Bertelsmann Annual Results

Investor Conference Call
March 26, 2019
Bernd Hirsch, Member of the Executive Board and CFO of Bertelsmann

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Bertelsmann FY 2018 –
Highlights and key topics

Strong operating performance in 2018

Revenues up by 2.8 percent to €17.7bn, **organic growth** of 2.7 percent	**Operating EBITDA** of €2,586m once again at a high level, **EBITDA margin** of 14.6 percent	**Group profit** of €1.1bn, again exceeds €1bn	Revenue share of **digital activities** increased to **49 percent**

Further progress with strategic priorities improves business profile and growth characteristics

Strengthening the core: Further development of core businesses, CRM activities combined into new company Majorel	**Digital transformation:** Expansion of VoD-offerings, ebooks and audiobooks, services for digital businesses and customers	**Growth platforms:** Relevant markets are sizeable with significant growth opportunities, and exhibit structural tailwind from digitization e.g. for VoD, drama production, music streaming, e-commerce, financial services, online learning	**Growth regions:** Bertelsmann Investments made 61 new and follow-on investments, funds hold shares in 189 companies end of 2018; proven track record with successful exits

Sound financial position

Leverage factor at 2.7x due to acquisition of OnCourse Learning in Q4; **actual LF stands** at 2.5x in line with target, considering already signed divestments	**Solid equity ratio** of 39 percent, **High cash conversion rate** of 91 percent, close to previous year's level	**Strong liquidity** and substantial reserves, extension of debt maturities in 2018, no material financing needs until 2020	**Commitment** to prudent financial policy

Further strategic progress into a faster-growing, more digital, more international and diversified group

Group key figures – **High organic revenue growth, Operating EBITDA increased by 4.5 percent on a comparable basis, Group profit again above €1bn**

