

Bertelsmann

Annual Results 2017

Investor Conference Call

March 27, 2018

Bernd Hirsch, Member of the Executive
Board and CFO of Bertelsmann



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Summary and highlights – Financial year 2017

Record operating performance

- ✓ **Revenues** up organically by 1.7 percent to €17.2bn
- ✓ **Operating EBITDA** up by 2.7 percent to €2.6bn, EBITDA margin of 15.3 percent
- ✓ **Group profit** up to €1.2bn, high quality of earnings maintained
- ✓ Revenue share of growth businesses increased to **32 percent**

Further progress in strategy implementation

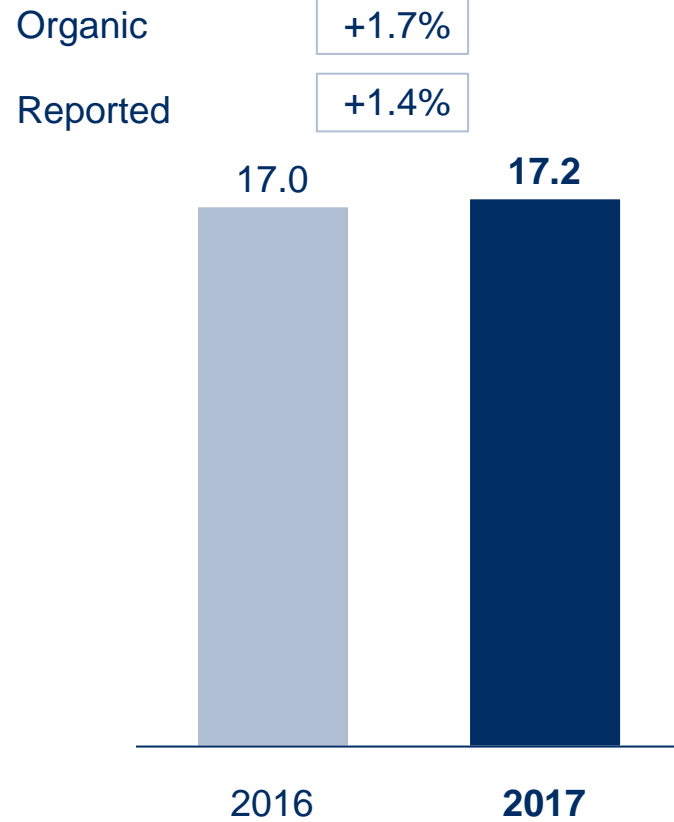
- ✓ **Strengthening the core**
Strategic majorities in all content businesses regained, strong market positions retained
- ✓ **Digital transformation**
Expansion of non-linear TV/Online video, Services for digital clients
- ✓ **Growth platforms**
Relevant markets are sizeable, provide significant growth opportunities, and exhibit structural tailwind from digitization e.g. for **online video, video production, music, E-Commerce, financial services and E-learning**
- ✓ **Growth regions**
40 new investments in start-ups, further expansion of global network

Sound financial position

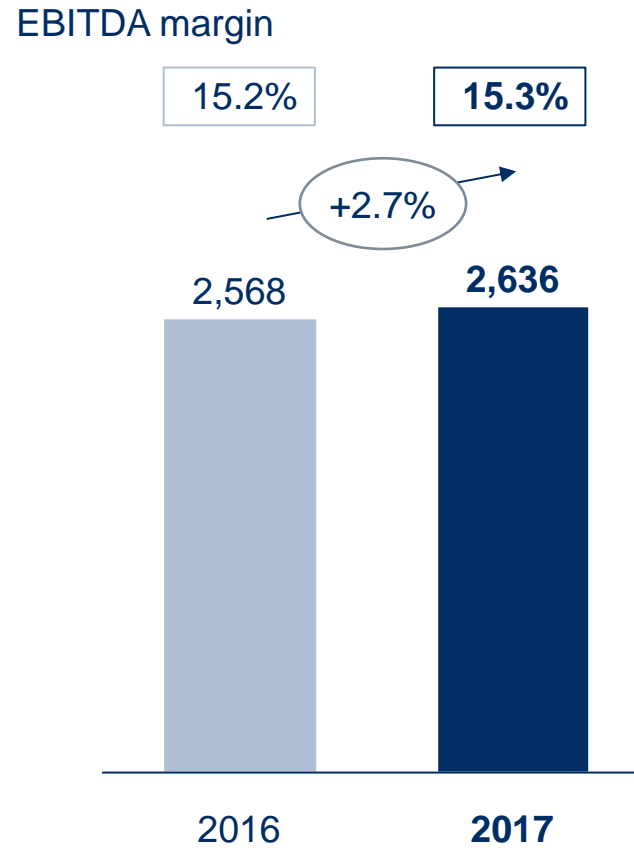
- ✓ **Solid equity ratio of 38.5 percent** despite reduction of equity due to PRH transaction
- ✓ **High cash conversion rate of 92 percent**, operating free cash flow above previous year
- ✓ **Leverage factor at 2.5x**, quick deleveraging, healthy maturity profile
- ✓ **Commitment** to prudent financial policy

