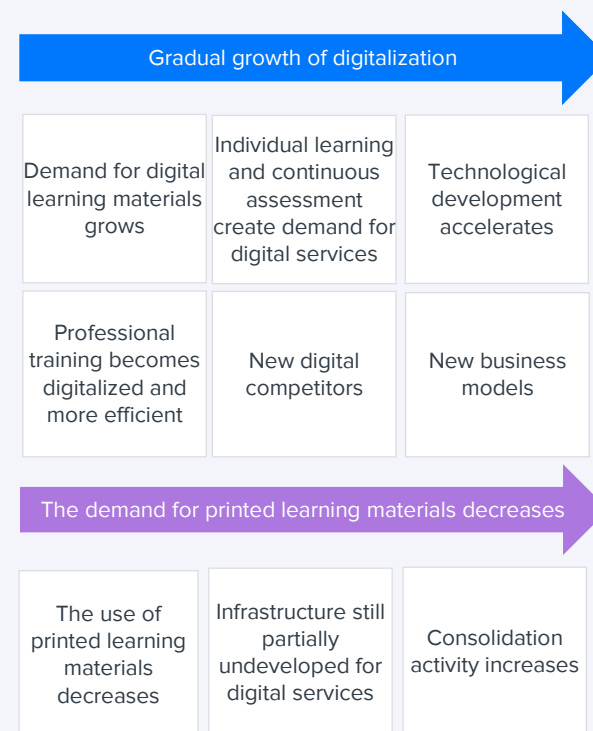
- The market share of combined printed and digital learning materials and purely digital learning solutions is growing.
- Individual learning and continuous assessment of learning are becoming more commonplace, which shapes the demand for learning solutions and increases the demand for digital services, specifically.
- The requirements of educational methods increase, and the rate of change becomes faster, increasing 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.

Learning material market outlook

According to Sanoma, the share of the learning material market of the total costs of education is only about 3% in the company’s market areas, but it still generates most of the net sales for learning companies such as Sanoma.

Key trends of the learning market



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 of digital solutions are being redistributed between the most competitive operators and traditional operators focusing on printed materials. We believe, Sanoma is well-positioned in this revolution as it has a comprehensive and well-developed digital solution portfolio, and it holds a strong market position in its own focus areas.

Outlook for learning systems and platforms

The share of learning systems and platforms, as well as administrative education systems of the net sales of learning companies like Sanoma is still relatively small (around 10-20%) even though their costs are typically covered by the education budget allocated to administration, systems and development that is clearly bigger than the education material budget and typically covers some 15% of the total costs of comprehensive school education (K12).

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.

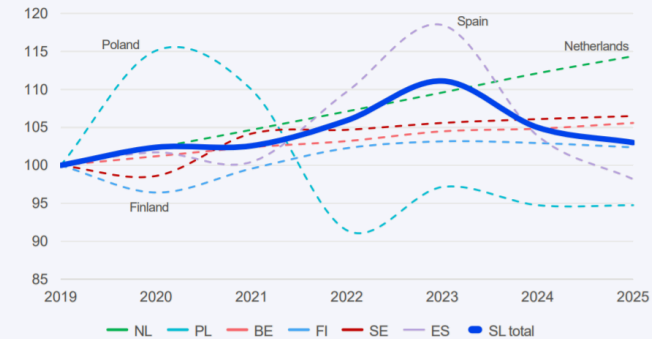
The competitive field for digital platforms and applications is, however, much more fragmented and international because competition also occurs between technologies, not just contents and methods and, thus, competition is not quite as dependent on local level expertise. Nonetheless, according to players in the field, schools' infrastructure still suffers from shortcomings, 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 and Grupo Anaya in Spain.

Noordhoff, Plantyn and Liber are owned by Infinitas Learning. 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



Sanoma Learning 1/3

Biggest segment through acquisition

At the end of 2020, Sanoma acquired Santillana Spain that is Spain's leading publisher of learning materials for basic and secondary education. As a result of the acquisition, the segment became Sanoma's largest measured by net sales. Sanoma Learning's pro forma net sales in 2020 was EUR 605 million (52% of Sanoma's net sales) of which Santillana Spain's share was EUR 106 million (17% of pro forma net sales). Measured by operating result, Learning is also the bigger segment (2020 pro forma: operational EBIT EUR 124 million / 67% of Sanoma's operational EBIT).

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

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 education learning material and learning solutions market.

Examined by product and service types, some 60% of Learning's net sales constitutes content, which covers both printed and digital contents, 25% material distribution, and the remaining 15% is evenly distributed between teaching platforms, administration platforms and test and analytics services. Around 25% of the sales consists of subscription sales covering the entire supply, while

75% consist of a combination of printed and free or charged digital sales.

Geographically, more than 90% of the Learning segment's business comes from markets where it has a comprehensive service portfolio and where it is either the largest or second largest operator.

In 2020, the Netherlands comprised 40%, Poland 23%, Belgium 15%, and Finland 11% of reported net sales. In 2020, around 12% of net sales comprised smaller shares from Sweden, Spain, Norway, Denmark, France, Germany, and Great Britain. Starting from 2021, the share of Spain will increase considerably, and we estimate that with the current structure it will correspond with some one-fifth of Learning's net sales. Sanoma has estimated that the highly fragmented European K12 market is worth EUR 4-5 billion of which Sanoma's market share is 13%.

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, Bolster and Iddink in the Netherlands, Belgium and Spain, and the latest addition Santillana in Spain.

The strong market position of the segment's businesses is based on the local companies' long history as learning material publishers, developers, and distributors. For instance, Learning's Finnish unit, Sanoma Pro, has been publishing textbooks for over 130 years. Learning has also been historically able to increase its market share in connection with curriculum changes.

Learning in brief, 2020 pro forma*

EUR 605 million (2019 reported: EUR 337 million)

Net sales 2020 pro forma*

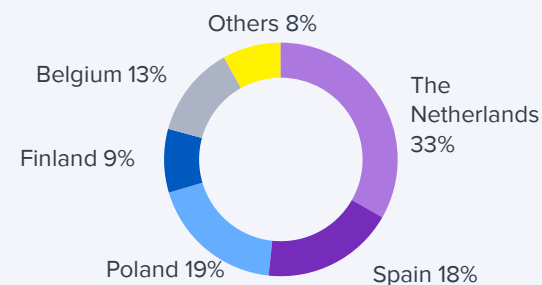
20.5% (2019: 21.7%)

Profitability, pro forma operational EBIT %*

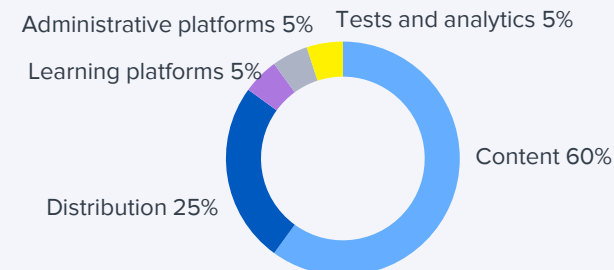
13% market share

on the EUR 4-5 billion European K12 market

Net sales by country, 2020 pro forma*



Net sales by product type



* Reported net sales + Santillana Spain acquisition
Source: Inderes, Sanoma

Sanoma Learning 2/3

Financial targets and strategy

Sanoma's long-term financial targets for Learning are 2-5% comparable net sales growth and over 23% adjusted EBIT excluding PPA depreciations.

Learning targets organic growth via curriculum changes and increasing digitalization. In addition, the segment continues to expand to new geographical areas and grow its technology and service offering.

Changes in teaching cycles can affect the segment's net sales development significantly and, for example, the end of the Polish curriculum reform that has a positive effect in 2020 and 2021 will weaken growth starting from 2022. The curriculum reform in the Netherlands is, in turn, expected to increase net sales in 2021-2025 and the reform in Spain especially in 2022-2023.

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 (compared to the cyclical nature of content arising from a curriculum reform). We also estimate that purchases on the platform side will be more permanent because the threshold to change platforms is high due to costs, whereas changing learning materials is 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 M&A strategy will be, above all, on expanding Learning. The main target market of the

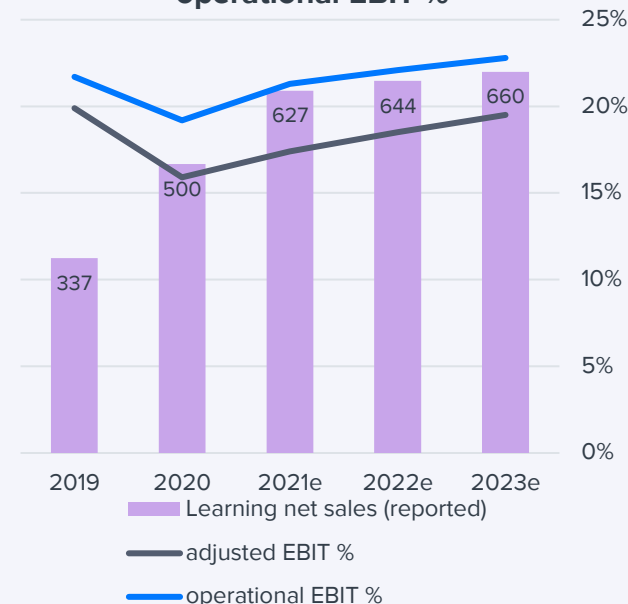
expansion is the K12 market in Europe but expansion on the K12 market outside Europe is not out of the question either in our opinion.