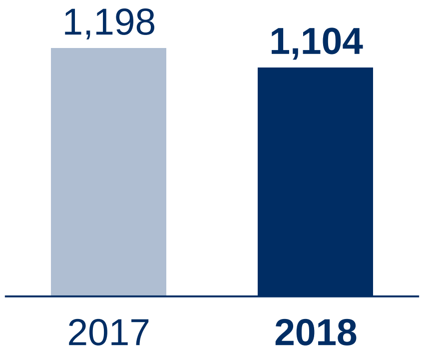
Revenues, in €bn

Reported	+2.8%
Organic	**+2.7%**

Operating EBITDA, in €m

Reported	-50
Like-for-like[1)]	**+4.5%**

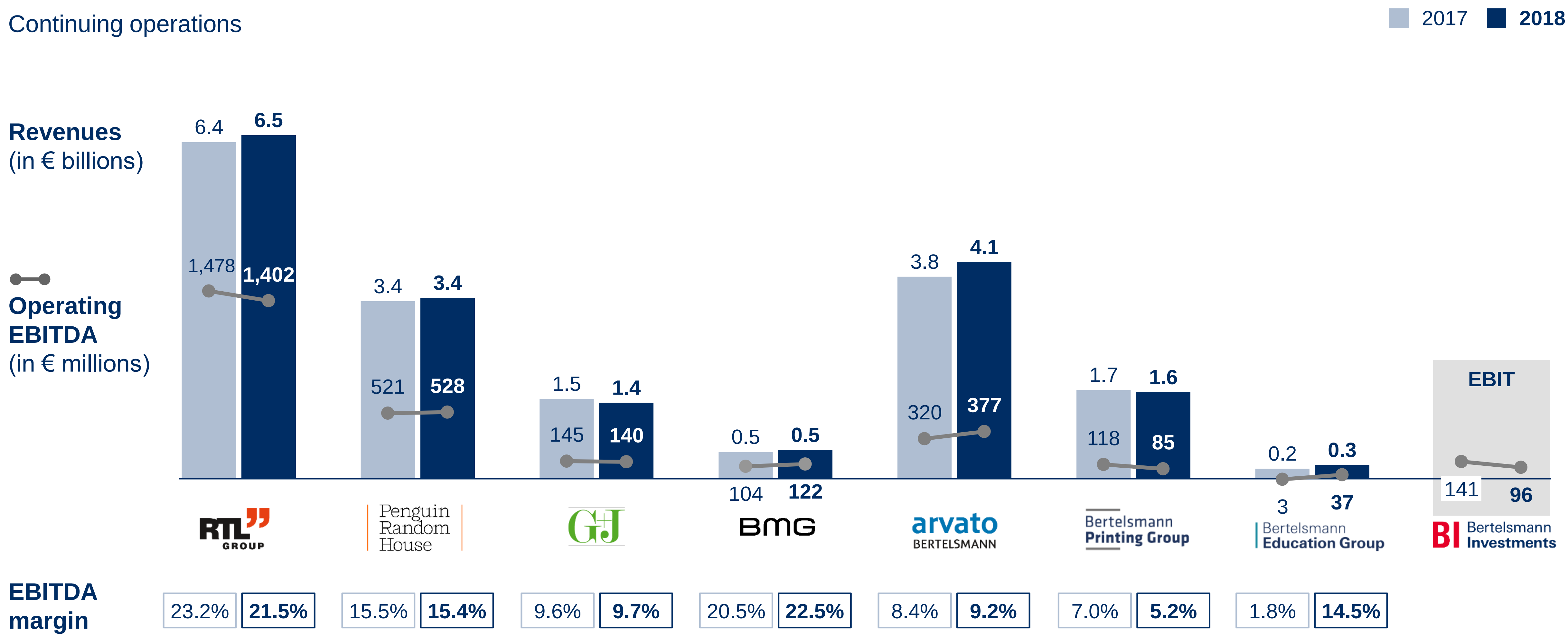
Group profit, in €m



1) Before exchange rates effects, portfolio effects and gains from major real estate disposals in financial year 2017.

Divisions 2018 – **Significant operating EBITDA increase at Arvato, Education Group and BMG; earnings decline at RTL Group due to real estate disposals in previous year**

Continuing operations



Group profit – **Slightly below FY 2017 due to high gains from disposal of buildings in previous year, higher impact from restructuring, but lower tax expense**

in € millions	2017	2018	Change	Comment
Operating EBITDA	**2,636**	**2,586**	**-50**	High gains from disposal of buildings in previous year
Depreciation and amortization	-657	-670	-13	
Restructuring/other adjustments	-176	-278	-102	Higher restructuring and transaction costs primarily due to CRM e.g. carve-out
Impairments/reversals	-104	-181	-77	2018 primarily Goodwill-Impairments StyleHaul, G+J International
Capital gains/losses and FV remeasurements	197	163	-34	Positive net contribution, but below previous year primarily due to Bertelsmann Investments
∑ Special items	-83	-296	-213	
EBIT	**1,896**	**1,620**	**-276**	
Financial result	-219	-216	+3	
Income taxes	-472	-301	+171	Lower burden primarily due to impact of US tax reform and valuation of deferred tax assets
Earnings after taxes from discontinued operations	-7	1	+8	
Group profit	**1,198**	**1,104**	**-94**	