Group key figures – Organic revenue growth, operating EBITDA at record level, Group profit above €1bn

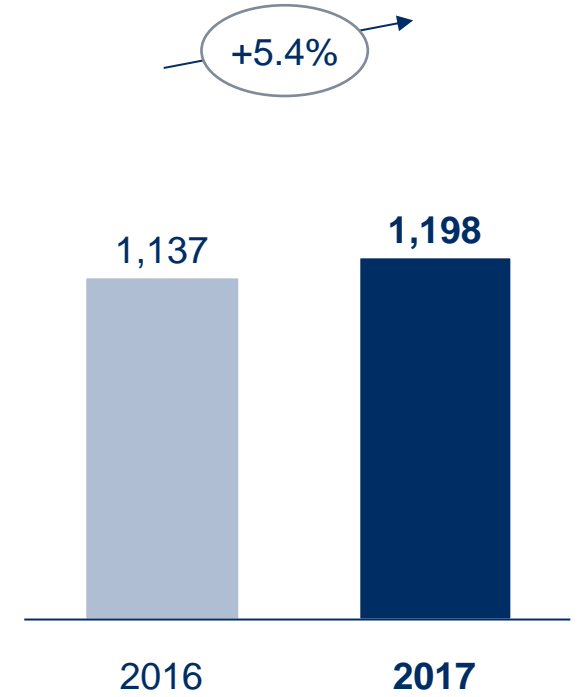
Revenues, in € billions



Operating EBITDA, in € millions



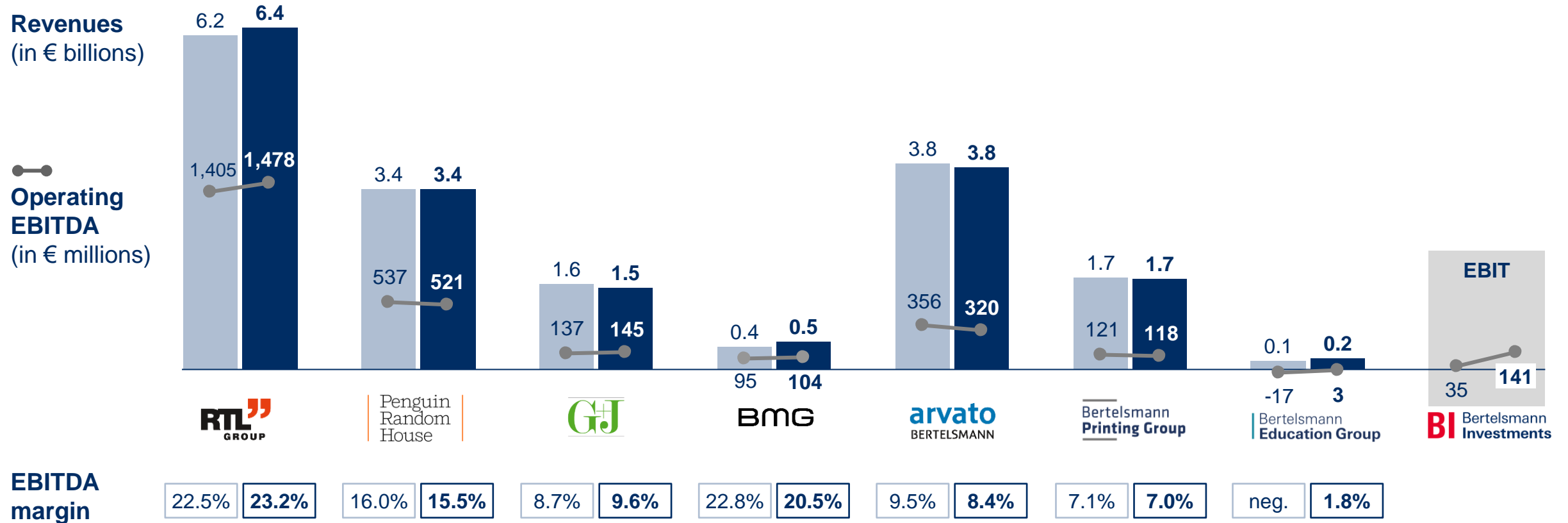
Group profit, in € millions



Divisions 2017 – Operating EBITDA increase at RTL Group, G+J, BMG and Education, higher EBIT contribution by Bertelsmann Investments

Continuing operations

2016 2017



Note: 2016 restated for Arvato and Bertelsmann Printing Group

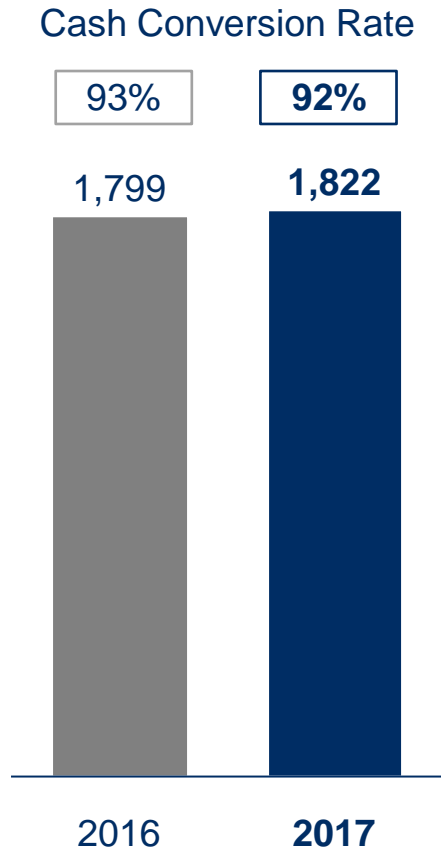
Group profit – Group profit up by 5.4 percent, despite higher taxes due to improved operating performance

