

# Annual Press Conference<sup>2017</sup>

March 28, 2017

# Successful financial year 2016 – Operating EBITDA at record high, further progress towards target portfolio

## Business performance

- **Organic growth**, revenues €17.0bn
- **Operating EBITDA** of about €2.6bn at record level
- **Group profit** again exceeding **€1bn**

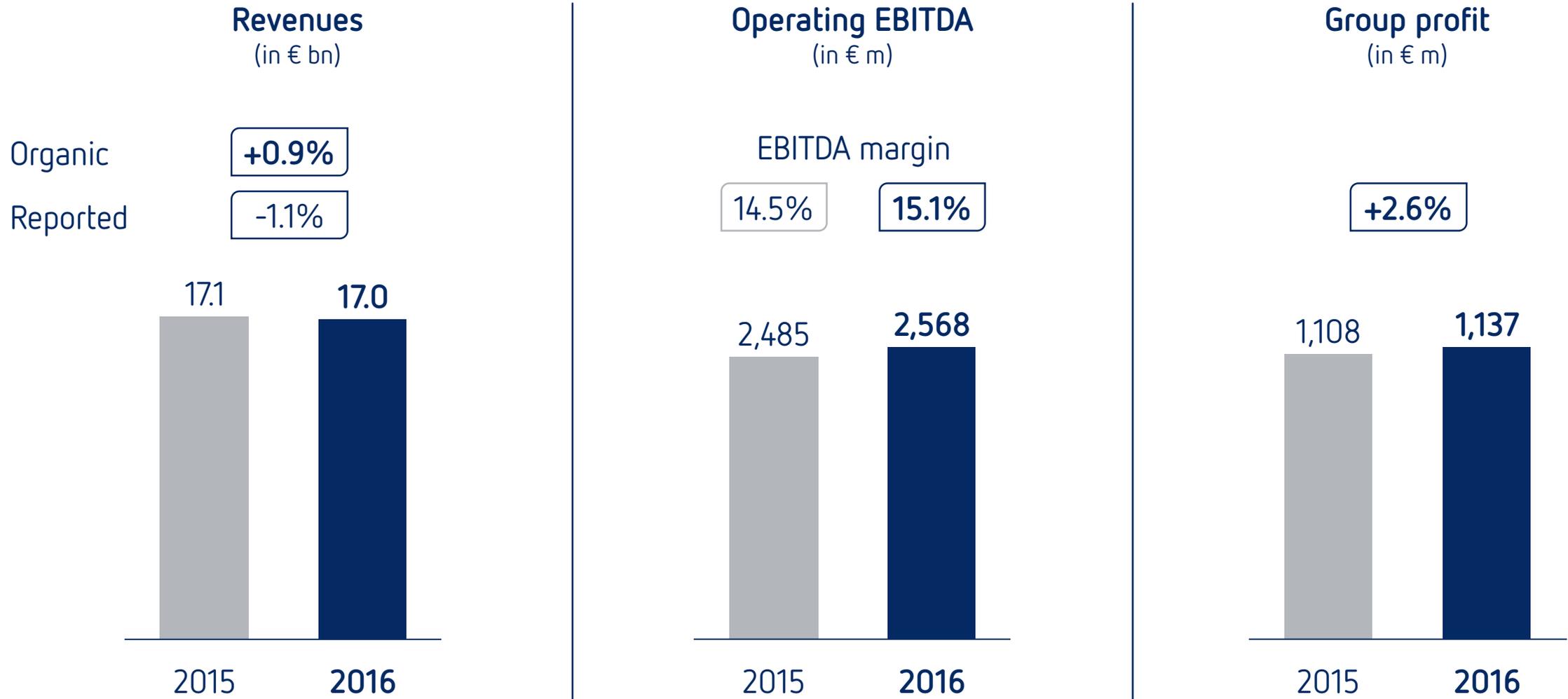
## Strategy implementation

- Significant progress on all **strategic priorities**
- Further **investments in digital and growth businesses**
- Bertelsmann exhibits **higher growth** and becomes **more digital, more international** and **more diversified**

