Alma Media Oyj (ALMA.FI)

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MANAGEMENT DISCUSSION SECTION

Elina Kukkonen

Senior Vice President-Communications & Brand, Alma Media Oyj

Good morning, ladies and gentlemen, and welcome to this Interim Report Session of the Third Quarter of Alma Media 2022. My name is Elina Kukkonen, I'm responsible of the brand and communications here in Alma. We begin with the presentation shortly and first to go on stage is our CEO, Mr. Kai Telanne, he will present the overall result of Alma Media and also highlight the performance of each business segment. After Kai, our CFO, Mr. Juha Nuutinen, will present the financial position of Alma Media today. And then Mr. Telanne returns with the operating environment and our strategy going forward. We welcome all the questions, as usual. We are more than happy to answer your questions, so please use the online chat function to present questions and also we take questions from here, from Alma premises. We begin with the questions from the Alma house and then move to the online chat questions. Our Manager of IR and Communications, Mr. Teemu Salmi, he will speak up all the questions from the online chat.

So, with this short introduction, I think we are already set. So, once again, welcome. To follow us today and please, Mr. Telanne, the stage is yours.

Kai Telanne

President, Chief Executive Officer & Chairman, Alma Media Oyj

Thank you, Elina. A warm welcome to the interim report presentation.

Still going strong. As disclosed early in the morning, we had once again a record high quarter, strong performance in a challenging environment and good performance in every segment. I'm extremely happy what happened inside the company. Not that happy what is happening around us, especially the global disturbances that we are witnessing at the moment are not what we want it and wanted to see.

Main figures here, nice 10% revenue growth. We had already quite a tough comparables last year. Adjusted operating aligned with that 8% growth in profitability. Very solid performance in all segments, of which I'm extremely happy. Usually in this kind of situation, the advertising tend to go down. It hasn't. The recruitment advertising tend to change, or the trend tend to change. It hasn't. And because of this, our revenue and profitability development has been favorable. We are at the high profitability level of 26%, which is above our long-term target. So, we are well-ahead of our long-term targets in profitability. Because of the good profitability development and a good cash flow, our gearing went down to 81% from last year's 132%. And the equity ratio up to 42%, which is also a favorable development ahead of our own plans and targets. That's a good sign for further purposes, for further investments. We are, in couple of years, in a zero net position and ready for next big moves.

Alma Career was again the segment that drove our good development, €5 million of revenue growth and profitability growth of €1 million. But also the other segments performed pretty well, both on revenues side and profitability-wise. Digital business growth continued nicely, 15%. This is organic growth. As seen before, we had high and big jumps during last year. That came from the acquisitions that we made, 2020 and beginning of 2021.

Now, the organic growth, above the market growth which has of course been the target of us as well. 81% of the revenues at the moment from digital sources. So, the strategy is working well and according to the plan, from print to digital, from media to services, and so on. Alma Career, as said, was the best performer. Again, good development continued. Revenue nicely up, 24%. Invoicing has continued to grow, so there's no sign of decreasing revenues on invoicing. The invoicing level is going to grow still. Even it's slowing down a bit but you have to remind that there are tough comparables as well. Adjusted operating profit 11%, up to €10 million. All the countries took part of the development and good growth. As you can see from the right side of this slide, all countries performed better than last year. We have very high marketing campaigns going on in the Career segment. We have doubled the market costs during the third quarter compared to the last quarter – last year. That's why the costs are on a high side of this segment. That won't continue, so there's a shift from last year's fourth quarter marketing spend to this year's third quarter marketing spend. On top of the traditional core job board business, there's a high demand of other value-added services as well, as like advertising to career development and staffing and other managed services. It seems that the high demand of labor in our markets is going to continue. The current forecast and the best knowledge that we have is that, despite the economies are lowering and slowing down, the labor markets are going to be tight. That's a good sign for our services as well, and it looks like the labor markets are, in every market, going to be quite tight.