in € millions

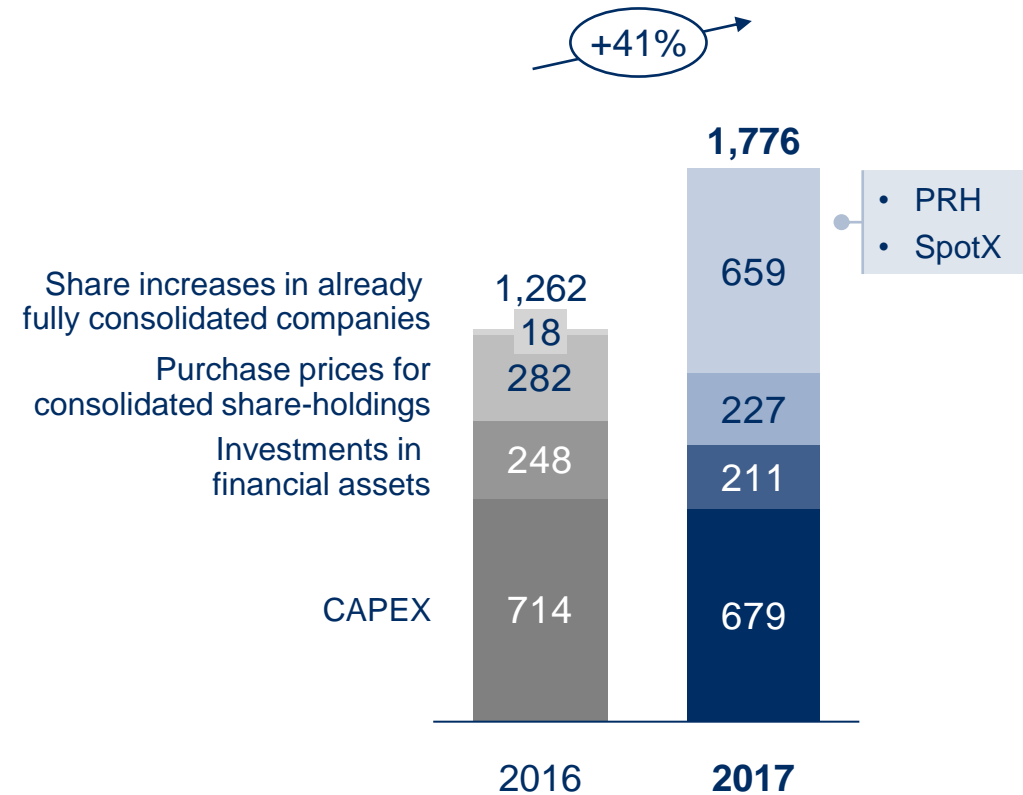
	2016	2017	Change	Commentary
Operating EBITDA	2,568	2,636	+68	Profitable growth
Depreciation & Amortization	(630)	(657)	-27	
Special items	(139)	(83)	+56	Special items reduced, benefiting from capital gains at BI
EBIT	1,799	1,896	+97	
Financial result	(244)	(219)	+25	Refinancing in 2017 at lower coupons
Income taxes	(419)	(472)	-53	Higher profits, burdens in connections with US tax reform
Earnings after taxes from discontinued operations	1	-7	-8	
Group profit	1,137	1,198	+61	High quality of earnings