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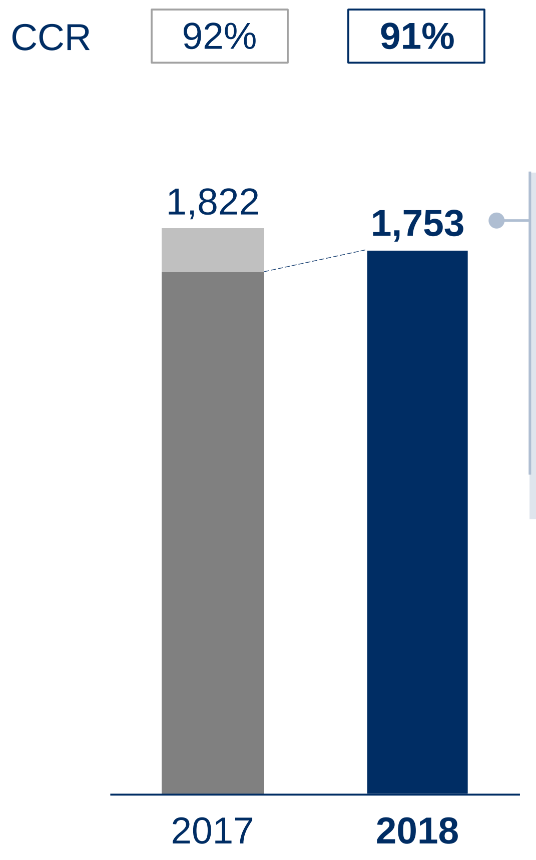
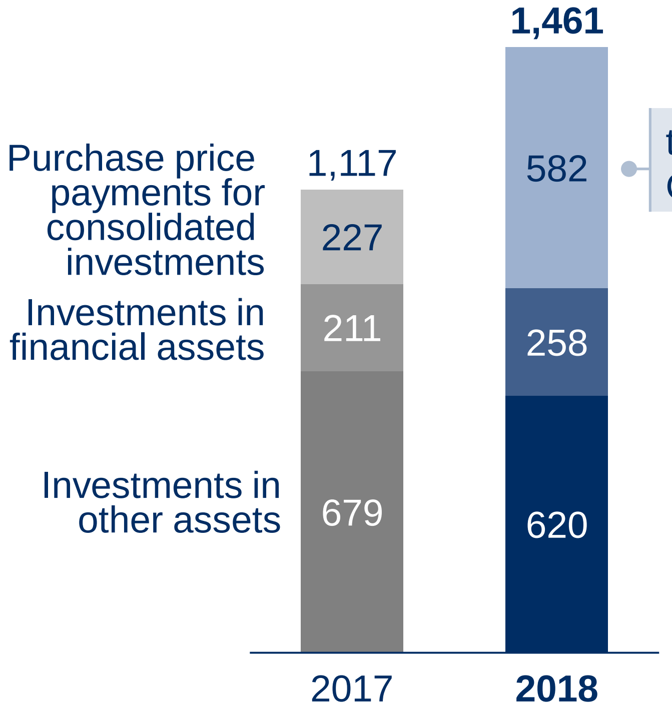
Further Group key figures – **Operating free cash flow on a comparable basis above previous year; increase of total investments due to OnCourse, but CAPEX lower**

Operating Free Cash Flow, in € millions



- Above previous year on a comparable basis a (2017 incl. significant proceeds from building disposals in prior year)
- CCR within target range of 90-100%

Total investments, in € millions



thereof acquisition OnCourse -466

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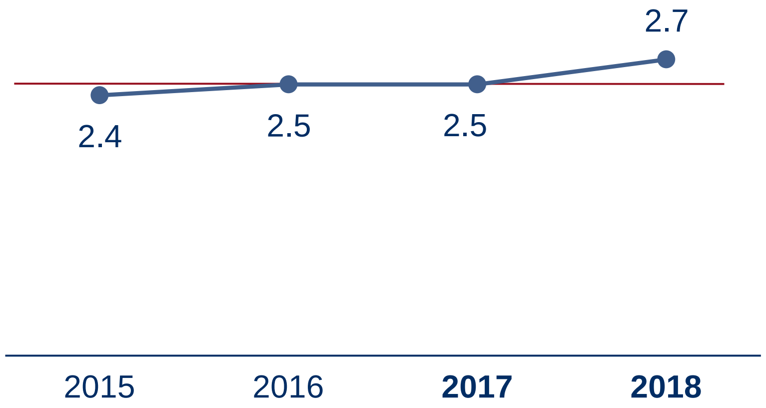
Financial status – **Leverage Factor slightly above target at year end, but well on track to be at limit at year end 2019**

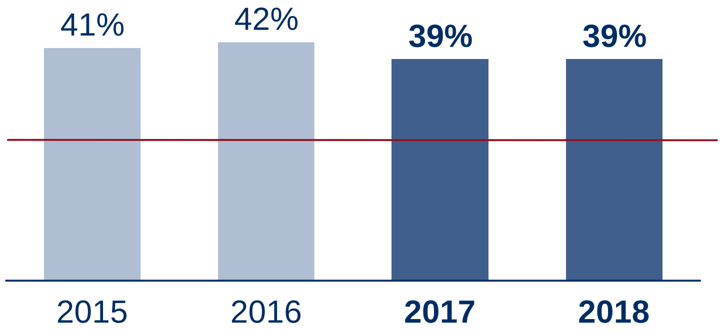
Leverage Factor ≤ 2.5x

Economic debt / Operating EBITDA[1)]

