

Transcription

Alma Media Q3 / 2021 Interim Report

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21 October 2021

PRESENTATION

Elina Kukkonen

Good morning, ladies and gentlemen, and welcome to this interim report session of Alma Media third quarter 2021. We will begin his dissertation shortly, and as usual, our CEO, Mr Kai Telanne will present the overall results for the third quarter, and also the development by segments. After the first presentation, the finance presentation, our CFO Mr Juha Nuutinen will come to stage, and he will go through the financial position of Alma Media today, and then, about the operating environment and our strategy going forward. We welcome all the questions. We will take questions first from here, from the media and analysts in Helsinki, and then from the phone call lines and from the online chat. Please don't hesitate to ask questions. We are happy to answer all your questions. I think we are set, ready to begin, so welcome Mr Telanne. The stage is yours.

Kai Telanne

Thank you, Elina. Good morning everybody. As Elina told you, I will start with the main achievements of the third quarter, and then I will get our CFO to continue with the financial overview. I will also give you a short presentation of the segment performance during my presentation.

We had a fantastic third quarter. There are many reasons behind this, of course. There's this pent-up demand in many sectors after COVID-19, but there are many, many other things as well behind the good performance of all business segments. We had a nice organic growth of 14.4%. In addition to that, of course, the Nettix integration and the acquisition included in the figures, and due to this, too, we had a nice 26% revenue growth and a very good 35% profitability growth. At the moment, we are at a record high level, which means about 2019 record level.

Several of these transactions were made successfully during the last year. Our financial position is, of course, a little bit different. But that wasn't a problem for us. We will clarify that a little bit. We have more than €200 million of net debt rebuilt and any profits will digest that. We have a very good cash flow with this kind of profitability development and leverage to decrease quite fast during the next coming years. Gearing is now 132%, and equity ratio 33%. And as Elina said, we'll go through these finance related questions later.

And the main part of the good development came from digital businesses, of course. Almost 80% of Alma's revenue is coming from digital sources: digital advertising, digital subscriptions, digital services, digital classified, and so on. And as you can see from this slide, I'm really happy that the revenue growth and the profitability growth came from all of the business sides. Alma Career, of course, the biggest contributor as has been many times, 6.4 million growth in revenue, and 3.5 million growth in operating profit. As well as Career, the other segments performed extremely well. So, the net result is more than satisfactory in my mind.

We got a nice continuation of the digital growth. On the right side of the slide, you can see the graph, 39% growth of digital businesses. Of course, we had quite a modest comparable year last year, but we've been able to continue the nice growth of 57% digital sales from the second quarter. So, the good part has continued.

Now shortly about the performance of different business segments - apart from Career, which is the biggest contributor to the good result. We have revenue and profit at an all-time high level. And the reason for this good development is, of

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course, the underlying market development. There is a strong demand for labour after COVID-19. There's pent-up demand, and this seems it will continue. We have been able to increase our revenues at least at the speed of the market development, which means that we've been able to at least keep or even gain market share in every market. The revenue growth was 41%, and profitability 63.8% up. And most of these came, of course, from the core chalkboard business, which is the answer for the labour demand, but also, these additional services like Seduo, which is the digital education platform, and other different services. So, the underlying market recovery is good, and hopefully, it also stays. Of course, the COVID-19 situation is worsening a little bit. So far, we haven't seen any sign of slowing down of the Career markets, which means that we are expecting this development to continue also in the future.

Expenses are of course increasing hand-in-hand with the sales. We have sales-dependent expenses like salaries and marketing expenses. Also, a little bit of these ICT expenses, which are more or less related to the product development.

All in all, this segment is on a very healthy profitability level of more than 40%. And as you can see from the right side of the slide, there was a nice growth in every market. Of course, the Czech Republic is the biggest one - 33% growth there - but quite a nice development in every market, which is of course a very good situation with balancing the portfolio and the risks of the different markets developing differently. So, very good performance of all markets in the public area segment.

Secondly, Alma Talent - a very solid performance during the quarter! We had a nice quarter for advertising as well as digital content sales. And, of course, the digital services, where we are investing more and more, are enhancing the profitability, and the biggest investments are working as expected. Revenue growth, 8.4%; almost 60% of the business are currently digital businesses, operating profit nice, more than 20% up, and so on.