As said before, the invoicing level forecast, our revenue development for coming months, and this slide tells us that while the invoicing level is on a high side, we are going to expect on a good revenue development as well. On the lower side of this slide, you can see other KPIs that we have, that we follow the visitors, users with job alerts, and number of paid ads. So, it tells us that there are more paid ads than we had last year, which is a good sign, of course. There are active users more than we had unique visitors. They're a little bit less and that tells us about the tightness of the labor market. So, no worries at the moment in the market.

For Alma Consumer, this was also a very good quarter. We had a nice revenue growth of 8% organic growth even more. Adjusted operating profit 5% up. We have a lot of new initiatives going on, especially on the tech side.

As disclosed before, we are renewing our platforms both in houses and premises side. It's called Ovi PRO initiative, putting a lot of OpEx there and the same happens in the motors and another vehicles as well. So, we are investing into the future development and the future competitiveness at the moment and that will continue. We are not going to stop that or ease up in investing into the service in order to be even better in the future.

Digital ratio at the moment 83% in the segment. Only 14% of advertising in the segment in print business, so we are well ahead in the transformation of businesses here. Nettix is now well-integrated into the segment. The cooperation with Iltalehti and other services is good. We have had the cost synergies that we promised before, and now we are concentrating on the revenue promises and revenue increase during the co-operation inside the segment and between the segments in the focus areas like housing and vehicles.

And finally, Alma Talent, nice growth of digital business here. The print business is declining as expected. Revenue little bit down. We had the divestment of the Baltic direct marketing business. Adjusted operating profit declined slightly, hand-in-hand with the investments, and the OpEx that we have here also for the digital service development, like DS. Content sales up nicely, 9%, this is good sign for us. The B2B sales on subscription side is developing favorably. Some fluctuation on B2C sales. Digital advertising sales growing nicely, despite the new car advertising and IPO advertising that we don't have actually at the moment. So, those are the big two sectors that we are lagging behind here clearly, and that is seen in the figures.

Recurring revenues nicely up 50%. That's one of the main KPI here, so we are improving and developing recurring or recurring like revenues, which are balancing the fluctuation in the advertising business nicely, as well as the subscription revenue. So, all in all, Alma Talent business actually should be a balancing part of the portfolio in Alma compared to some other businesses, like Career business and some of the Consumer business parts.

That's quite contrary on what we used to see early in the history, like we had seen that the business-to-business side has been quite fluctuating business. Not in Alma's perspective anymore, this is quite on the contrary. So, a very good development here as well, extremely good work in all segments, really happy with that.

These were the main figures and now, Juha Nuutinen, our CFO, he will consider and concentrate on the financial position and dive into the figures as well as balance sheet, and then after him, I will continue to summarise all this.
Please, Juha.

Juha Nuutinen

Chief Financial Officer, Alma Media Oyj

Thank you, Kai. Let's continue with the financials.

First, let's look at our KPIs for balance sheet and our net debt level. We have decreased and we have paid our interest-bearing loans in each quarter now. And we are now at the position of €153 million net debt, so – and then equity ratio is now over 40%. So, we are in a healthy situation and it's going stronger and stronger after each quarter.

You can see that there are some leasing liabilities increase in this September balance sheet. It comes from the new premises in Czech and LMC. In our Czech operation, we moved there in our new premises. And we were making a new lease agreement, and this effect was over €3 million in our leasing liabilities, so there comes to increase in that sense. You will see that also in our investment side as well. But no other big movements there other than we continue decreasing our loans also in the next fourth quarter as well.

We had in this quarter stronger or more CapEx than what we have been previously. And this comes mainly from this Czech operation in new premises. It was €3.3 million the new office agreement, but also it included over €1 million new furniture and that kind of office equipment investment. So, that was the major reason for higher CapEx level in this third quarter, which was totally around €6 million.