Investments and free cash flow 2017 – High level of cash conversion rate maintained, total investments significantly above previous year

Operating Free Cash Flow, in € millions



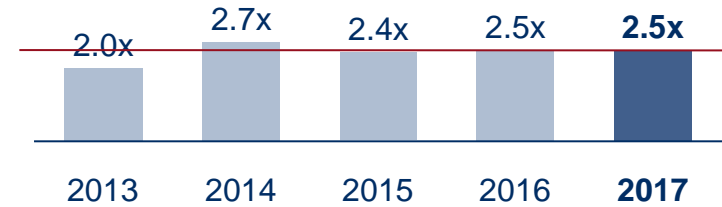
Economic investments, in € millions



Financial status – Leverage Factor in line with target, quick deleveraging after share increase in Penguin Random House

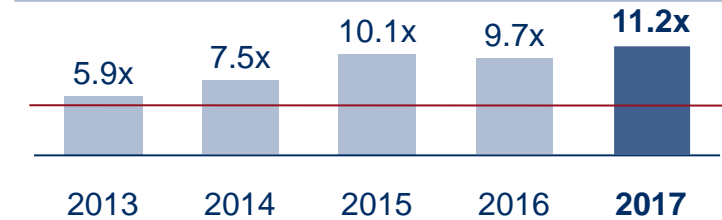
Leverage Factor ≤ 2.5x

$\frac{\text{Economic debt}}{\text{Operating EBITDA}^{1)}$



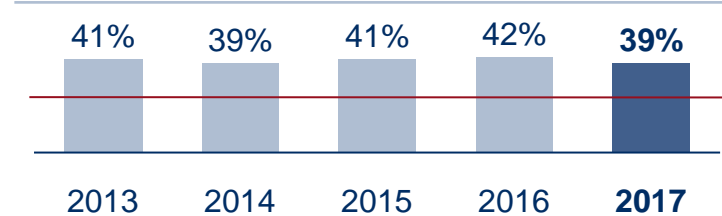
Coverage Ratio ≥ 4.0x

$\frac{\text{Operating EBITDA}}{\text{Financial result}^{1)}$