In terms of profitability, we expect the segment to be improving in coming years, but in the long-term we expect the performance to fall short of the financial targets (operational EBIT % over 23%) as, e.g., curriculum reforms are reflected in profitability. In the long term, we expect increasing digitalization and a larger scale to boost profitability, keeping it on a slight upward curve. In our current estimates, we expect the company to reach its financial targets in 2024.

Estimates

Our estimates assume that Sanoma will be able to maintain or improve its market share on all of Learning's essential markets. We estimate the reported net sales of Learning to grow heavily in 2021 especially supported by the Santillana Spain acquisition (Santillana pro forma net sales 2020: EUR 106 million). We also expect net sales growth to continue in Poland considering the timing of the curriculum reform. Therefore, we anticipate that 2021 reported net sales will increase by 25% to EUR 627 million (2020: EUR 500 million). In 2022, we expect net sales growth to slow down, but it will still get support from the curriculum reform in Spain.

Net sales, adjusted EBIT % and operational EBIT %



Income statement	2019	2020	2021e	2022e	2023e
Net sales	337	500	627	644	660
Operational EBIT	73.1	95.9	133.4	142.2	150.6
EBIT adjusted	67.2	79.6	109	119.2	128.6
Operating profit	55.1	66.4	103.0	117.2	126.6
Non-recurring items	-12.1	-13.2	-6.0	-2.0	-2.0

Growth and profitability	2019	2020	2021e	2022e	2023e
Net sales growth %	-2 %	48 %	25 %	3 %	2 %
Operational EBIT growth %	14 %	18 %	39 %	7 %	6 %
Operational EBIT %	21.7 %	19.2 %	21.3 %	22.1 %	22.8 %
Adjusted EBIT %	19.9 %	15.9 %	17.4 %	18.5 %	19.5 %
EBIT %	16.3 %	13.3 %	16.4 %	18.2 %	19.2 %

Source: Inderes

Sanoma Learning 3/3

Thus, we expect that 2022 net sales will increase by 3% to EUR 644 million. In 2023, we expect growth to slightly slow down to good 2%, with the net sales rising to EUR 660 million.

We forecast Learning's 2021 operational EBIT to grow by 39% to EUR 133 million (2020: EUR 96 million) reflecting inorganic growth and its operational EBIT % to rise to 21.3% (2020: 19.2%) considering the change in net sales distribution and increasing operational efficiency. We expect that in 2022-2023, the operational EBIT will grow by some 6-7% and the operational EBIT margin will be 22.1-22.8%. In the long-term estimate period extending to 2025, we expect net sales to grow on average by 2%, excluding acquisitions, and the operational EBIT % will reach the company's long-term financial targets in 2024.

A positive risk to our estimates is acquisitions that accelerate earnings growth. Negative uncertainty is primarily generated by curriculum cycle changes, possible problems in acquisition target integration and non-recurring items.

Learning's valuation

When determining the value of the segment, we use the 2021-2022 EV/EBIT ratios of key peer companies as a reference value.

We have identified seven listed peer companies for the Learning segment but, because of some operators' weak performance and different development stage, 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 acceptable valuation multiples based on the average EV/EBIT multiples for 2021 and 2022, which are 17x and 16x. We deem this valuation bracket absolutely justified considering Learning's business model and profitability potential. Based on our 2021 and 2022 operational EBIT (excluding PPA depreciations) estimate and the multiples of the peer companies, Learning's value is EUR 2,320-2,364 million.

We feel Learning's valuation can also partially be compared to the valuation multiples of the Santillana Spain acquisition. The enterprise value (EV) of the transaction was EUR 465 million and the average operational EBIT excluding PPA depreciations of the acquired target in 2018-2020 was EUR 34.6 million. Thus, the EV/EBIT multiple of the transaction was 13.4x. We project that Learning's operational EBIT for 2021 will be MEUR 133, in which case the M&A valuation multiple would indicate that Learning's enterprise value is approx. MEUR 1788. Considering Santillana's smaller size category and Learning's more comprehensive (geographically and in terms of the offering) and more digital business portfolio, we find it reasonable to accept a higher valuation multiple for Sanoma Learning as a whole than the valuation multiple of the acquisition.

Therefore, Learning's value is MEUR 2,342 calculated on the average of the methods we have used. Thus, Learning's valuation has increased significantly from the previous extensive report (2020 estimate: EUR 1,322 million). This is especially affected by Learning's inorganic growth and increased valuation levels.

Learning's peer group

Peer group Company	EV EUR million	EV/EBIT		EV/S	
		21e	22e	21e	22e
Bloomsbury Publishing PLC	257	12.2	13.2	1.2	1.3
Houghton Mifflin Harcourt Co	1,079			1.5	1.4
Pearson PLC	7,647	18.7	16.0	1.9	1.8
Stride Inc	1,229	12.8	14.9	1.0	1.0
John Wiley & Sons Inc	3,359	20.2	19.1	2.1	2.0
Wilmington PLC	236	13.2	12.0	1.9	1.8
Chegg Inc	10,899	60.1	44.9	16.4	13.5
Average		22.9	20.0	3.7	3.3
Median		16.0	15.4	1.9	1.8

Sector review – Media 1/2

Structural and cyclical drivers

The growth of the media sector is currently influenced by several different 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 and disrupts business models. The revolution is most evident in the sharp trend-like decline of print media income and the increased demand for 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 will still have a significant effect on the income of media companies.

In addition, media companies are strongly affected by technological development, the partial blurring of the 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 contents 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 advertisement 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 ad 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 growth of the advertising market has been very divaricate. In Finland, advertising in magazines and newspapers has halved in the 2010s, and the amount of TV advertising has also dropped clearly. On the other hand, the amount of digital advertising has doubled in the 2010s, and according to TNS Kantar its share of total advertising (incl. Facebook and Google) climbed to nearly one-half (~47%) of all advertising in 2020 when COVID affected traditional forms of advertising.

Roughly half of the value of digital advertising constitutes advertisements on Facebook and Google and the other half comprises ads sold by national operators (like Sanoma and Alma Media). The fastest-growing trends within digital advertising have been social media marketing, mobile marketing, and native advertising. We expect the structural trends of the advertising market to continue largely as they are in upcoming years, and the overall demand for advertising in Finland to be negative due to the decline of print media advertising. We expect the COVID pandemic has accelerated this development so that the structural trend will continue at a more subdued level.

Media sector drivers and trends



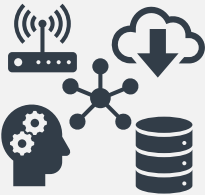
Digitalization

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 net sales 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 printed and linear media

Decreasing content and advertising income

Benefits 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 on average by 5-10% p.a., but 2020 was the exception with only 2% growth. We expect the growth will continue in line with the brisker trend 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 in our opinion 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 content sales trends of Sanoma and Alma Media, as well as a survey conducted by the Ministry of Education and Culture, we estimate that content income as a whole has decreased only slightly (0-3%) in 2012-2019. We believe, the decline has been sharpest in news-stand 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 been able to turn the total number of Helsingin Sanomat's subscribers to growth and currently Helsingin Sanomat has over 400,000 subscribers. The number of users paying for digital subscriptions has grown to 70% of the number of subscribers and more than doubled since 2012.

Growth in the number of digital subscribers has been boosted by, e.g., greater willingness to pay for digital contents, boosted by the increasing popularity of digital services, such as Netflix and Spotify, the discussion concerning fake news, the measures to develop paywalls and chargeable content, as well as improved accessibility of digital services. Most digital service subscribers are under the age of 50. Growth of digital content sales has, however, strongly focused on news and financial media, and digital subscription income development in magazines has been 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.

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 between 20 and 30%, whereas the EBIT % of print media is typically within the 5-15% range.

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 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) in terms of content.

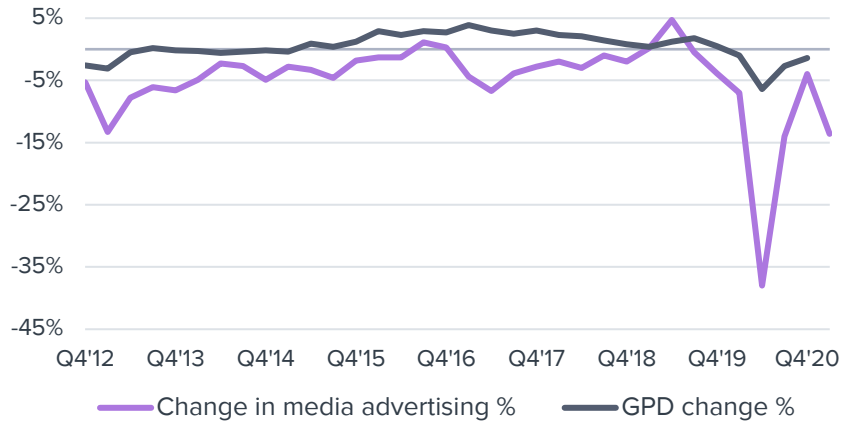
So far, leading Finnish media companies have fared relatively well in the competition against the likes of Facebook and Google, and their share of the digital advertising and content market has remained high in a global comparison. In terms of content income, Finnish media companies are supported by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

Regulation can benefit media companies

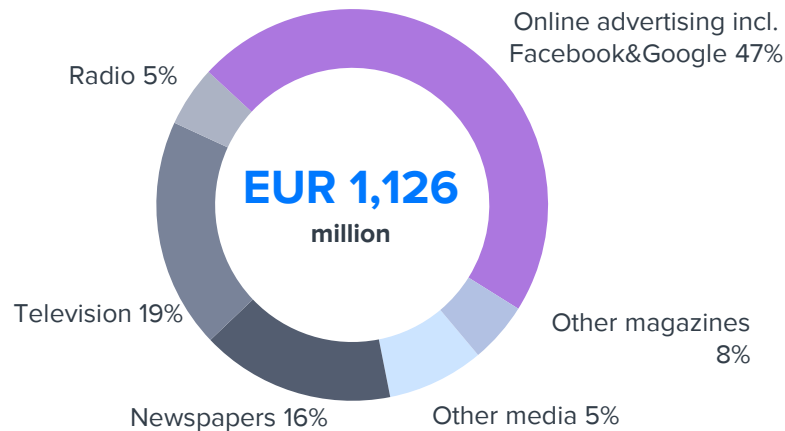
A legislation amendment project is ongoing in the EU that is related to legislation concerning digital markets and copyright. If changing, it can oblige technology companies to share collected data and even income flows. Possible concrete changes from the ongoing project are uncertain and they will take some time. However, relative to the current status it can, in our opinion, only be expected to improve the position of local players.