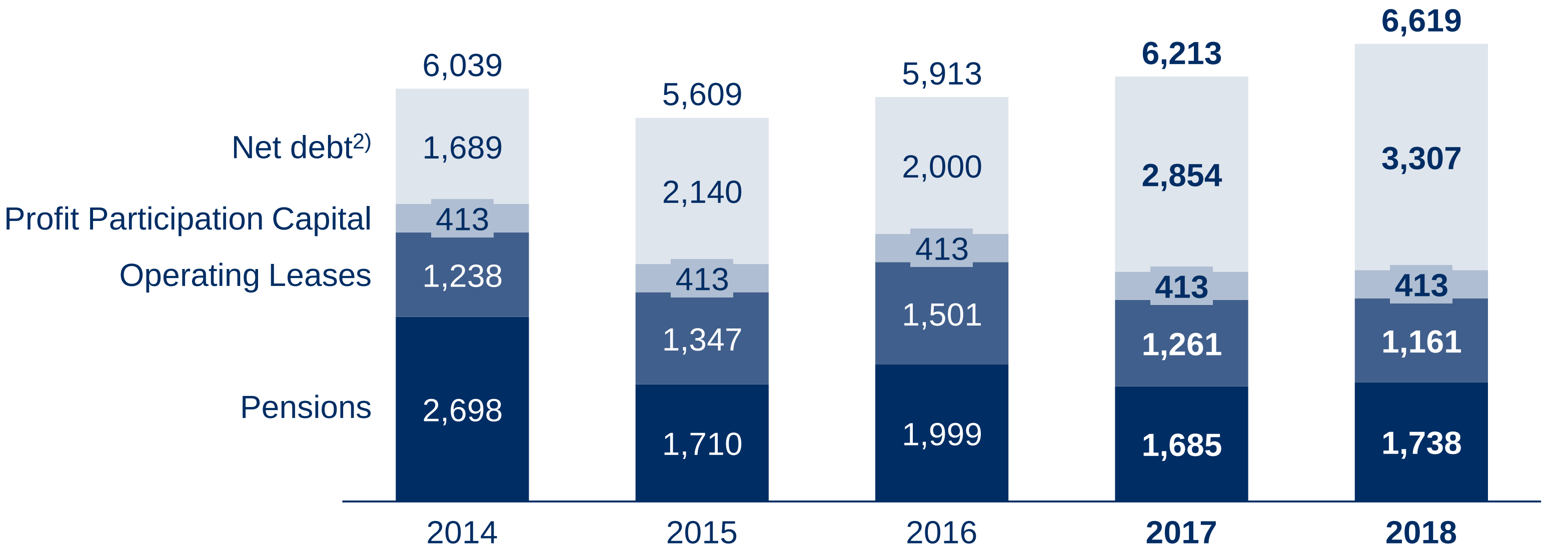


Equity Ratio ≥ 25%

Equity / Total assets



Economic debt (in € millions)



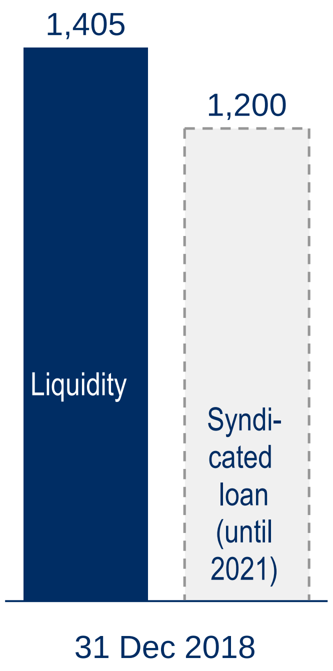
Credit Rating

Moody's Investors Service	S&P Global Ratings
Baa1, outlook: stable	**BBB+,** outlook: stable

1) After modifications. 2) Less 50% par value of hybrid bonds.