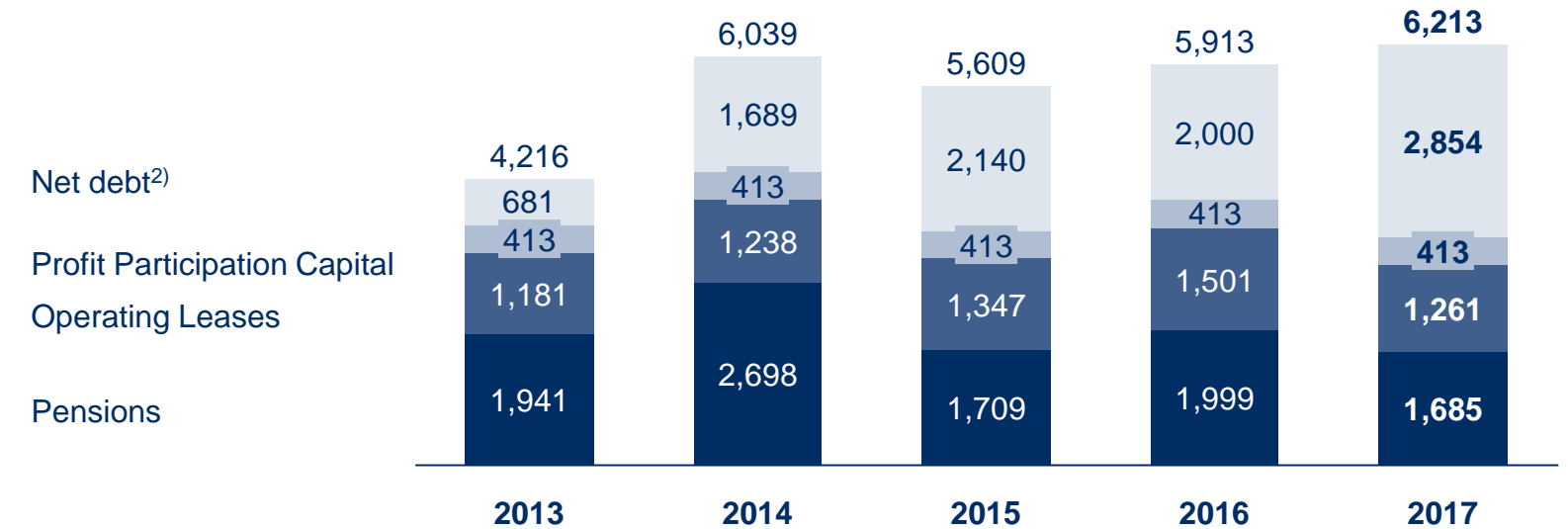


Equity Ratio ≥ 25%

$\frac{\text{Equity}}{\text{Total assets}}$



Economic debt (in € millions)



Credit Rating



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

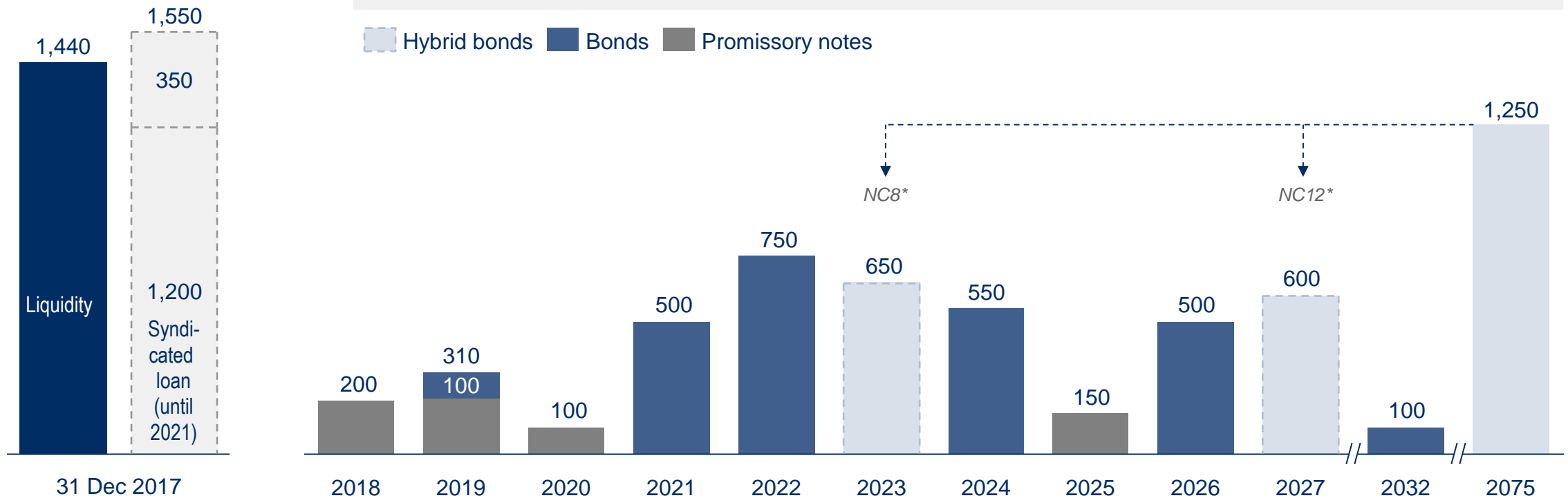
Capital markets financing – Sound financial position, maturity profile extended in 2017, next smaller amount not due until June 2018

in € millions

Financing activities in FY 2017

- Placement of €500m bond, term 4 years, May
- Placement of €50m bond, term 7 years, in July
- Placement of €150m promissory note, term 1.5 years, in August

Hybrid bonds Bonds Promissory notes



*For illustrative purposes only.