Development and competitive field of the media sector

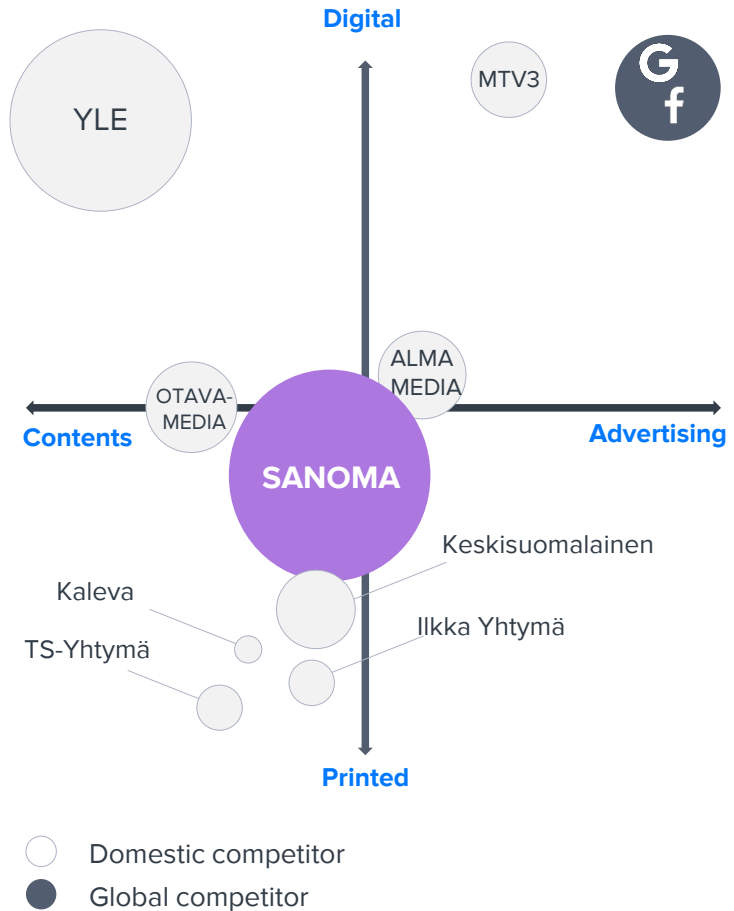
Development of Finnish media advertising vs. GDP until Q1'2021*



Distribution of Finnish media advertising, 2020



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 Sanoma, even though its operations are financed by public funds.

Source: Kantar TNS, IAB, Statistics Finland, Inderes
 *Q1'21 change in media advertising includes January-February figures

Media Finland 1/4

Finland's largest commercial media company

Media Finland's net sales was EUR 563 million in 2020, which corresponded with 48% of Sanoma's pro forma net sales. Measured by operational EBIT, Media Finland is clearly the smaller segment (operational EBIT EUR 67 million or 33% of Sanoma's operational EBIT).

The segment's strategy focuses on three units: news & feature, entertainment, and B2B marketing solutions. News & feature comprises news media HS, regional medias acquired from Alma Media (e.g. Aamulehti), Iltasanomat and magazines. Correspondingly, entertainment includes, e.g., the TV and radio company (Nelonen Media), the audio content service Supla and live events. B2B marketing solutions cover advertising sales. In addition, part of the segment is Sanoma Lifestyle that primarily focuses on printed magazines (e.g. Aku Ankka, ET and Kodin Kuvalehti).

Media Finland is Finland's largest commercial media company, measured by both the number of newspaper and magazine users and subscribers, printed & online media advertising, as well as TV and radio advertising. Compared to the Finnish media advertising market calculated by Kantar TNS (some EUR 1.13 billion), Media Finland's market share is roughly 20% of the whole market.

Income highly dispersed – weight of print media remains significant

Media Finland's business model is widely distributed between different income sources, the result of the segment's comprehensive product portfolio that covers the entire Finnish media sector. Divergent from the slight downward trend of recent years, the

relative share of print media grew in 2020, which was affected by the acquisition of regional medias and the cancellations in the festival business due to COVID.

Content income (subscription income) became Media Finland's largest income type as the COVID pandemic punished advertising income that had already been on a long downward trend. In 2020, the share of content income was around 49% of the segment's net sales (2019: 42%), which introduced stability to net sales. Of this, recurring subscription income made up roughly 85% and single copy sales roughly 15%. We estimate that a larger share of content income still comes from printed newspapers and magazines content income but subscription income from digital new media subscriptions (HS.fi) and video services (Ruutu.fi) are growing, which gradually increases their relative share.

Advertising income formed 41% of the segment's net sales in 2020 (2019: 43%). In 2020, a total of 73% of advertising income came from the relatively stable TV and radio advertising and growing online advertising, while 27% of income came from declining print media.

Other business income comprised approximately 10% of the segment's net sales in 2020 (2019: 15%). The COVID pandemic depressed other income heavily as in normal circumstances festival and event business amounts to some EUR 35 million. Due to the pandemic, the net sales was close to zero in 2020. A small share of other income comes from marketing services and book publishing and printing services.

Media Finland in brief, 2020

EUR 563 million (2019: EUR 577 million)

Revenue 2020

11.8% (2019: 12.0%)

Profitability, operational EBIT %

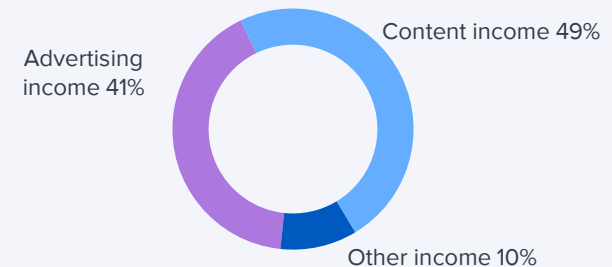
52% / 48%

Share of printed/non-printed business income

#1st and #2nd market position

News media, magazines, TV&Radio, B2B

Net sales by income type, 2020



Media Finland 2/4

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 depreciations of 12–14%.

Media Finland's long-term growth outlook is moderate and ambiguous as good one half (2020: 52%) the segment's income still leans on the print media market that is declining heavily due to structural trends. Despite the structural decline of print media, the company believes that the demand for digital content is sustainable and growing strongly 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 newspaper 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.

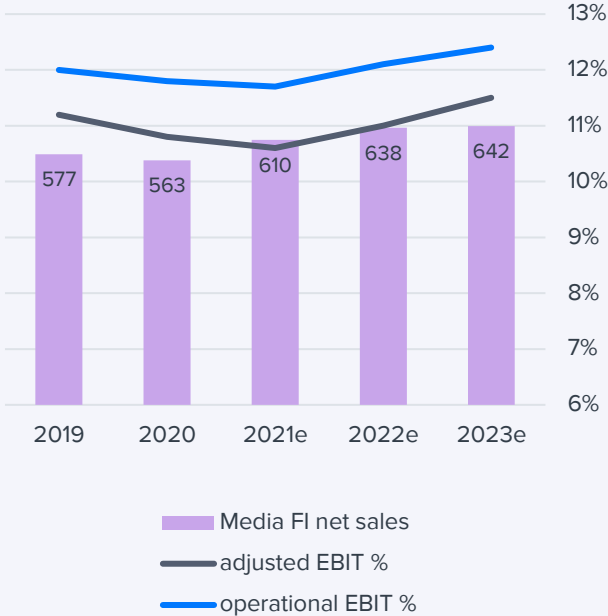
The counterbalance to print media is the growth outlook for other than print media that generated 48% of net sales in 2020. Digital content and digital B2B advertising included in this share is expected to grow annually in the medium term.

Media Finland's growth and profitability outlook

We estimate that the net sales of the segment's print media will continue declining by 2-5% in the medium and long-term in post-COVID times, and especially advertising income from print media will continue decreasing heavily, and the number of print media subscribers will decline evenly. Considering Media Finland's current business structure, media income other than print media will grow by some 3-5% per year, so the growth of the segment's total net sales over the course of the next couple of years should be slightly positive and in line with financial targets. In our estimate, Media Finland can also be expected to continue its inorganic growth, so realized growth is likely to exceed organic growth.