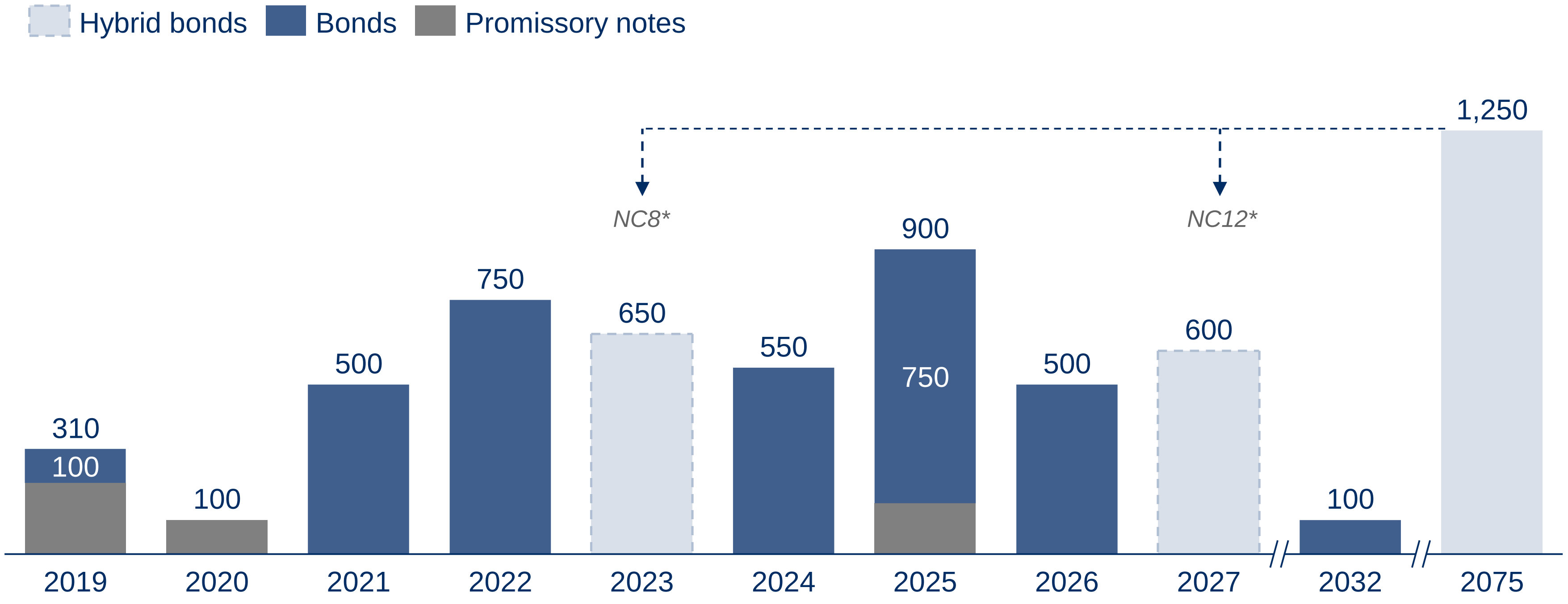
Financial status – **Sound financial position, maturity profile extended in 2018, no material financing needs until 2020**

in € millions



Financing activities in FY 2018

- Redemption of €200m promissory note in June
- Placement of €750m bond, term 7 years, in September



*For illustrative purposes only.

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Group strategy –
Strategic framework since 2012

Megatrends

- Digitization
- New technologies
- Global growth disparities
- Demographic change
- Health
- Education

Strategic priorities

1. Strengthening the core
2. Digital transformation
3. Growth platforms
4. Growth regions

Enablers

- Creativity and innovation
- Cooperation
- Group projects
- HR strategy
- Corporate finance
- Strategic communication

Target portfolio

Non-financial targets

• Growth businesses	~40%	Group revenue share
• Digital businesses	>50%	Group revenue share
• Business outside Europe	~40%	Group revenue share
• More diversified portfolio		

Financial targets

• Revenues	€20bn
• Op. EBITDA (adj.)	≥€3bn
• Group profit	>€1bn
• Op. BVA	>€0
• Leverage factor	≤2.5×

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Group strategy –
Highlights 2018

1 Strengthening the core

Stable TV ad market positions overall

Outstanding publishing successes

Newly formed global CRM group

2 Digital transformation

Digital revenue growth[1)]

RTL Group	+32%
Penguin Random House	+17%
G+J	+16%
arvato Bertelsmann	+9%

Technology agenda
- Investment
- Cooperations
- Infrastructure
- Re-skilling
- Data

3 Growth platforms

Fremantle

Strong creative output

BMG

Artist signings and chart successes

Bertelsmann Education Group

Major acquisition

Organic growth all platforms +10%

4 Growth regions

Penguin Random House

Expansion in Brazil, India and South East Asia (e.g. acquisition of Companhia das Letras)