Group strategy – Strategic framework since 2012

Megatrends



Digitization



Automation/
artificial intelligence



Global growth
disparities



Demographic
change



Health



Education

Strategic priorities

1

Strengthening the core

2

Digital transformation

3

Growth platforms

4

Growth regions

Target portfolio

- Higher growth
- More digital
- More international
- More diversified

**Financial
performance**

Group strategy – Further progress in strategy implementation, clear priorities for upcoming years, gradual shift from M&A to organic growth and operating investments




1

Strengthening the core

Strategic priorities

Improve **competitive positioning** and **profitability** of core businesses, actively drive **market consolidation**


Examples

- Integration of RTL Radio France and Groupe M6

- Share increase to 75% in Penguin Random House

- Acquisition of Ediciones B

- Streamlining of G+J portfolio

2

Digital transformation




Build up and expand **digital businesses**

- RTL Group digital revenues of €826m as of 2017 (+23% above 2016)
- Share increase to 100% in SpotX, integration of ad tech stack

- PRH with strong growth in audio books and progress in building direct reader relationships

3

Growth platforms

Expand **scalable growth platforms** organically and through acquisitions

- Fremantle Media building up drama business (e. g. American Gods)

- BMG with organic growth and acquisitions; building up of production music business

- Synergistic buy-and-build acquisitions at Relias


4

Growth regions

Internationalize existing businesses further and expand fund investments in growth economies (especially **BIC**)