In terms of profitability, we expect the segment to continue on a slightly upward trend in the medium and long term. Profitability is negatively affected by the decline of print media advertising, investments in growth, as well as cost inflation, which we estimate the company will still be unable to fully compensate for by means of more profitable (digital) services. We do, however, still expect that the company will benefit from improving operational efficiency and synergies, of which the biggest come from the EUR 13 million synergies from the regional media acquisition.

Net sales, adjusted EBIT % and operational EBIT %



Source: Inderes

Media Finland 3/4

Estimates

Our assumption for the estimates is that Finland's economic growth will be under pressure in H1 as the effects of the COVID pandemic become prolonged. We do, however, expect economic growth to gradually recover from H2'21 onwards as vaccine coverage grows. We estimate that Media Finland's net sales will grow by around 8% in 2021 to EUR 610 million considering the expected recovery in advertising compared to the comparison period from Q2 onwards and gradual recovery of the events business in late summer. Considering Finland's current COVID situation and vaccination rate we did, however, lower our event business estimates clearly for Q2, that is early summer.

We expect that net sales will recover in 2022 with the economy, as well as the normalizing festival business and grow by 5% to EUR 638 million. From 2023 onwards, we estimate that net sales will develop relatively stably (around 1% growth p.a.) in the longer term. Our absolute estimates for 2022-2023 have remained virtually unchanged. Our longer-term net sales estimates are in line with the financial targets of the segment.

We anticipate that Media Finland's 2021 operational EBIT will grow by some 7% to EUR 71 million (2020: EUR 67 million) and the operational EBIT % to remain on last year's level at 11.7% (2019: 11.8%). Synergies from the regional media acquisition have a positive effect on profitability once the final co-operation negotiations to improve organizational efficiency are completed. Compared to the comparison period, H1's profitability is negatively affected by the Oikotie divestment in Q3'20. We estimate the reported EBIT

will decrease clearly (2021e EUR 62 million vs. 2019 EUR 210 million) because the 2020 reported net sales was clearly affected by the EUR 163 million sales gain from Oikotie (non-recurring items in 2020 were also affected by the acquisition of Alma Media's local newspaper business).

In 2022, we expect profitability to rise relatively heavily (operational EBIT growth 8%) as the synergies from the local media acquisition will take full effect and event and festival business will recover as the operating environment normalizes. We currently estimate a slightly increasing net sales and rising relative portability in 2023 and in the long term we also estimate a slightly increasing net sales and gradual increase in adjusted EBIT % reflecting the rise in digital income. However, the increase of profitability is slowed down by the decline of relative profitability of print media.

The positive risk in our estimates, is a weaker drop in media advertising in 2021 and/or correspondingly a stronger recovery after COVID. Moreover, acquisitions that accelerate earnings growth could speed up income growth faster than we anticipate. Negative uncertainty in the estimates is created in the short-term by the risks related to COVID and in the longer-term by unpredictable changes in the competitive field of digital advertising and accelerating structural change in print media.

Media Finland's estimates

Income statement	2019	2020	2021e	2022e	2023e
Net sales	577	563	610	638	642
Operational EBIT	69.2	66.6	71.5	77	79.8
EBIT adjusted	64.8	60.5	64.7	70.2	73.8
Operating profit	54.9	209.6	61.7	67.2	70.3
Non-recurring items	-9.9	149.1	-3	-3	-3.5
Growth and profitability	2019	2020	2021e	2022e	2023e
Net sales growth %	-1 %	-2 %	8 %	5 %	1 %
Operational EBIT growth %	-6 %	-7 %	7 %	8 %	4 %
Operational EBIT %	12.0 %	11.8 %	11.7 %	12.1 %	12.4 %
Adjusted EBIT %	11.2 %	10.8 %	10.6 %	11.0 %	11.5 %
EBIT %	9.5 %	37.3 %	10.1 %	10.5 %	11.0 %

Media Finland 4/4

Media Finland's valuation

We determine the value of the Media Finland segment based on the valuation multiples of the peer group consisting of international media companies.

We have identified altogether 18 peer companies for the Media Finland segment. Primarily, the peer group comprises combined print & digital media companies, similar to Sanoma, as well as a few TV companies. In our view, as a whole, the peer group's business models and growth prospects reflect Media Finland's business model, as well as the sector's growth prospects reasonably well. The peer companies are, however, mostly significantly larger than Media Finland and their profitabilities are higher. Thus, we apply a slight discount to Media Finland relative to the valuation level of its peers.

We use the peer group's 2021-2022 EV/EBIT multiples and 2021 EV/S multiple in our valuation. The average EV/EBIT multiples for 2021-2022 of the peer group we use are 20x and 19x and the medians are 16x and 13x. The average EV/S multiple of the peer group for 2021 is 1.9x and the median is 1.5x.

Using the peer group's 2021-2022 median valuation multiples with the 10% discount we apply compared to the peers, as well as Media Finland's net sales and operational EBIT estimates, Media Finland's enterprise value (EV) is EUR 852–1,026 million, the average being EUR 936 million.

Thus, Media Finland's value has risen moderately from our last extensive report (2020 estimate: EUR 890 million). This has, in particular, been affected by the expected increase in the valuation multiples of the peer group that has compensated for the drop in estimates mainly caused by the Oikotie divestment.

Media Finland's peer group

Peer group Company	EV EUR million	EV/EBIT		EV/S	
		21e	22e	21e	22e
Alma Media	775	15.9	13.4	3.1	3.0
DMGT plc	1,891	17.4	14.0	1.4	1.4
Future PLC	3,144	18.7	15.1	4.9	4.2
Gannett	1,807	9.8	9.1	0.7	0.7
ITV PLC	6329	10.3	8.9	1.8	1.7
Lagardere	7,619		42.1	1.6	1.3
Meredith Corp	3,226	8.8	12.0	1.3	1.3
Arnoldo Mondadori Editore	444	9.0	7.6	0.6	0.6
Nordic Entertainment Group	3,340	36.8	35.7	2.7	2.3
News Corp	13,440	25.5	20.9	1.8	1.8
New York Times	6,322	34.1	27.2	3.9	3.6
Promotora de Informaciones	1,522	33.5	12.7	1.6	1.5
Prosiebensat 1 Media	6,670	11.8		1.5	1.4
RCS	685	10.2	9.3	0.9	0.9
Roularta Media Group	114			0.4	0.4
Schibsted	9,246	52.6	41.9	6.6	6.3
Tribune Publishing Co	536			0.8	1.0
TX Group	879	9.1	7.9	1.0	1.0
Average		20.2	18.5	1.9	1.8
Median		15.9	13.4	1.5	1.4

Financial position

Financial position is strong and stable

Sanoma's balance sheet has decreased significantly due to the structural change, and the balance sheet's risks have fallen to a moderate level. The company's business model enables strong cash flow and organic growth practically ties up no capital. Therefore, Sanoma's ability to pay dividends is good, and we expect Sanoma to continue increasing its dividends in the next few years. The balance sheet and ability to generate cash flow also enable acquisitions (Sanoma has indicated that it has EUR 300-400 million available for acquisition by 2022).

Balance sheet entails considerable intangible assets

Sanoma's balance sheet total at the end of 2020 was EUR 2,048 million (Q4'18: EUR 1998 million). The balance sheet assets comprise significant goodwill (EUR 753 million, 37% of the balance sheet) and other intangible assets (EUR 686 million, 33% of the balance sheet). The Santillana acquisition increased goodwill by EUR 230 million and intangible assets by EUR 222 million. Most of intangible assets are related to the goodwill of the magazine and learning business units, as well as capitalization of broadcasting rights and content production costs. The company had some EUR 275 million in tangible assets (incl. leasing assets), shares and investments.

Due to the nature of the operations, the company's net working capital is clearly negative because the company accrues significant advance payments and non-interest-bearing debts are typically much higher than sales receivables. At the end of 2020, working capital was a negative MEUR 221 or -21% of net sales.

Sanoma's equity at the end of 2020 was EUR 710 million or EUR 4.23 per share. The company had EUR 775 in interest-bearing liabilities (incl. lease liabilities), EUR 115 million in cash and, thus, interest-bearing net debt amounted to EUR 661 million. A large share of interest-bearing debt consisted of a bank loan falling due in 2023 (EUR 225 million) and a EUR 200 million bond that falls due in 2024 and whose fixed interest rate was 0.625%. Thus, we believe financing is sufficiently dispersed timewise and the company can get financing at relatively low interest rates. We find the balance sheet items current due to the considerable restructuring and strong result turnaround and we feel the risks related to write-downs of goodwill are low.

Indebtedness slightly under target level

Sanoma's net gearing at the end of Q4'20 was 93% (Q4'19: 139%) and the ratio of net debt and adjusted EBITDA was below the company's target level (< 3x) at 2.6x. At the end of the year, the Santillana acquisition raised net gearing and we expect net gearing to be clearly lower at the end of 2021 at 78% and the ratio of net debt and adjusted EBITDA to fall to around 1.6x.

Free cash flow development

The cash flow of Sanoma's business operations was at a healthy level of some 10% in 2017-2018 compared to net sales, due to a clear increase in profitability. In 2019 and 2020, operational cash flow was even 18% and 13% of reported net sales.