Our cash flow was slightly decreased from the previous year, third quarter level, with €1 million. It comes pretty much from the higher working capital level. We have discussed earlier that in the beginning of this year and the last year second half, we have had extremely high advanced payments from the customers. And now, it's natural that – and during towards the end, it will slightly decrease. And that's why our working capital level will be higher than in the beginning of the year. So, that affects in our cash flow. But still, if you look at the cumulative figures, we are pretty much online and stable compared to the two, three earlier quarters. And then, we didn't have any acquisitions in this quarter. This Netello Systems redemption of the rest of the shares was happening in the first half year, this year.

Earnings per share was also increased. We had €0.20 at this quarter. Pretty much it comes from the increased profit. But there is also a positive trend in our financial income, which you can see in our profit and loss statement.

We are benefiting also in this quarter from our interest derivatives, and what we have had, and taken at the end of last year. The effect of that was €1.3 million positive income in this quarter, and cumulatively, it's €5 million during this year. So, that's affecting also in earnings per share.

We have strong also the return on equity, 40% on a return on investment, 19% is also at the strong level. So, that's a pretty strong and good levels at the moment. And extremely happy with that return on the investment side because we have made €300 million investments during last year, and this return on investment, 19%, is a good figure, I would say.

We have not changed our long-term financial targets and these are the same what we have presented previously.

The revenue growth, we have long-term revenue growth target, 5%, is okay. This year, we have been above. Clearly, with that limit, it comes from the strong increasing in career recruitment business but also, Nettix acquisition affected in the first half year this figure, and 16% growth is coming mainly from those sources. In the beginning of this year, we increased our operating margin target to 25%. And we have now been achieving that during this year. And it's a strong target and demanding target, and we are extremely happy that we are able to keep that level on a quarterly basis as well.

Then, we have this net debt to EBITDA ratio. It's perhaps not target level; it's the upper limit what we have set in our policy, it's 2.5. And now, we are under that limit quite clearly; 1.7 is our net debt to equity ratio at the moment, taking cumulative rolling EBITDA figure into account here. So, I think we are pretty good with this financial targets also in the long run. So, these are pretty good levels and we can continue with this targets also in the future.

And dividend target, we have taken out of this long-term financial target. We have a separate policy for that. But a reminder, we have not changed that. Our target is to have this dividend ratio or payout ratio more than 50% from the earnings per share.

So, that's a quick overview of this financials. And Kai will continue about the operating environment, which is challenging at the moment.

Kai Telanne

Thank you very much, Juha. A few words about the operating environment, which is, of course, of interest of everybody at the moment, very turbulent times as we have seen, and that seem to continue.

We have been maneuvering pretty well in this kind of difficult circumstances, one might say. So, we have been able to mitigate all the difficulties so far nicely. There's actually no new news from Ukraine from our point of view.

So, the Ukrainian crisis will continue, as we expect. But we don't have any businesses in Ukraine or in Russia, which means that we don't have any direct effects. All the effects coming from this crisis are indirect coming with the change of – or the potential change of the markets and the circumstances in our focus areas. So, we haven't studied the new initiatives, would say, than we started early with the birth of this crisis, but we continue those elements and fine-tune more or less the ones that we have already in place.

But the interesting thing right now is, of course, that what is going to happen in the economies that we are present and the markets where we are present and, unfortunately, we don't have new forecasts. The ones that we have are from July. The new ones will come in November. But the overall view is that the GDP forecasts are going to be lowered a bit. So, as well as we know, the current view in the market is that the European economies are going to grow between 0% and 2% on average. If that happens, that is quite okay situation for our businesses in all over the Europe. That means that the recruitment business have a decent environment to develop.

Why I say that is that the current view is also that unemployment rates are not going to rise heavily, so the labor markets will be quite tight even during a decreasing – lowering economies. It looks like the inflation will be really high this year, between 10% to 15% by the end of the year at least. That will continue during the first half of the year, but then the forecasts are saying that that will ease up after the summer and next year's inflation rate on average would be around 5% or something like that. No one knows what happens. So, energy prices will be on a high side as we know, but there are some positive signs on that as well. So, with these circumstances, we don't see big worries in our case. So, we are quite fit and ready to mitigate the change of the environment.