The service part of this business has been developing faster than the other parts of the business. As you can see from the right side, around half of Alma Talent's segment's business is media businesses. And the other part is services - digital services - which is the growing part of the business and the part that we are investing in more and more. We have quite a good cost control in this segment as well, which means that from the revenue growth of 8%, we were able to gain quite a nice part with the lowest growth in the operating margin. All in all, very good performance. Healthy profitability level of 22.5% for a media company should be very nicely comparable to the best dealers in Europe.

In Alma Consumer, very good organic growth due to a very nice development in digital advertising, and of course, the acquisitions on those marketplaces are contributing too. Revenue is almost 40% up; operating profit more than 40% up. All sectors, every business contributed nicely to the growth and to the profitability. Of course, this Nettix acquisition was a big part of the revenue growth, but also the organic growth, as mentioned here, 8.3% is really good, and continues to develop.

The strong demand for housing, cars, and mobility marketplaces has continued. My personal view is that it might slow down when the markets are normalising, but it seems that the good demand is still there. Hopefully, we'll see the new car demand increasing which has been quiet for some time due to for example problems with the components the car dealers and car makers have in imports and other issues, but there's a strong demand for new cars as well. So, the underlying market seems to be quite positive for our businesses.

As you can see, there was a very good performance of digital advertising in Iltalehti, and a nice growth of digital subscriptions as well. If I remember correctly, we have around 20,000 paid subscriptions in Iltalehti books currently which is quite a good achievement. And due to this, we were able to mitigate the decrease of the single-copy sales in Iltalehti.

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We experienced healthy development of profitability and a very healthy level of profitability in the segment: almost 30%. Quite a balanced segment. Part of the business in this segment are media businesses and other businesses are mobility, classified services, housing services, and comparison services, this digital classified and other service businesses, which are developing nicely.

So, that was the segment performance briefly. To sum up, all segments performed nicely, even better than expected, which is, of course, a good situation and start for the next quarter.

Now, Juha will go through the financial position.

Juha Nuutinen

Thank you, Kai, and good morning. Our financial position, or more exactly, our balance sheet has been quite stressed during this year because of the M&A acquisitions at the beginning of this and the last year. This third quarter, we didn't have any M&A actions, and that's why in our balance sheet you can see that deleveraging has started. But if you are looking at our debt side, the main part comes from the bridge facility loan, 200 million at the moment. We are going to convert that loan and do a long-term financing during this year, most probably in November. In September, we paid back 20 million euros loan in this bridge facility.

Our gearing has also decreased. It's now 132%, and equity ratio is 33%. So, if there are no M&A actions, our net debt will decrease with around 15 to 20 million in the one quarter; we are deleveraging quite fast actually.

It is because of our quite strong operating cashflow. We had operating cashflow of more than 18 million on third quarter, which is among the highest amounts at this part of the year or third quarter. There was an 8 million increase compared to last year. Cumulatively we are in 150 million position. Where this comes from is thanks to our good and increased profits. Also in the third quarter, it comes from the quite good networking capital gains as well. But cumulatively, our networking capital gain change is pretty much the same as it was last year.

Like said, there were no acquisitions this quarter and last year. However, in the first half of the year, there was the Nettix acquisition the biggest of course, and Netello and Quantic slightly minor acquisitions.

Capex level is pretty much what we have had for years now; it's three million in the nine first months, and we will have Capex around four million for the following year. So, it's pretty much what we have said earlier also, and it's pretty much the same as what we have had last year as well.

This graph we have showed you since COVID started and it tells you Career invoicing and revenue recognition trend on a monthly basis. It is interesting because our revenue recognition comes a little behind with invoicing trend, and you can see that our invoicing has been at the highest level where we have had in this Alma Career business earlier and we are at the level 2019 figures. At the moment, we are looking at the latest four or five months, April/May this year. And this means also that we will have pretty good revenue recognition and revenue increase also in terms of the fourth quarter, and also in the first quarter of next year. So, the revenue comes a little behind with the invoicing. It's balancing the invoicing as well, but it takes three to six months from the first invoice when we see the revenue grow, and this graph tells you pretty good the combination of those two items.

Of course, in our earnings per share, we also see nice growth there. It was at 18 cents now in the third quarter. This comes from the profitability increase and the redemption of our minority shares in Alma Career and Alma Media partners, which

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are affecting as well. The effect was around four, five cents per year. Also, that increase, of course, comes from the profit increase. There were not so many adjusted items in this quarter - only 400,000 - and this came from the Talosofta business divestment in July.