From 2019 onwards, comparability is weakened by the effects of the IFRS16 standard that transferred lease liabilities to cash flows from financial items (previously operational cash flow). So far, the

revision of the standard has had an EUR 25-29 million positive annual effect on cash flows from financial items and considering this, operational cash flow including lease liabilities has decreased from EUR 141 million in 2018 to EUR 108 million in 2020 (2019: EUR 138 million). The divestment of Media Netherlands clearly affected the drop in 2020. The company's capital expenditure in the last few years has been relatively stable even though they grew to EUR 43 million in 2020 (2016-2019: EUR 32-37 million) due to investments related to development work of digital platforms and IT systems, and because of Learning's recent acquisitions. Reported free cash flow dropped to EUR 95 million or EUR 0.58 per share in 2020 (2019: EUR 0.81 per share).

Dividend is financed with free cash flow

The company's dividend policy is to pay 40–60% of the free cash flow as dividends annually. The 2020 dividend was EUR 0.52 (2019: EUR 0.50 per share) and approximately 90% of the reported cash flow. For dividend distribution, Sanoma's free cash flow was adjusted by the cash flow effect (EUR -22 million) of the Media Netherlands divestment and, thus, the adjusted free cash flow was 73% of the cash flow in accordance with the dividend policy.

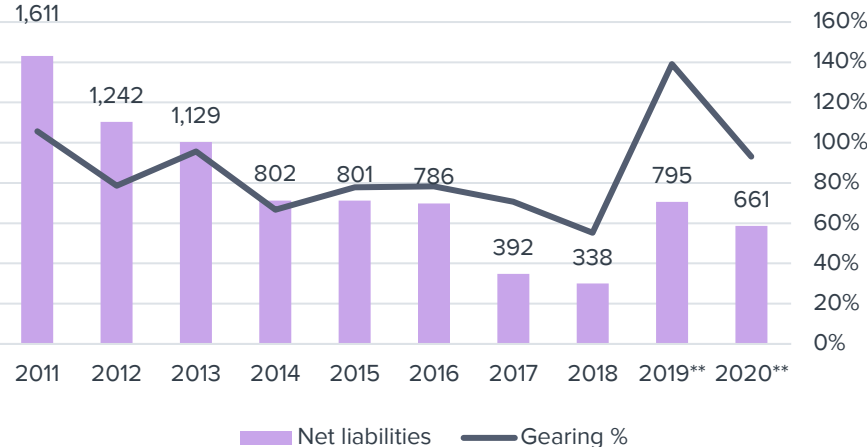
Therefore, the cash flow still enables the dividend to be increased in accordance with the dividend payment policy but the upside in the dividend payout ratio is limited without using the balance sheet for support. Thus, the condition for increasing the dividend per share in the long term is increasing the cash flow per share, not raising the dividend payout ratio.

Financial position

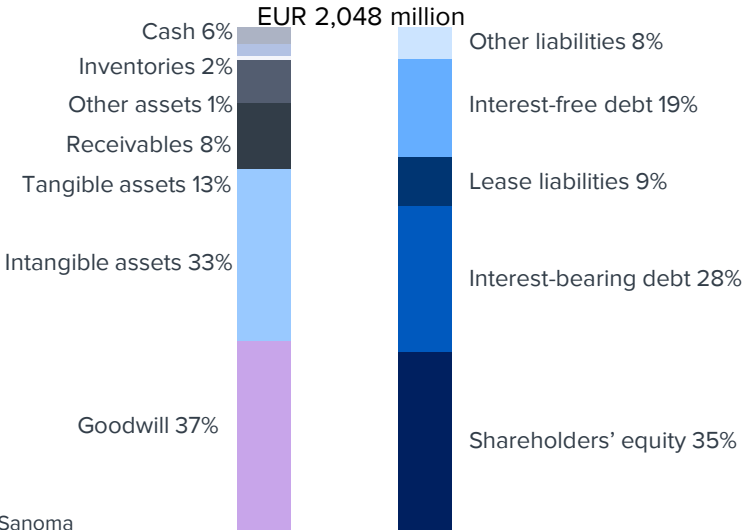
Net sales, EPS and operational EPS



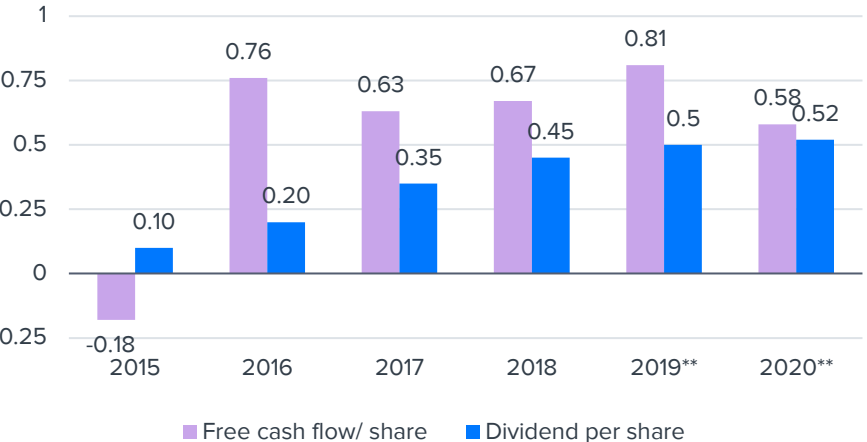
Net liabilities and gearing %



Balance sheet structure, 2020



Free cash flow and dividend per share



Source: Inderes, Sanoma
 * Reported net sales
 ** Figures are not fully comparable because of the effect the IFRS16 standard has on net liabilities and free cash flow

Group level estimates

2021: pandemic still has some effect on Media Finland

Sanoma expects the group's reported net sales to be EUR 1.2-1.3 billion (2020: EUR 1.1 billion) and operational EBIT % excluding PPA depreciation to be 14-16% (2020: 14.7%). We expect, Sanoma's 2021 net sales will be EUR 1,236 million. Consequently, based on the reported figures, we predict an around 16% increase in net sales. In our estimates, growth mainly comes from acquisitions (e.g. Santillana Spain, Alma regional newspapers for early 2021) but we expect organic growth, especially for Media Finland, to return to the growth path as the effects from the COVID pandemic alleviate during H2. By segment, we expect Media Finland's net sales to grow by 9% and Learning's net sales to increase by 25%.

We anticipate adjusted EBIT excluding PPA depreciations to increase by some 25% to EUR 196 million (2020: EUR 157 million) and EBIT % excluding PPA depreciations to rise to 15.8% (2020: 14.8%). In our estimate, EBIT margin growth is especially based on Learning's improving profitability development that is supported by Santillana's high profitability.

We expect adjusted earnings per share in 2021 to increase to EUR 0.75 (2020: EUR 0.58), reflecting the operational earnings growth. We estimate that the reported EPS will decrease due to the high non-recurring items in the comparison period (Oikotie's divestment) to EUR 0.69 (2020: EUR 1.45). We expect the company to stick to its dividend policy supported by the strong balance sheet and cash flow and increase the dividend by 4%. We forecast that the dividend per share will rise to EUR 0.54 (2020: EUR 0.52) corresponding with a payout ratio of around 50% of free cash flow.

2022-2024 estimates: Modest earnings growth after Media Finland recovers

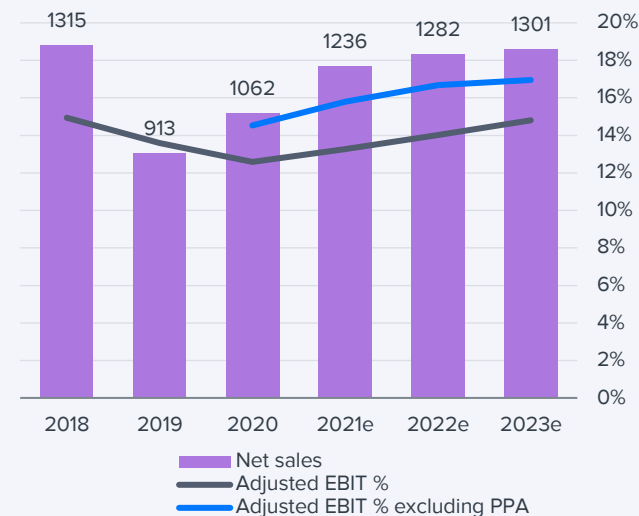
We predict that Sanoma's organic net sales will increase by 4% in 2022, with Media Finland still recovering from the effects of COVID (e.g. events business) and Learning continuing its modest growth. In 2023-2024, we expect the net sales trend to stabilize, without new acquisitions. We expect profitability to continue growing stably from 2022 onwards supported by net sales development and gradual improvement in operational efficiency. Considering the modest earnings growth and strong ability to generate cash flow we expect a slight annual increase in the dividend in 2022-2024.

Long-term earnings estimates

In the long term, the key factors affecting Sanoma's earnings development are the growth rate of the scalable digital business with better profitability and how steep the decline in print media is.

We expect Sanoma's other businesses than print media will grow in line with market growth by an average of some 3-5% p.a., but simultaneously the income from print media that represent some 25% of income to decline by around 5% p.a., which depresses the overall net sales growth of Sanoma to a low level (2025-2029e 2%). That said, improved net sales distribution and efficiency, as well as decreasing depreciations increase Sanoma's EBIT margin (2029e: 15.5%) and income growth to a slightly positive level in our estimates.