We have had a nice development in Finland also in advertising; not in the market, but in Alma’s point of view as said and as we haves seen after the summer, the Finnish advertising market has also picked up a little bit. So, the overall market is on a positive side in August and the current forecast for the rest of the year is not – or doesn't seem to be extremely difficult. Our development has been really good. So, we have grown, especially in online advertising, better than the market, which means and tells us that we have gained market share again, and that seem to continue. So, the rest of the year will be okay, I would say, with the knowledge that we have.

We have started to disclose a little bit more about the markets that we are in, and especially the focus areas like housing market and motors or vehicles. Here, you have a few interesting information and figures about the housing market in Finland and the performance of our services in the market. As we know, we are market leader in housing with our Etuovi.com and other services. In Finland, it looks like the housing market is declining with the new apartments almost halved during the third quarter, so the decline has speeded up and used apartment declined 16%.

But our performance in the market has been quite okay. Our listings have been increasing during the quarter, 5%. But the demand and the search has been declining. So, what is happening in the market? The supply and demand are going to balance. They are balancing. We have had a quite difficult and different situation after the COVID-19, where there was a huge demand of houses and premises and a little supply. And now the situation is changing.

There's a return to normal trade base after a couple of frantic trading years as we have written down here. We are still above the long-term five years average. So, it looks like we are coming back to a normal level of housing market at the moment. So, that is something you have to keep in mind so that is something you have to keep in mind and we want to remind that we are coming back to a normal market in houses and premises. The 2021, after the COVID, was totally unexpected and different.

Of course the rising interest rates, inflation of those, that will, of course, put all of us a little bit careful. And there will be slowdown in the searches and the demand for at least for a short or mid-term, but we will forecast and we forecast that the market will be normalized as soon as the overall environment and economy stabilizes. So, no big worries here. Our strategy is going to continue. We are investing quite a lot, CapEx and OpEx on new services, new features on our services, especially the technology. So, we're going to have top-of-the-brands technology also in the future and that process and projects are going smoothly forward.

Then on mobility markets, new car sales during the three first quarters of the year, 20% down, and that comes, of course, mainly from the component shortages and production bottlenecks of the industry, as we all know. So, the whole industry has suffered from the beginning of the COVID-19 heavily on those shortages. The order backlog is, of course, very high and increasing at the moment and that will not – as the market and the players there say, that will not be felt until the next year. So, the problems with the new car market will continue.

Used car market has gone down also 12% but then, on the other hand, our performers in those markets have been pretty okay. Sold cars total in our service 9% down, as a combination of new car and used car on average minus 15% decline of the markets, our performance is better than that. And the value of the market, the sales of our service has gone down only 1%, which tells us that the average price of the cars or other vehicles in the service has been increasing all the time.

So, this is the broad view of the market development. How do we continue? Is there a need for change of the strategy? Not really. We are well prepared for the difficulties in the environment. Company is fit, strong and ready to mitigate the possible disturbances. We're going to continue transforming the core. As I said many times before, we are well in place with the new projects there. We're going to grow in digital and continue with the internationalization of the company whenever new possibilities arise, so we will continue with that. All of the segments are going to continue with their own specific strategies inside the corporate strategy, so no changes in sight in the different segments. We are always aiming at the leading position, which is and seem to be the key for a good performance profitability in the digital business. We are well-aligned with this strategy and targets are well-positioned in the markets where we are, and that's what we are going to going to continue.