# Business performance 2016

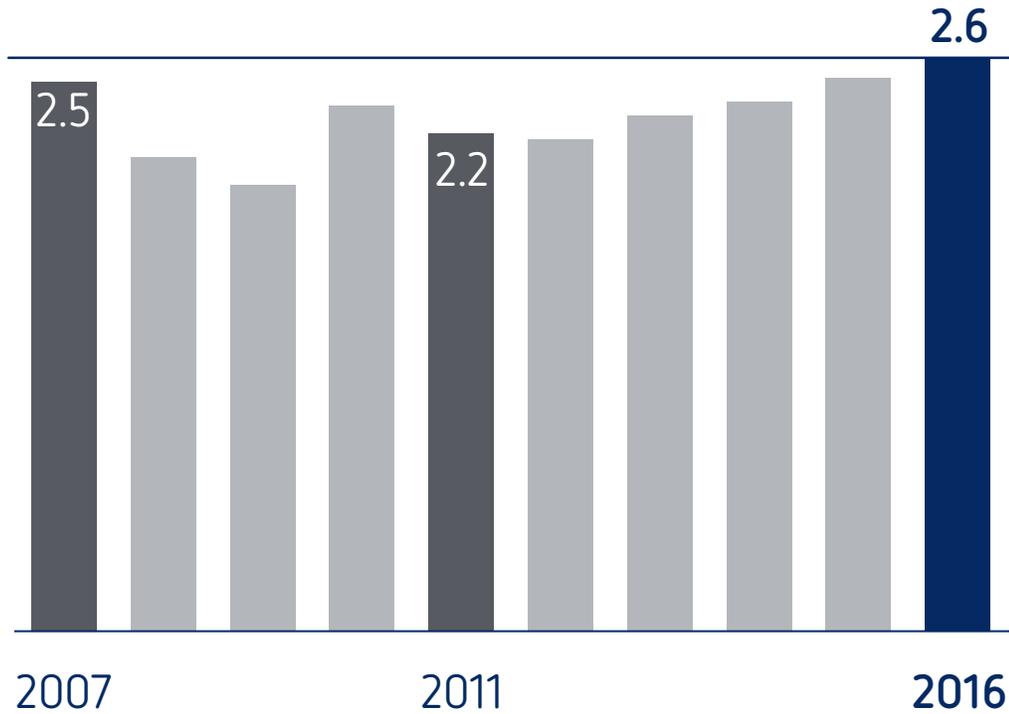


# Group key figures – Organic revenue growth, significantly improved EBITDA, Group profit exceeding €1bn

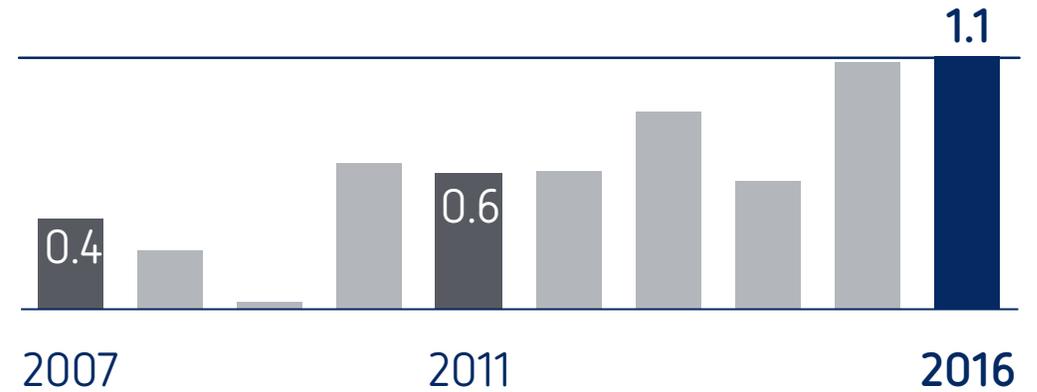


# Long-term earnings development – Operating EBITDA at record level, highest Group profit in 10 years

**Operating EBITDA**  
(in € bn)



**Group profit**  
(in € bn)



## Group profit – Above prior year despite higher income tax expense

in € m	2015	2016
<b>Operating EBITDA</b>	<b>2,485</b>	<b>2,568</b>
Depreciation and amortization	-613	-630
Special items	-191	-139
<b>EBIT</b>	<b>1,681</b>	<b>1,799</b>
Financial result	-230	-244
Income taxes	-346	-419
Earnings after taxes from discontinued operations	+3	+1
<b>Group profit</b>	<b>1,108</b>	<b>1,137</b>