Net sales and profitability



EPS and dividend



Group level estimates

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	913	188	246	401	227	1062	190	265	533	248	1236	1282	1301	1315
Media Finland	577	130	131	141	161	563	126	142	170	173	610	638	642	646
Learning	337	58	115	260	66	500	64	124	363	75	627	644	660	669
EBITDA excl. non-recurring items		44	113	118	52	326	32	99	190	36	357	372	387	396
EBITDA	253	26	81	309	29	446	27	98	189	35	348	367	382	390
Depreciation	-151	-44	-39	-43	-51	-177	-48	-48	-48	-48	-193	-192	-195	-195
EBIT excl. non-recurring items and PPA	123	-6	61	73	-2	157	-8	59	149	-4	196	214	221	229
EBIT (excl. NRI)	124	-13	48	105	-6	134	-16	51	142	-12	164	180	193	201
EBIT	102	-18	42	266	-22	270	-21	50	140	-14	155	175	187	195
Media Finland	65	9	14	22	16	60	8	15	23	17	65	70	74	77
Learning	67	-20	35	85	-20	80	-22	38	121	-27	109	119	129	134
Other and elimintaions	-8	-2	-1	-2	-1	-6	-2	-2	-2	-2	-10	-10	-10	-10
Net financial items	-22	-1	-4	-2	-2	-9	-3	-3	-3	-3	-11	-14	-14	-13
PTP	80	-18	38	265	-25	260	-24	47	138	-16	145	161	174	183
Taxes	-17	5	-9	-20	1	-23	5	-10	-30	4	-32	-35	-38	-40
Minority interest	-2	0	0	-1	1	0	0	0	0	0	0	0	0	0
Net earnings	61	-13	29	243	-23	237	-19	37	108	-13	113	126	136	143
EPS (adj.)	0.49	-0.05	0.20	0.50	-0.06	0.58	-0.08	0.23	0.67	-0.07	0.75	0.80	0.87	0.91
EPS (rep.)	0.38	-0.08	0.18	1.49	-0.14	1.45	-0.12	0.23	0.66	-0.08	0.69	0.77	0.84	0.88

Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	-30.6 %	15.3 %	-5.3 %	40.8 %	10.2 %	16.3 %	1.1 %	7.8 %	32.8 %	9.6 %	16.5 %	3.7 %	1.5 %	1.0 %
Adjusted EBIT growth-%	-36.9 %	109.4 %	-17.9 %	39.5 %	85.8 %	7.7 %	18.2 %	6.2 %	34.4 %	103.5 %	22.8 %	9.5 %	7.1 %	4.4 %
Adjusted EBITDA%		23.6 %	45.7 %	29.3 %	22.8 %	30.7 %	17.1 %	37.3 %	35.6 %	14.4 %	28.9 %	29.0 %	29.8 %	30.1 %
EBITDA-%	27.7 %	13.9 %	33.0 %	77.1 %	13.0 %	42.0 %	14.3 %	36.9 %	35.4 %	13.9 %	28.2 %	28.6 %	29.3 %	29.6 %
Adjusted EBIT % excl. PPA depreciations		-3.4 %	24.7 %	18.3 %	-0.7 %	14.8 %	-4.2 %	22.1 %	28.0 %	-1.6 %	15.8 %	16.7 %	17.0 %	17.4 %

Estimate revisions	2021ee	2021	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	New	Old	%	Old	New	%	Old	New	%
Revenue	1259	1236	-2%	1281	1282	0%	1302	1301	0%
EBIT (exc. NRIs)	168	164	-3%	183	180	-2%	196	193	-2%
EBIT	159	155	-3%	178	175	-2%	190	187	-2%
PTP	149	145	-3%	164	161	-2%	178	174	-2%
EPS (excl. NRIs)	0.77	0.75	-3%	0.82	0.80	-2%	0.89	0.87	-2%
DPS	0.54	0.54	0%	0.58	0.58	0%	0.60	0.60	0%

Source: Inderes

Investment profile

Sanoma profiled as a stable dividend company for investors

Sanoma's investment profile has changed significantly due to the structural changes in the last few years, and the company has changed from a relatively cyclical turnaround company to a stable dividend company.

As part of this structural change, we estimate that the risk profile of the share has decreased, as the percentage of highly cyclical advertisement income of the net sales has clearly dropped, and the company's business structure has become more streamlined. On the other hand, the company's cash flow profile and ability to distribute dividends have been improved by increased profitability, the significant reduction of debt and financial expenses, as well as reduced investments.

M&A transactions play an important role

M&A transactions are an important part of Sanoma's strategy, and the developmental stage and trends of the sector increase the probability of M&A transactions. We believe, the M&A transactions will be visible to the investors in Sanoma in two ways: 1) Sanoma strives to actively accelerate growth by means of acquisitions; 2) Sanoma reshapes its business structure by divesting parts that do not fit its strategy. The size category of Sanoma's acquisitions varies a lot, but in all probability, even large acquisitions will not significantly alter Sanoma's operational risk profile. 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:

Growth of digital business: In our view, Sanoma's digital media operations have strong growth prospects and profitability, which is why they constitute a key value driver for the share.

Gradual improvement of profitability: We still see potential in Sanoma to improve its profitability by streamlining its operations and improving its sales structure (e.g. Learning's growth) in the medium and long terms.

Strong cash flow: The company's ability to generate cash flow is excellent, which over time enables both growing dividends, investments and paying off debt, as well as significant acquisitions, if necessary.

Creating shareholder value through M&A transactions: 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 profit structure towards more stable income components. This would also reduce the risk profile.

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 slow down the company's total growth and weaken 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.

Cyclical risks: Although the sensitivity of Sanoma's operations to economic fluctuation has decreased markedly, a weak economic cycle continues to lower earnings growth expectations, especially for Media Finland, and is also reflected in the sector's acceptable valuation multiples. This risk is especially highlighted in the short term with the sharp and rapid negative economic trend caused by COVID, especially since there is still some uncertainty involved in the timetable of the revival of the economy.

M&A transaction risks: Sanoma's history includes several failed M&A transactions that have destroyed shareholder value. The company has, however, learned from its mistakes and we consider the risks related to M&A transactions lower than before, as the current management has a good track record.

Investment profile

1.

Stable and profitable core operations that generate strong cash flow

2.

Weak chances of Group-level organic growth due to structural change in media

3.

Moderate operational risk level: strong market position, highly dispersed income, modest share of cyclical income

4.

Good balance sheet position and strong cash flow provides leeway for acquisitions

5.

Expected return of the share relies heavily on dividends, and synergic acquisitions that accelerate income growth

Potential



- Growth in digital income and services
- Improved cost efficiency and net sales structure
- Improving cash flow and strong dividend
- Acquisitions

Risks



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

Valuation 1/2

Valuation methods

When valuing Sanoma's share, we place a significant weight on the share's expected total return based on the company's forecasts 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, DCF model and valuation multiple analysis. We have used relative valuation, when calculating the segment-specific values in our sum of the parts calculation. We especially favor the EV/EBIT multiple because we think it best considers the differences between the financial structures of Sanoma and the peer companies.

Share's expected total return

According to our estimate, the expected return Sanoma's share will strongly depend on the dividend yield in the next few years, but earnings growth component also has its role. Based on our estimates and the current EUR 14.56 price level, the share's dividend yield will be around 4% over the next few years. We estimate Sanoma's dividend to be on a sustainable growth path as the company's operational cash flow is growing and we believe the company focuses on dividend growth in capital allocation together with inorganic growth.

We expect Sanoma's adjusted net profit growth to be on average 8%, which comprises net sales growth and a slight increase in profitability. We estimate that the company can be expected to make acquisitions in the next 12 months, but we have not taken them into account in our estimates as it is practically impossible. Thus, the company's earnings growth is

likely to exceed the rate we estimate.

Adjusted P/E ratios for 2021-2022 based on our estimates are 20x and 18x and the corresponding EV/EBIT ratios are 18x and 16x. The 2021 valuation multiples exceed the average levels of the past five years (2016-2020 P/E ratio 17x and EV/EBIT 15x). We feel the slight increase in the absolute valuation multiples is justified due to Learning's higher acceptable valuation level and its increased relative weight. We feel there is no justified upside in the valuation level in the short term, but the expected earnings growth will depress 2023 valuation multiples to a justified level.

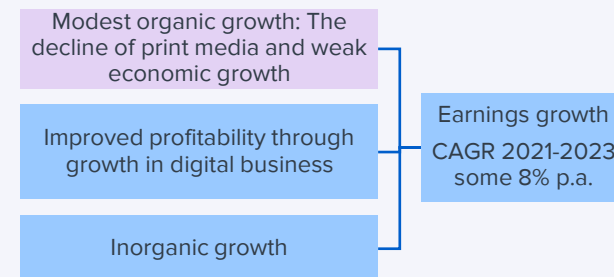
In relative terms, Sanoma is valued with an average premium of 10% compared to the extensive peer group based on P/E and EV/EBIT multiples of the next few years. We apply the peer group primarily to our segment-specific sum of the parts model as the businesses of Learning's and Media Finland's peers as a whole differ clearly from one another. Thus, the relative role of Group level valuation is small in our opinion.

We estimate that the total expected return consisting of the dividend, earnings growth and change in the valuation level is around 3-6% p.a. over the next couple of years.