We updated our long-term financial targets in September, and these are the new financial targets. Our revenue growth target is 5% per year, and like we said in September as well, this KPI is good to look on target concerns mostly next year. This year, we will be clearly above target, and now we are at growth of 17%. Our adjusted operating ratio margin is targeted over 20, and we are now at 3% over the target, at 23%.

In Net debt to EBITDA ratio, we set the target that it should be lower than 2.5. We are now 2.6, and we are calculating also the effect of acquired businesses from the whole 12-month period. We are pretty close to target at the end of this year, so quite soon, actually. In that sense, we are well-positioned, compared to these targets.

So, that was the financial part. All in all, the deleveraging is now going into a good direction. Kai will tell you more about the operating environment.

Kai Telanne

Thank you, Juha. OK, the question is, of course, if this could develop and continue. Of course, one part of this answer is that we need to have a look at the underlying economies where, for example, the good demand for the labour comes. And of course, for the advertising purposes, it is really important that the underlying markets are developing favourably. They are according to the current estimates / forecasts of the European Commission. This is the big picture and these are the markets that we are in. If we start from Finland, this close to 3% growth is OK for the advertising purposes and for the service development purposes, and of course, for the recruitment. Especially the development around 4-5% in Central and Eastern Europe is a very good basis for our services, a good ground for jobs or recruitment portal development for different job-related services that we are working with, and for educational platforms or similar types of services. So, the ground for good development is there, which is good news.

Of course, in the short term, nobody knows how COVID-19 development is going to continue. We heard yesterday that there is one month lockdown in Latvia. While it is not a very big country for us, if that development spreads in other Baltic countries or Central Eastern Europe, then the difficulties may arise. But, so far, so good. We haven't seen any signs of slowing down in our sales there, which is, of course, a good sign for the rest of the year. So, that's it.

The Finnish advertisement market is picking up also. We have had quite a good development specially in online / digital advertising where we have at least achieved the market-leading position, which I'm very proud of. Our team, led by Tiina Järvillehto, is doing extremely good job. And that has been a core target. That's been important of course since we have invested many years for the best services around the advertising scene in Finland. This is the part of the Finnish players and the market share of the Finnish players. There are, of course, 63% market share if I remember correctly, for the international players like the US platform giants. But all in all, a solid performance and nice development of the ad market. Of course, there is this pent-up demand, which is now bursting, and hopefully that will continue so that the customers that we have are going to continue with their investments in advertising during the last part of the year and during the next year. Very good.

So, those were the figures for the third quarter, and now the strategy and outlook. There is no big news, we will continue with the current strategy, we will continue transforming the core businesses; that's the print business and other businesses

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as well. We will continue growing in digital, especially in the digital strategy that we have, and we will have-, and then, of course, we will continue to internationalise the business in the new geographies or expanding the businesses in current geographies. So, this is the core strategy that we are running. Here are a few examples of the third quarter actions that we have had inside the strategy. Of course, the biggest one has been this Nettix integration which is running smoothly. It is work in progress, but the first phase is implemented successfully.

Then, of course, from now on it's more about deepening the corporation, nurturing the company cultures, development and so forth. Another example is the Netello integration, which is also proceeding nicely, a good growth, high profitability, very smooth cooperation with the new persons. Consolidation has been really good. We have done a new initiative with our partners, like with Inderes our virtual investor week that we had, it was a great success. We are very happy with this kind of cooperation with different parties, and we will continue with the development of this. So, that's it. Mostly the third quarter has been a quarter for consolidation of the acquired businesses and setting up the new position and new way of working for the whole company. So, the outlook remains the same that it's been for 2021, which means that we are expecting a full year of revenue and adjusted operating profits from continued operations to be increased significantly from the last year's level. That's it. If you have any questions, I'm more than happy to answer those here in this room in Alma house or online.

Q&A

Elina Kukkonen

If we begin with questions from Petri Gostowski / Inderes, so please go ahead.

Petri Gostowski

Thank you for your presentation. Starting with Career, thinking about Seduo growth, can you give us a bit colour, where is the growth coming from geographically and do you see better traction in different areas?

Kai Telanne

It was developed in the Czech Republic, the platform, and we have leveraged the business to Slovakia, where, at the moment, the biggest growth comes from. We have started the launch in Finland as well, and then we will continue to other countries step-by-step. So, that is the way of going.

Petri Gostowski

Thank you. Then you mentioned wage inflation accelerating. Can you talk about this, what is the magnitude and is it different geographically?