We have new approved science-based targets, ESG targets for the company. And, as you might remember, Alma Media was the third media company in the world and the first company in Finland to set up science-based environmental targets. We have reached the targets well ahead of the schedule and now we have set up new targets aligned with the 1.5-degree Celsius trajectory, which means that we are going to halve our emissions by 2030. We have a specific and a clear plan to do that and that has already started. We have also other targets for social and governance issues, as seen here. I'm not going to go all these through. You can have a look at those if you are interested. But we will, during the journey, of course, disclose how we proceed with along with these targets. So, we have actually allocated the targets into the segments as well. So, every Alma Media has his or her own ESG target that we are following, and the project is going on.

That's just a summary of the achievements of the third quarter. Last but not least, the outlook that we are repeating this year will be a record high year, so the revenues and profitability will increase significantly, which tells us and you that we are quite confident also of the performance of the last quarter of this year. Of course, there are uncertainties in the operating environment as we all know and have seen. But despite these, the project is going on as expected.

If you have any questions, I'm more than happy to answer

QUESTION AND ANSWER SECTION

Petri Gostowski

Analyst, Inderes Oyj Q

Petri Gostowski from Inderes. Looking at your growth around 10%. Can you comment on what's the impact of price increases? Have you done price increases and what are your thoughts on price increases going forward?

Kai Telanne

Yeah, of course, that's a combination of volume and price increases. It's difficult to divide exactly how it goes, but we have done continuous price increases hand-in-hand with the inflation growing. So, I would say that's a mix of both those. If you have a 10% increase, I would say that maybe this time two-thirds coming from volume increase and one-third from price increases. Especially on the Career segment.

Petri Gostowski

Thank you. On Career, you said you pulled forward an ad campaign. Should we expect that the profitability will be higher on Q4 than significantly compared to Q3 and maybe any comments on the amount on the advertising?

Kai Telanne

The marketing expenses should be clearly lower during the fourth quarter compared to the last year's fourth quarter. So, there's a shift of the expenses, as they are earlier this year. We started to market extensively earlier this year in order to encourage our customers, both consumers and companies, to use the services.

Petri Gostowski

Thank you. That's all from my side for now.

Sanna Perälä

Analyst, Nordea Bank Abp Q

Hi. Sanna Perälä from Nordea. I have one question regarding the personnel costs. You've been talking about increased personnel costs. Are they mainly related to new hires or is there any salary inflation included in those?

Kai Telanne

No. They are both. But I would say that in Finland, we have continued with the normal salary increase level with the agreements that we have, so no remarkable changes here. In Europe, the salary inflation is a little bit higher but most of the increase in salaries, in our case, comes from new hires, so we have quite a lot of new personnel in the company. Like for the tech, we have very many tech projects going on, especially in the Middle – Central Europe and also in Finland. So, like for our Consumer segment, we have extra load there for new initiatives on housing and premises and cars as well.

So, there are actually two main components, salespeople because of the sales volume, and then the salaries of like provisions and bonuses of sales; and then the tech people. Quite a remarkable increase in tech salaries and tech people, especially in Central Europe. So, that is something that is not going to continue very long, I would say. But at the moment it's needed.

Sanna Perälä

Analyst, Nordea Bank Abp Q

Thank you. And how do you see the salary inflation in general going next year, 2024?

Kai Telanne

We will continue with the agreements that has been made. So, there are no other plans. But I would say that the pressure in Central Europe is going to continue and be bigger than in Finland, because the inflation rate at the moment like in Baltics and in some other Central European countries is quite

high. It's about 20% inflation at the moment, which seems of course a little bit difficult in long term and that might affect the need for salaries.
But you have to remember to keep in mind that if the salaries are going to increase, we will, of course, increase the prices as well. So, we are not going to lag behind in that case. But that's a very sad development if that happens, because that becomes this kind of struggle that has to be avoided in long-term. But it hasn't started in our case, no.

Sanna Perälä Q

So, if I interpret this correctly, your margins in Career will maintain at the same level roughly?

Kai Telanne

Yeah, of course. The target is to increase the margins from the third quarter. So, we are aiming at quite a lot higher margins than we have had.