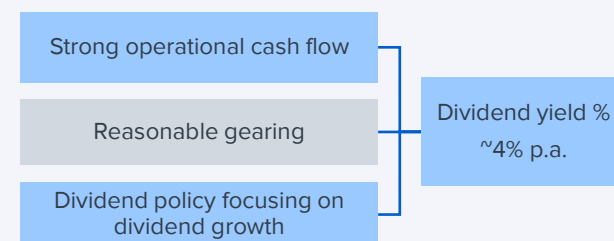
TSR drivers 2021-2023

■ Positive ■ Neutral ■ Negative

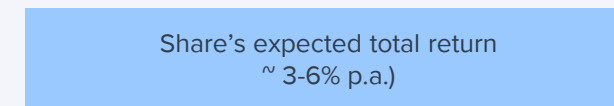
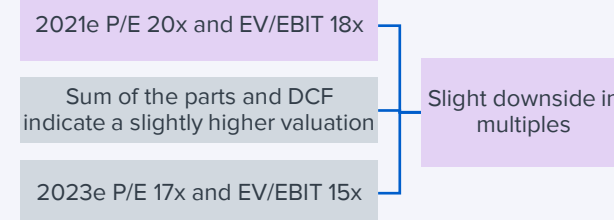
Profit drivers



Dividend yield drivers



Valuation multiple drivers



Valuation 2/2

DCF calculation

We feel the DCF model can be given a higher-than-average weight in Sanoma's valuation because Sanoma's financial situation is established and the cash flow of Learning in particular that generates more of the cash flow is stable and predictable.

Based on our DCF model, the share value is EUR 15.9. Due to Learning's stable growth (excluding possible acquisitions) and the decline of print media, net sales will increase only slightly over the medium forecast period (2025-2030) but thanks to the growth in digital business the company's relative profitability will rise gradually and return on equity remains on a strong level. In our model, the EBIT margin will rise from the 2021 level of 12.5% to 16.4% in the long term. The weighted average cost of capital (WACC) we use in the cash flow model is 6.7%, with the cost of equity at 7.5%.

Sum of the parts calculation

Sanoma's businesses are highly independent and there are modest operational synergies between them so we believe they should be valued with different valuation multiples. Sum of the parts offers in our view a good yardstick for the valuation of Sanoma's share and increases transparency into the company's value creation.

Based on the basic assumptions and our projections, we estimate the gross value of Sanoma's parts at EUR 3082 million. Our earnings estimates that have risen thanks to Learning's acquisitions and improved efficiency have pushed Learning clearly to Sanoma's most valuable part and we estimate its EV to be EUR 2,342 million. We have estimated the EV of Media Finland to be EUR 936 million.

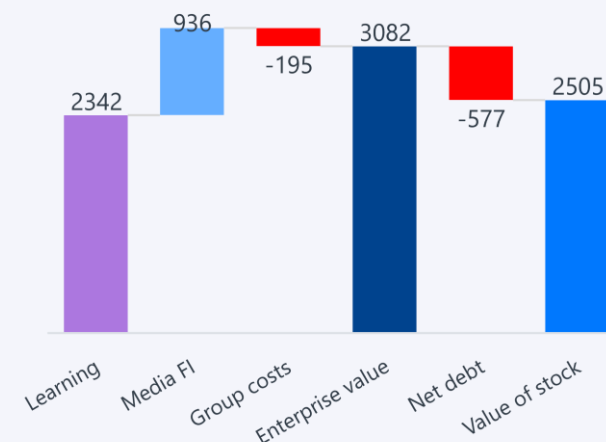
When the fair value of the Group's costs (EUR -120 million) and estimated interest-bearing net debt at the end of 2021 (EUR -577 million) are deducted from the segments' EVs, the fair value of Sanoma's entire stock based on sum of the parts is EUR 2,505 million or EUR 15.4 per share.

We do not expect the sum of the parts to dissolve as a result of the businesses being split up in the foreseeable future as the company management has emphasized the role of administrative synergies. Currently we also see the inorganic growth potential generated from Media business' cash flow for Learning as an important factor for keeping the businesses in one entity.

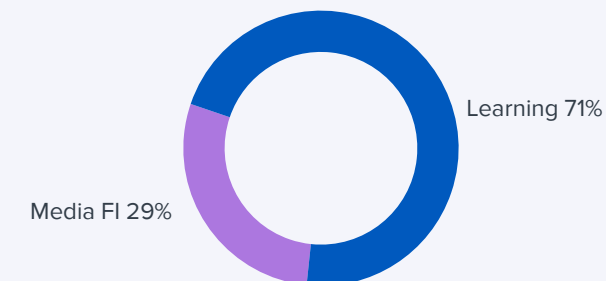
Investment view

We reiterate our EUR 15.0 target price and Reduce recommendation for Sanoma. Examined from several viewpoints, Sanoma's valuation level that has risen over the past year is, in our opinion, on a justified level. Thus, the expected return that relies primarily on the dividend is not, in our opinion, enough to justify additional purchases. Thus, we feel it is justified to wait for a more attractive time for additional purchases in Sanoma's stably progressing long-term growth strategy that relies in particular on the Learning business.

Sum of the parts calculation, 4/ 2021



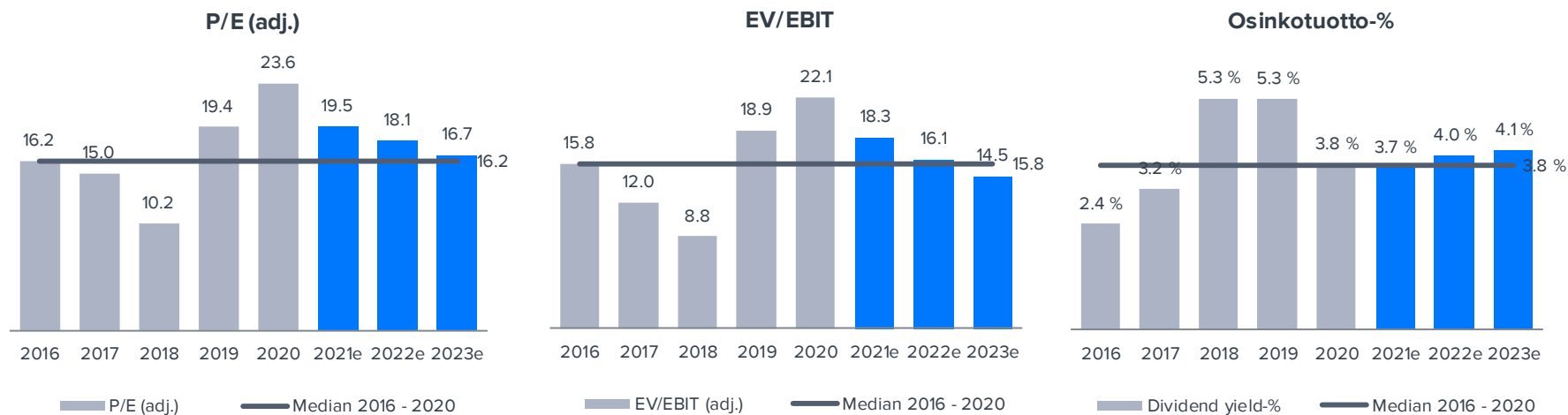
Distribution of enterprise value, 4/2021



Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	8.25	10.9	8.49	9.45	13.7	14.56	14.56	14.56	14.56
Number of shares, millions	162.1	163.2	162.5	162.5	163.0	163.0	163.0	163.0	163.0
Market cap	1337	1775	1380	1536	2240	2374	2374	2374	2374
EV	2645	2150	1729	2348	2951	3002	2901	2801	2702
P/E (adj.)	16.2	15.0	10.2	19.4	23.6	19.5	18.1	16.7	16.0
P/E	12.1	neg.	12.4	25.0	9.5	21.0	18.8	17.4	16.6
P/FCF	7.6	3.8	10.1	neg.	11.0	13.5	12.1	11.8	11.7
P/B	1.9	3.2	2.3	2.9	3.2	3.3	3.1	3.0	2.8
P/S	0.8	1.2	1.0	1.7	2.1	1.9	1.9	1.8	1.8
EV/Sales	1.6	1.5	1.3	2.6	2.8	2.4	2.3	2.2	2.1
EV/EBITDA	5.3	7.2	5.8	9.3	6.6	8.6	7.9	7.3	6.9
EV/EBIT (adj.)	15.8	12.0	8.8	18.9	22.1	18.3	16.1	14.5	13.4
Payout ratio (%)	29.3 %	neg.	65.7 %	132.3 %	35.8 %	78.0 %	75.0 %	71.8 %	82.0 %
Dividend yield-%	2.4 %	3.2 %	5.3 %	5.3 %	3.8 %	3.7 %	4.0 %	4.1 %	4.9 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
		MEUR	MEUR	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
Alma Media	9.1	751	775	15.9	13.4	14.8	12.5	3.1	3.0	21.3	17.5	3.9	4.1	3.9
DMGT plc	872.0	2122	1891	17.4	14.0	16.1	13.6	1.4	1.4	36.5	27.8	2.9	3.0	1.7
Future PLC	2190.0	3050	3144	18.7	15.1	17.7	14.2	4.9	4.2	23.1	19.9	0.1	0.1	3.1
Gannett	5.2	607	1807	9.8	9.1			0.7	0.7		15.0			0.9
ITV PLC	122.8	5704	6329	10.3	8.9	9.5	9.2	1.8	1.7	11.3	9.8	4.3	4.7	3.8
Lagardere	22.4	2936	7619		42.1		38.1	1.6	1.3		34.2		3.1	3.0
Meredith Corp	30.3	1032	3226	8.8	12.0			1.3	1.3	6.9	7.4			
Arnoldo Mondadori Editore	1.6	422	444	9.0	7.6			0.6	0.6	15.4	12.3	1.9	2.5	2.1
Nordic Entertainment Group	395.4	3037	3340	36.8	35.7	34.4	33.8	2.7	2.3	39.3	40.4	1.1	1.2	4.2
News Corp	26.7	12905	13440	25.5	20.9			1.8	1.8	51.0	42.6	0.7	0.8	2.0
New York Times		6820	6322	34.1	27.2			3.9	3.6	51.8	39.4	0.5	0.6	5.8
Promotora de Informaciones	1.0	675	1522	33.5	12.7			1.6	1.5	190.2	380.4			
Prosiebensat 1 Media	17.6	4089	6670	11.8		10.9	10.0	1.5	1.4	12.6	11.2	3.8	4.3	2.9
RCS	0.7	387	685	10.2	9.3			0.9	0.9	10.6	8.9	4.7	4.7	1.2
Roularta Media Group	15.2	200	114					0.4	0.4	18.3	11.7	3.3	3.3	
Schibsted	383.6	8292	9246	52.6	41.9	55.1	48.8	6.6	6.3	53.6	40.9	0.6	0.6	4.3
Tribune Publishing Co	18.3	567	536					0.8	1.0	17.3	12.4			
TX Group	80.5	776	879	9.1	7.9	9.1	7.9	1.0	1.0	57.5	33.0	2.5	2.5	0.5
Bloomsbury Publishing PLC	300.0	291	257	12.2	13.2	12.2	13.4	1.2	1.3	17.3	18.6	2.6	2.8	
Houghton Mifflin Harcourt Co	7.3	775	1079					1.5	1.4					
Pearson PLC	805.8	7012	7647	18.7	16.0	16.5	14.6	1.9	1.8	23.8	19.8	2.5	2.6	1.4
Stride Inc	32.9	1151	1229	12.8	14.9			1.0	1.0	21.7	25.1			1.7
John Wiley & Sons Inc	56.0	2628	3359	20.2	19.1			2.1	2.0	20.8	19.9	2.6	2.7	
Wilmington PLC	195.0	197	236	13.2	12.0	13.2	12.0	1.9	1.8	15.3	14.0	2.8	3.3	
Chegg Inc	89.6	10595	10899	60.1	44.9	90.7	54.7	16.4	13.5	54.7	44.0			16.0
Sanoma (Inderes)	14.56	2374	3002	18.3	16.1	8.6	7.9	2.4	2.3	19.5	18.1	3.7	4.0	3.3
Average				18.6	26.0	19.3	19.4	1.9	1.8	33.6	96.8	2.4	2.6	2.7
Median				13.0	13.4	14.0	13.4	1.5	1.4	20.8	19.3	2.6	2.9	2.9
Diff-% to median				41%	20%	-38%	-41%	60%	59%	-6%	-6%	43%	39%	13%