BI Bertelsmann Investments

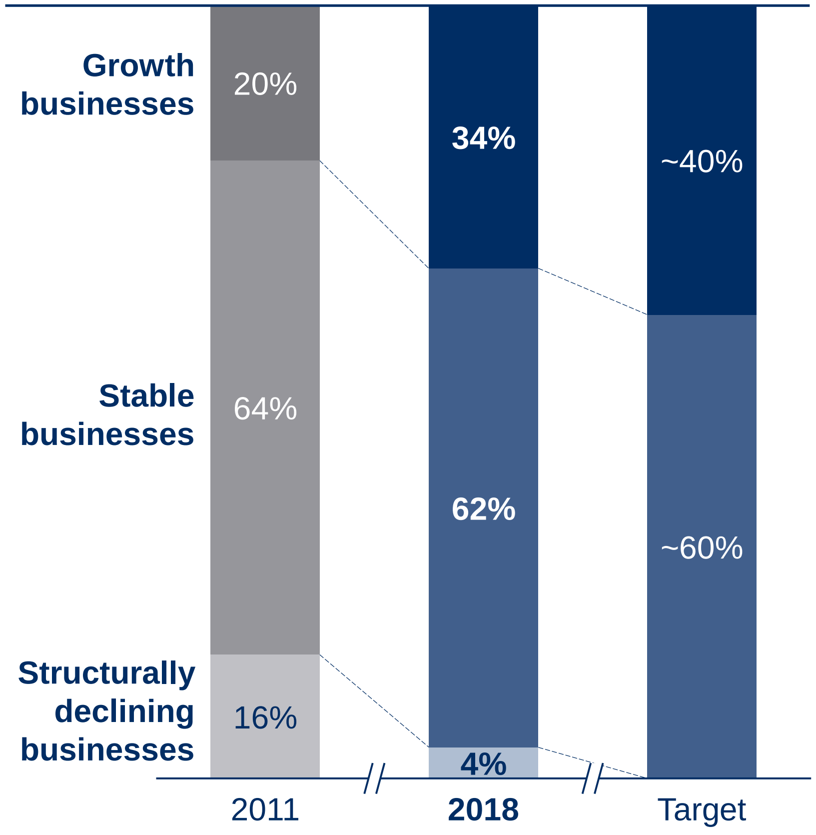
Overall 61 new and follow-on investments, step-up to majority at Afferolab in Brazil

1) Growth p.a. 2011–2018, RTL Group 2012–2018

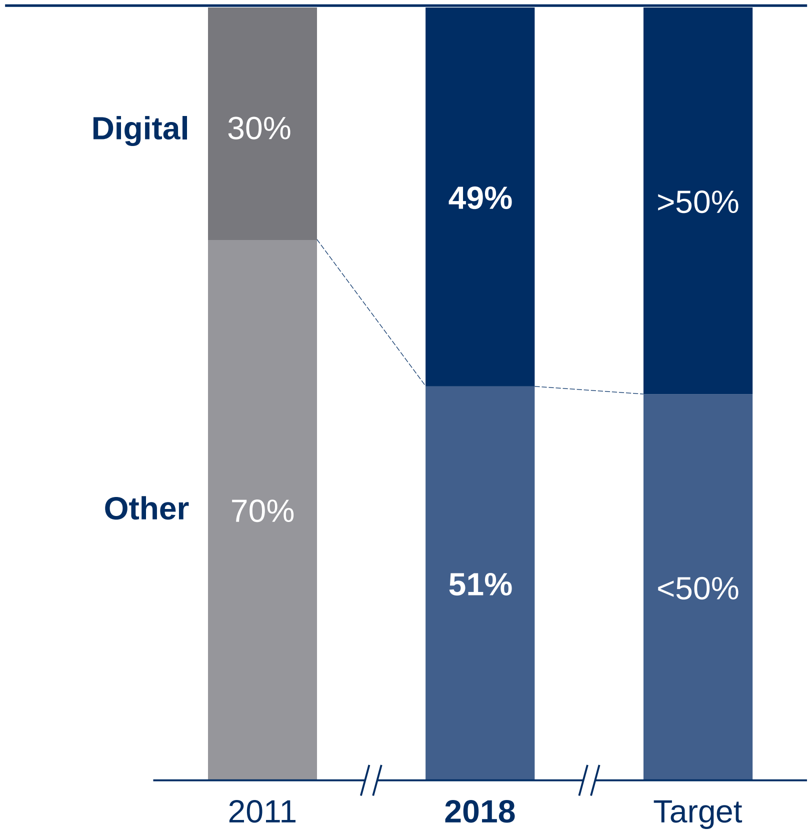
Target portfolio –
Higher growth, more digital, more international