Kai Telanne

Yes, the biggest inflation comes from the countries where the unemployment rate is the lowest, which means like in Czech Republic and specifically the metropolitan area of Prague where the unemployment rate is smaller or around 3% at the moment. Of course, there is a huge demand of ICT employees, and the inflationary pressure is the highest, so we are talking maybe at the moment maybe 5-10% wage inflation on average on that side. So, this is a very good example. Of course, in every country, these ICT personnel wage inflation presently is the highest, otherwise, we don't see any big problems. It's more a business as usual. But the ICT sector is difficult because every company, they have the same demand, they have the same needs for digital development, and we are fighting for the same, you know, skill sets as they are. So, that's something that we have to take into account and carefully monitor and follow the situation. We have many successful initiatives in order to mitigate the pressure, like, we had these successful training programmes in Finland and we are going to continue that all over.

Petri Gostowski

Thank you. Lastly, a minor detail question on the share of result of associated companies in Q3 seem to pop up from the usual level. Is there something extraordinary behind that?

Kai Telanne

Sorry, I did not hear the question – something extraordinary?

Petri Gostowski

Yes, the share of result of associated companies.

Kai Telanne

Oh, right, Juha can answer that.

Juha Nuutinen

Mainly it comes from the Bolt Group company. They have had a pretty good summer, and that comes from that area, and it has quite a good revenue increase and also the profits. It affects our share of result of associated companies.

Petri Gostowski

Thank you. That's all from my side.

Kai Telanne

Thank you very much.

Elina Kukkonen

Thank you, and now operator we will be ready for questions. Are there any questions? Maybe we can start the online questions here between while the operator gets on board. Turo Kiiski from 3J is asking actually the same question about Seduo. The other one is concerning Ittalehti and subscriptions. So, what is the medium-term potential of this business - will Ittalehti shift fully behind the paywall over time?

Kai Telanne

Hopefully, yes. So, the idea is, of course, to continue. We really don't know how this will continue, we are a little bit surprised at the success of the Ittalehti so far. Ittalehti Plus development has been faster than expected. While Ittalehti has 2.8 million weekly / monthly users, and now we have around 20,000 paid digital subscriptions. So, you can understand that there's a huge possibility, but it takes time. So, we will continue developing the content, and it's this kind of trial-and-error thing to find a way to increase the circulation, of course. But so far the development is good. We are in a very early phase of this development, but amazingly quickly in a position where we are able to mitigate the losses or the decrease of printed single copy sales, which has, of course, been very difficult and bad thing for the tabloid market and business. So, we wait for a good development to continue and remains to be seen how big the market will eventually become. We don't know. Nobody knows.

Elina Kukkonen

Maybe not fully behind the pay wall?

Kai Telanne

No, you have to have the balance between the visitors and the paid subscriptions, and to balance and control the advertising potential, of course. For advertising purposes, we need to have a wide audience in the digital online site, and then, on the other hand, we want to have also the user payments from the paid circulation. So, that's this balancing, like we have to do it in other media businesses always like Kauppalehti and Talouselämä, so we do the same development here.

Elina Kukkonen

There is one more question that's coming from Sami Sarkamies / Nordea Markets about Consumer: The online classifieds have performed well, are you seeing any cooling down when looking at the activity levels with housing and car markets?

Kai Telanne

In car markets, actually no, but in housing market, it seems to be cooling down a little bit. It is because there has been a really, really big increase in the volumes of the housing market during the COVID-19, and it seems to be normalising a

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little bit. It doesn't mean that our business would react similarly, but the overall view is that there will be some kind of normalising of the price increases and the volumes in the housing market, that seems to be case. In used cars, there's been a very big development and usually the sales used cars and the new cars are more or less balanced, and during the COVID times, there has been quite a low demand on new cars, and that seems to be balancing a little bit. Now there is a new problem of course with the components: the lack of components in the car industry is, of course, affecting the new car sales. Hopefully, they will find a way of shortening the delivery times for the new cars and that's, of course, important for us also for the advertising purposes. But for the classifieds, it seems to be working pretty well so far. We haven't seen any remarkable or significant decreases in the volumes.

Elina Kukkonen

OK, Sami is continuing. He is wondering Alma's main concern at the moment, but before that about the financial targets, these look overly conservative now, even though they were issued in September. Any thoughts relating to this?

Juha Nuutinen

Yes, the EBIT margin is a bit more conservative and cautious, and we have to look at that over the next years. Revenue growth, we have to estimate, it's not this year's target it concerns next year. So, that's why we come back to that revenue growth target more closely then.