- 160+ participations worldwide; Significant contribution to Group profit

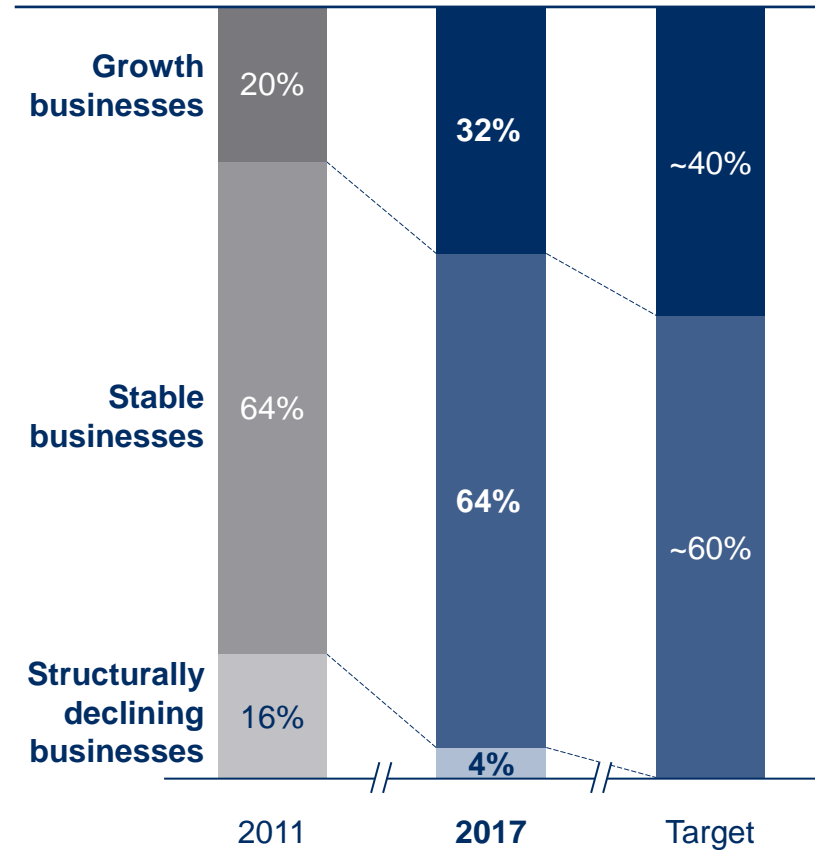
- Share increase of AFS in

- Expansion of education business in Brazil in cooperation with Bozano

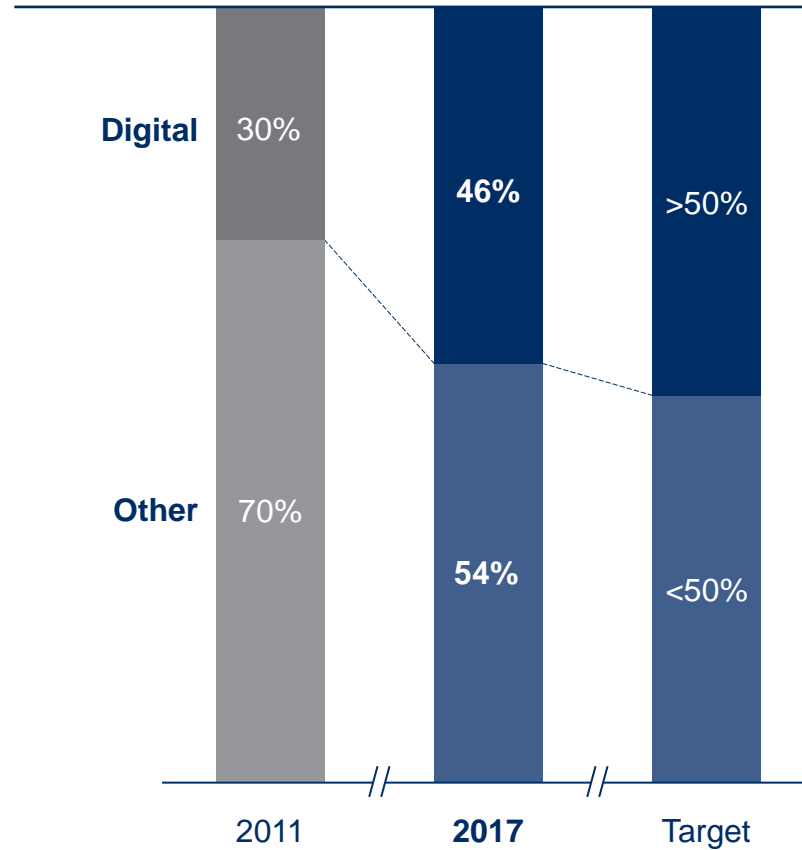

Group strategy – Progress towards target portfolio

Share of Group revenues in %

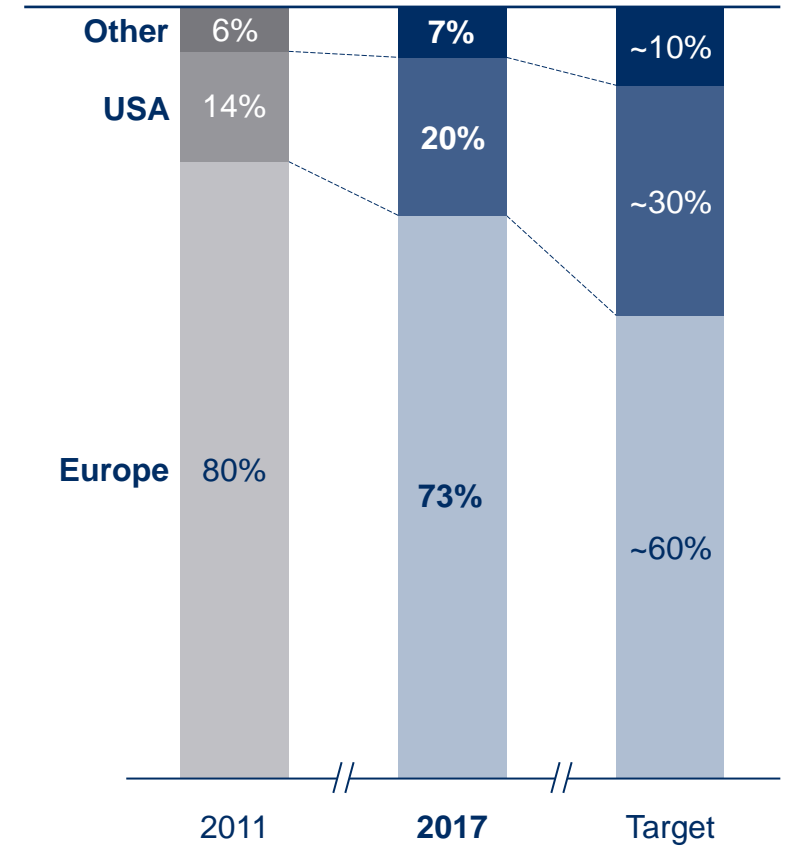
Higher growth



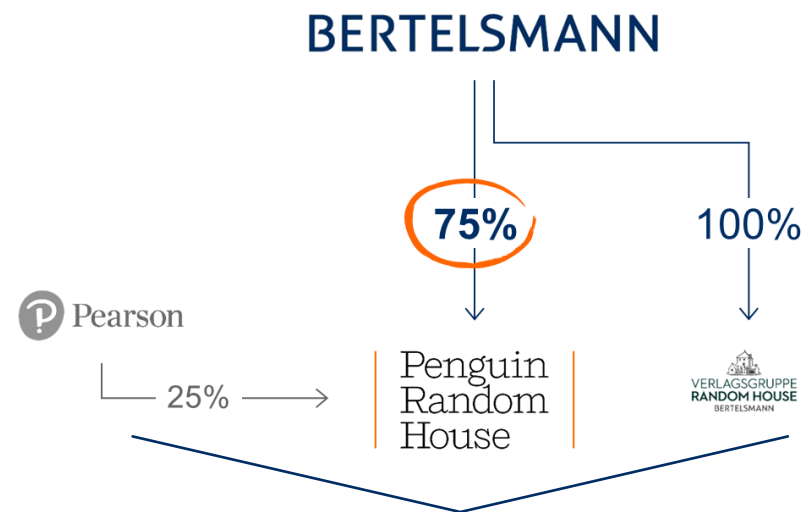
More digital



More international



Portfolio changes – Share in Penguin Random House increased from 53% to 75%, Evaluation of strategic options for Arvato CRM Solutions



Strategic and economic rationale

- Appropriate valuation, with purchase price payment for 22 percent interest amounted to €505m, plus special dividend distribution of €373m which was paid in FY 2017
- Reduced dividend leakage going forward improves financial profile, increase in earnings attributable to Bertelsmann shareholders by more than €60m annually
- Strategic majorities in all divisions achieved

arvato | CRM Solutions