Share of Group revenues in %

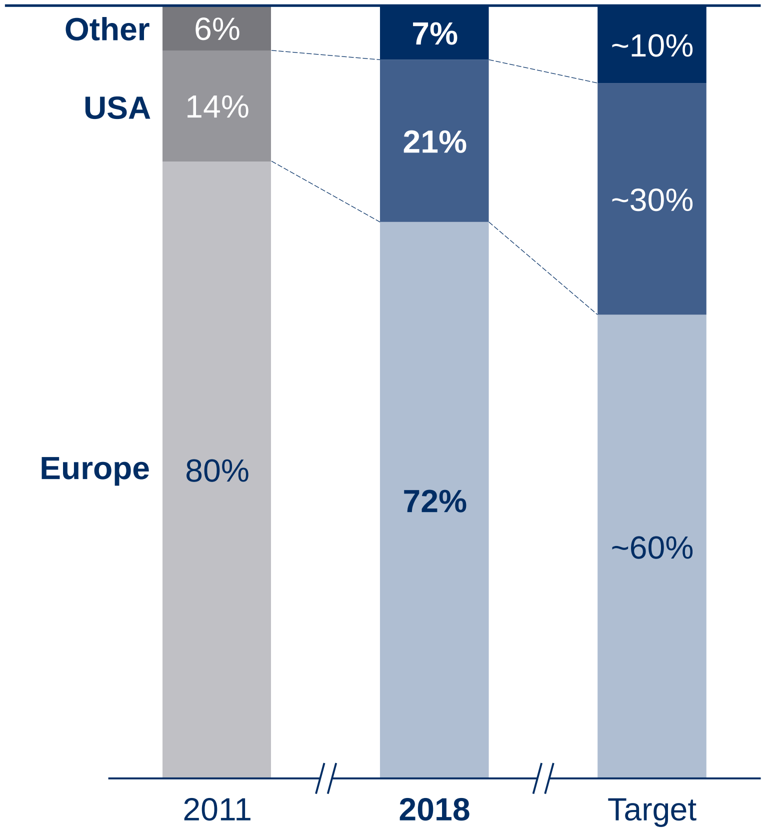
Higher growth



More digital



More international



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Summary and outlook –
Group profile improved, further steps ahead

2018

Key developments

- Improved organic growth
- Operating EBITDA on a like-for-like basis above prior year
- Group profit again above €1bn
- Further progress towards target portfolio

2019

Outlook

- Further improved growth profile, especially through organic expansion of existing growth platforms
- Moderate revenues increase
- Continued high operating profitability, strong increase due to IFRS-16-effect
- Group profit to remain in excess of €1bn

Implementation of IFRS 16 as of Jan 1, 2019 –
Potential impact on Bertelsmann's financials

Composition Economic debt in € millions

	FY 2018	FY 2017
Gross financial debt	5,337	4,919
Less cash and cash equivalents	(1,405)	(1,440)
Net financial debt	3,932	3,479
Less 50 percent of the par value of the hybrid bonds	(625)	(625)
Provisions for pensions	1,738	1,685
Profit participation capital	413	413
Net present value of operating leases	1,161	1,261
Economic debt	6,619	6,213

Expenses from operating leases in FY 2018: €275m

Potential impact on Bertelsmann in FY 2019

	Figures	IFRS 16 impact	Details
P&L	Operating EBITDA	↗	• Depreciation charges and interest expense recorded instead of operating lease expense • Positive effect of approx. €250m - €260m
	Interest expense	↗	• Recognition of interest expense on the lease liability • Interest used to be implicitly included in IAS 17 operating lease expense until 2018
Balance sheet	Total Liabilities	↑	• Significant increase in liabilities due to initial recognition of lease liabilities of approx. €1.3bn
	Total Assets	↗	• Increase of approx. €1.2bn from initial recognition of right-of-use assets
	Equity	↘	• At transition, IFRS 16 allowed to capitalize rights of use assets at an amount lower than the lease liability (option exercised for individual real estate lease contracts); difference is adjusted against retained earnings
Cash Flow	Operating CF (Cash Flow Statement)	↗	• Lease payments are no more presented in operating CF
	Operating Free Cash Flow	→	• No impact; lease payments remain included in internal Operating Free Cash Flow
Further KPIs	Leverage Factor	→	• No impact, modifications amended in order to neutralize IFRS 16 related improvement of EBITDA
	Credit rating	→	• No impact on rating and related metrics expected

Q&A-Session

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