Sanna Perälä Q

Thank you. Then one question regarding Talent and its organic revenue growth without the divestment. Is there anything specific driving that revenue growth?

Kai Telanne

There are two main sources. The first one is a good digital subscription sales, especially B2B. There are some fluctuation in the B2C sales, which we have seen, a little bit increase in churn, but anyway in long term, that is developing favorably in the whole segment. And the second is a really nice performance in services, digital services and also digital advertising, if we leave behind the car industry and the IPO advertising. Other segments or branches are developing nicely. So, the organization is doing a good work. So, these are the reasons. And then, of course, the good cost control.

Sanna Perälä

Okay. That's all for me. Thank you.

Teemu Salmi

And finally, we do have some **online questions**. For the online community, we strongly encourage you to ask questions: Kai and Juha and the rest of the management team are ready for good questions. But first, two questions from Maria Wikström, Skandinaviska Enskilda Banken. They are concerning the development in Career business. Firstly, should recruitment advertising and advertising revenue in general to decline next year, is there way you can safeguard profits?

Kai Telanne

Yeah. It looks like the revenue development is favorable in the first half of the year, and that's because of the good invoicing that we have at the moment. So, the invoicing is still growing. We had around 10%, if I remember correctly, 10% increased invoicing. And because of the revenue recognition that we have in the Career segment, that invoicing will turn to revenues later. But then nobody knows what is going to happen really by the end of the year, but we expect that the labor market will be quite tight. So, the demand for the services that we have is good and we are able to – even in these circumstances we are able to increase the prices. So, we are quite confident that we are performing okay. But we have to be careful with the costs. With this cost level that we had for the marketing especially and the ICT services as well, we are not going to continue. So, the cost level should be lower.

Teemu Salmi

Thank you. And Maria's follow up is, is there any reason why the recruitment advertising would not collapse this time around if we head into a recession next year?

Kai Telanne

The best knowledge that we have also from the experts on the market are saying that the labor market will still be quite tight which is of course good for the demand of the services that we can supply. So, that is the reason to expect that.

That might be lowering a little bit and the demand might be lower. But still there's good room for a good, good business. Skilled labor is highly appreciated in all of the Europe and that's the specific area where we are in. We are not on the blue-collar businesses or we are slightly there, but the main and the core business of ours is on white-collar businesses, white-collar labor.

Teemu Salmi

Thank you. Then, Pia Rosqvist-Heinsalmi from Carnegie is asking, assuming a continued solid demand for recruitment services, can we expect that you'll return to an EBIT margin of over 40% in Q4?

Kai Telanne

No. That's difficult to estimate. But in long-term, in broad terms, we are heading and targeting above 40% profitability in Career business.

Teemu Salmi

And also from Pia, what plans do you have in place to mitigate the higher paper and distribution cost in 2022?

Kai Telanne

That's a difficult one. Unfortunately, we don't have more than one supplier of paper in Finland at the moment and they increased the prices. We have decent agreement with of course those. The difficulty comes also from the distribution like Finnish Post, they are changing their way of delivery, which might be difficult. Luckily, our position in digital is quite high. So, we can mitigate the decline of the offline business with the good develop of print but that doesn't solve the print problem.
So, there are not very much room for price increases anymore for the subscriptions, for example, nor the advertising of print business, so that is difficult. But that don't affect us too much, I would say. So, it doesn't make big difference. But that's a good question. That's a really, really difficult ones for those who are heavily print-dependent businesses like many of the colleagues are.

Teemu Salmi

I guess we have no more questions from the online community.

Kai Telanne

In that case, I will thank you very much for your attention. And as seen here, the Capital Markets Day will take a place on Wednesday, 23 November. I hope you can all join. We have an interesting day coming on. And for the financial year 2022, the statement, Thursday, 16 February. So, these are the next events that we are having. And still any questions you might have, we are ready to answer, and you can contact us later, they will forward the questions for us if you have. So, I hope you enjoyed the show and I hope you have a very nice rest of the year.