Kai Telanne

Yes, I agree. Right now, we have this kind of pent-up demand bursting and we have the Nettix integration and the acquisitions in place so it is difficult to estimate. So the next years and the long-term, like the mid-term in this case I would say, the revenue growth target is more or less without any acquisitions, it's more of an organic growth target. The profitability remains to be seen, it might be conservative, and we might come back to that by the end of the year.

Elina Kukkonen

OK, so Sami is also asking, what is your main concern at the moment?

Kai Telanne

It is the COVID-19 situation, which worsening at the moment. We heard yesterday that in Latvia they have introduced a one-month lockdown. Again, the situation is not much better in other Baltic countries, so we will see. It remains to be seen how the situation develops. And I'm not satisfied with the vaccination development at the moment, not even in Finland. So, the healthcare system is more or less under a very stressed situation in every place, and there is a huge need for speeding up the second vaccination and so on. So, that is the biggest concern in short term, we don't have any other concerns. In our case, our businesses are running smoothly, and the personnel are in a very good mood and at a very good speed, so the machine is in the perfect condition at the moment, and at the record high profitability level. And then the COVID-19, of course, may have its effects on the demands in the short-term, in long-term, maybe not, but in the short-term there might be these kind of hiccups that might arise.

Elina Kukkonen

OK. And then Pia Rosqvist-Heinsalmi from Carnegie is asking about Consumer, about any comments on the operating leverage and its development in Consumer.

Juha Nuutinen

Well, Nettix integration is in the middle of the process and the next round is going to happen, and we'll integrate Nettix more in other parts of Consumer and do more synergies with the other products, and that's why it will integrate some operational leverage advantage. Let's say it's a longer-term process than this first wave was.

Kai Telanne

Exactly. There's of course, a big question of cultural development of these different employee groups and different companies. We have totally different backgrounds, and it takes time before the machine works as it is expected. But leveraging the good things from other parts, there is a nice possibility. So, we have very good plans on the table, and the work has started already. It is quite good. So, we are very positive on this leverage.

Elina Kukkonen

Yes. And the same question from Pia, about the main concerns for Q4, if any. Is there anything to add?

Kai Telanne

Not really. It is COVID-19.

Juha Nuutinen

Yes, if we are looking at last year's fourth quarter and the advertising market, it was higher at the time then, and so we are facing much more difficult comparable. Yes, that's one thing. So, the growth will not continue with this kind of growth rate. You have to understand that that was a really good advertising quarter last year.

Kai Telanne

Sales were at the high level and especially in the Career side where the invoicing rate is at a high level, so that will end up to make good revenue as well for that last quarter and for the beginning of the year next year.

Elina Kukkonen

Yes, and that was about Sami's question about Career. Are you still experiencing a situation in which invoicing is growing sequentially, week-after-week or has the growth flattened out? Given achieved invoicing, it seems that Q4 sales will grow sequentially from Q3. Will that also be the case in the first quarter relative to the fourth quarter?

Kai Telanne

So far we haven't seen any flattening, so the invoicing rate has been continuing like expected. But, you know, we don't know how COVID-19 is going to happen if there are these kinds of lock-downs. If the countries are heading into a lockdowns, that will definitely have its effects on our businesses but so far invoicing is great, it's well above 2019 levels.

Elina Kukkonen

OK. So, at the moment there are no more online questions. Should we make one more try on the conference call line?

OK, operator, we will be ready for questions if any on the conference call line?

Operator

We have a first question. It's by Sami Sarkamies. The line is now open for you.

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Sami Sarkamies

I think my questions have been answered already. Thanks.

Elina Kukkonen

Thank you. OK, so any questions that have not been answered yet?

Operator

We have a second question by Pia Rosquist. The line is now open for you.

Pia Rosqvist-Heinsalmi

Yes, hi. It's Pia here. My questions were also answered. Thank you.

Elina Kukkonen

Thank you. Thank you. I'm sorry about the delay.

Operator

For the moment, there are no further questions.

Elina Kukkonen

OK, thank you, operator.

Kai Telanne

OK, in that case, we are ready to finalise this presentation. I will thank you very much for your attention and, as you can see from here, we have the next interim report, January/March, on Friday 22nd April. So, we will welcome you all to this fourth-quarter presentation. Thank you. Have a nice week.

Thank you.

Note: Alma Media's next interim report is Q4&FY2021 on 16 February 2022.