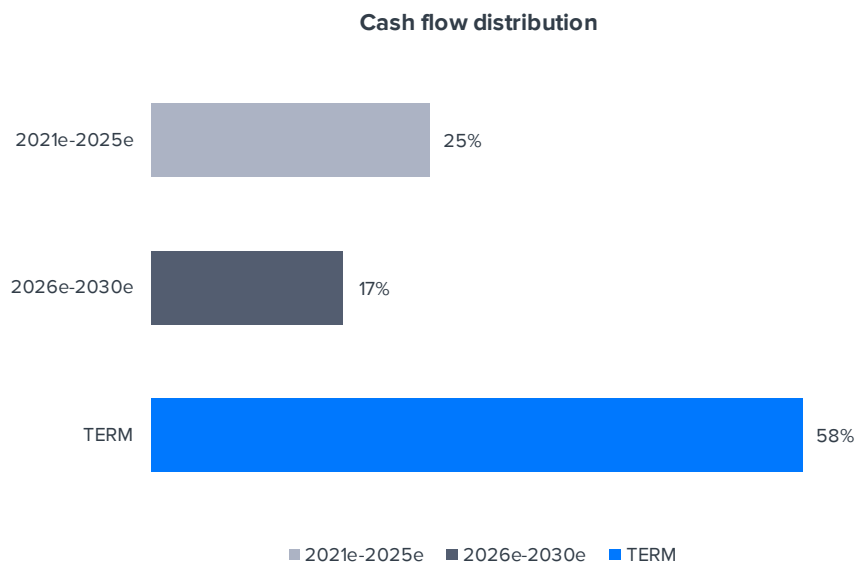
Source: Thomson Reuters / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	270	155	175	187	195	201	209	216	228	238	241	
+ Depreciation	177	193	192	195	195	180	167	159	157	157	157	
- Paid taxes	37.5	-32	-35	-38	-40	-41	-43	-45	-47	-49	-50	
- Tax, financial expenses	-0.8	-2.3	-3.2	-3.0	-2.9	-2.9	-2.9	-2.9	-2.9	-3.0	-3.0	
+ 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	404	2.7	10.1	5.1	4.0	6.6	5.4	5.5	5.6	5.7	3.8	
Operating cash flow	887	317	339	346	351	344	336	333	340	348	348	
+ Change in other long-term liabilities	-4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-692	-141	-143	-145	-147	-150	-152	-154	-158	-157	-158	
Free operating cash flow	191	176	196	201	203	194	184	178	182	192	191	
+/- Other	13.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	204	176	196	201	203	194	184	178	182	192	191	3584
Discounted FCFF		168	175	168	160	143	127	115	111	109	102	1909
Sum of FCFF present value		3286	3118	2943	2775	2615	2472	2345	2230	2119	2010	1909
Enterprise value DCF		3286										
- Interesting bearing debt		-775.3										
+ Cash and cash equivalents		115										
-Minorities		-65.1										
-Dividend/capital return		0.0										
Equity value DCF		2575										
Equity value DCF per share		15.8										

Wacc	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	3.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	7.5 %
Weighted average cost of capital (WACC)	6.7 %

Source: Inderes



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	1315.4	913.2	1061.7	1236.5	1281.7	EPS (reported)	0.68	0.38	1.45	0.69	0.77
EBITDA	299.2	252.8	446.1	348.3	367.1	EPS (adj.)	0.83	0.49	0.58	0.75	0.80
EBIT	168.4	102.0	269.6	155.1	174.7	OCF / share	1.46	-1.09	5.44	1.94	2.08
PTP	150.9	80.2	260.4	144.6	161.3	FCF / share	0.84	-1.03	1.25	1.08	1.20
Net Income	124.2	11.6	250.6	112.8	126.0	Book value / share	3.73	3.26	4.23	4.41	4.64
Extraordinary items	-28.2	-22.1	135.9	-9.0	-5.0	Dividend / share	0.45	0.50	0.52	0.54	0.58
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	1519.0	1997.9	2048.3	2025.9	1986.4	Revenue growth-%	-8%	-31%	16%	16%	4%
Equity capital	611.5	550.9	709.9	737.9	775.9	EBITDA growth-%	-722%	-15%	76%	-22%	5%
Goodwill	935.7	505.8	752.7	752.7	752.7	EBIT (adj.) growth-%	10%	-37%	8%	23%	10%
Net debt	337.9	764.3	660.7	577.4	479.7	EPS (adj.) growth-%	15%	-42%	20%	28%	8%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	22.7 %	27.7 %	42.0 %	28.2 %	28.6 %
EBITDA	299.2	252.8	446.1	348.3	367.1	EBIT (adj.)-%	14.9 %	13.6 %	12.6 %	13.3 %	14.0 %
Change in working capital	-21.5	-447.8	403.9	2.7	10.1	EBIT-%	12.8 %	11.2 %	25.4 %	12.5 %	13.6 %
Operating cash flow	236.7	-177.6	886.7	316.9	338.8	ROE-%	19.2 %	10.8 %	38.8 %	16.0 %	17.1 %
CAPEX	-111.6	-109.7	-692.1	-140.6	-142.8	ROI-%	17.2 %	8.7 %	19.0 %	10.4 %	12.2 %
Free cash flow	136.0	-168.0	204.5	176.3	196.0	Equity ratio	44.5 %	29.6 %	37.2 %	39.1 %	42.0 %
						Gearing	55.3 %	138.7 %	93.1 %	78.2 %	61.8 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Jane ja Aatos Erkon Säätiö	24.4 %					EV/S	1.3	2.6	2.8	2.4	2.3
Herlin Antti	11.9 %					EV/EBITDA (adj.)	5.8	9.3	6.6	8.6	7.9
Langenskiöld Lars Robin Eljas	7.5 %					EV/EBIT (adj.)	8.8	18.9	22.1	18.3	16.1
Seppälä Rafaela Violet Maria	6.3 %					P/E (adj.)	10.2	19.4	23.6	19.5	18.1
Helsingin Sanomain Säätiö	3.5 %					P/B	2.3	2.9	3.2	3.3	3.1
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	2.2 %					Dividend-%	5.3 %	5.3 %	3.8 %	3.7 %	4.0 %

Source: Inderes

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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
07-02-19	Reduce	9.50 €	9.06 €
02-05-19	Reduce	9.00 €	9.09 €
12-05-19	Reduce	9.00 €	8.56 €
26-07-19	Accumulate	9.40 €	8.90 €
16-09-19	Accumulate	10.00 €	9.52 €
28-10-19	Accumulate	10.70 €	10.16 €
12-12-19	Reduce	10.00 €	9.47 €
18-12-19	Accumulate	10.00 €	9.30 €
10-02-20	Accumulate	11.25 €	10.64 €
12-02-20	Reduce	11.60 €	11.62 €
25-03-20	Accumulate	8.50 €	7.66 €
30-04-20	Accumulate	9.00 €	8.51 €
29-05-20	Accumulate	9.50 €	8.55 €
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 €



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