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Status quo¹⁾

- Growing, profitable business
- Revenues €1bn
- 36,000 employees
- 90 locations in 19 countries
- Leading positions, e.g. in Germany

Rationale

- Significant investment requirements ahead
- Alternative investment options: eight growth platforms with higher investment priority

Envisaged outcome

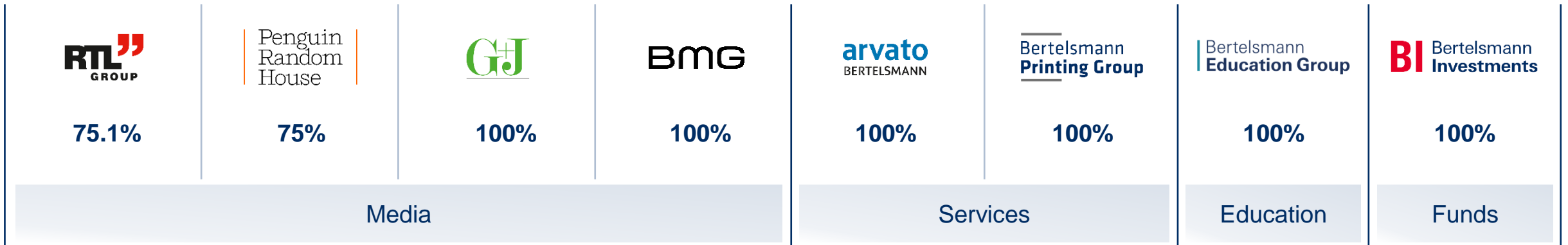
- Evaluation of strategic options:
 - Sale (without France)
 - Partial sale
 - Partnerships
- Closing in second half of 2018

1) Figures without France

Outlook 2018 –

Balanced portfolio with eight divisions, continued profitable growth expected

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Market development

- Macroeconomic tailwind despite increasing political uncertainty
- Mixed market conditions

Business development

- Revenues increase accelerated
- Continued high operating profitability
- Group profit to remain in excess of €1bn

Q&A-Session

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