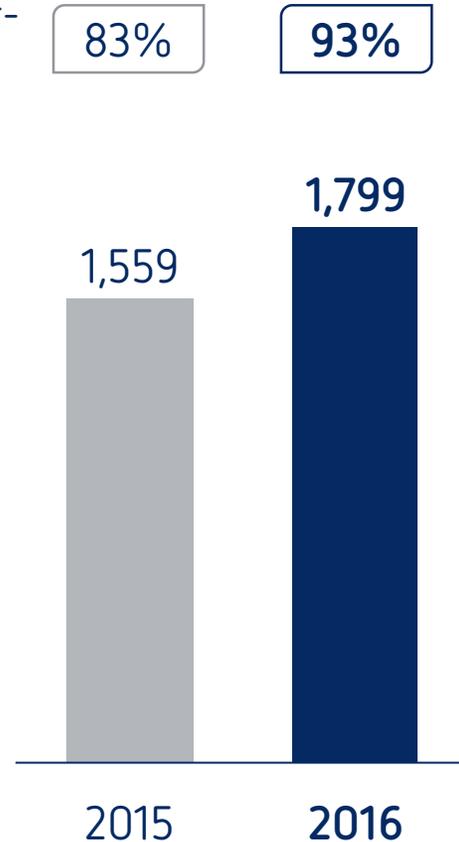
### Major effects

- Further increase in operating EBITDA primarily due to TV, music and services businesses
- Lower burden from special items due to further improvement of portfolio profile and increased capital gains from fund activities
- Higher tax burden due to improved operating result and positive one-off effects in prior year

# Financial position – High operating free cash flow, strengthened equity base, leverage factor within target corridor

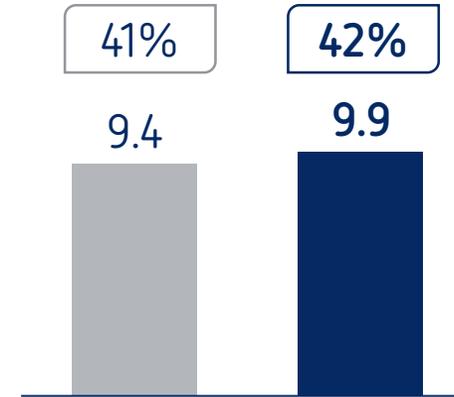
## Operating free cash flow (in € m)

Cash conversion rate



## Equity (in € bn)

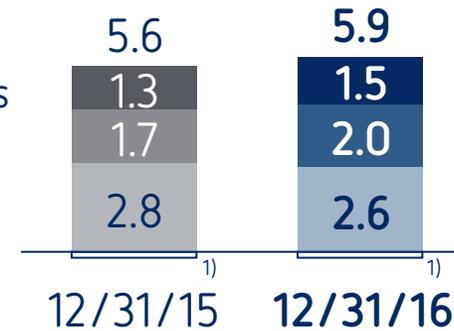
Equity ratio



## Economic debt (in € bn)

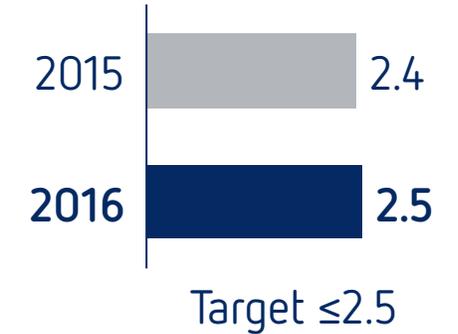
Present value operating leases  
Provisions for pensions

Net financial debt



1) Profit participation capital,  
equity credit hybrid bonds

## Leverage Factor



## Ratings

MOODY'S  
INVESTORS SERVICE

Baa1, stable

S&P Global  
Ratings

BBB+, stable

# Media businesses (1/2) – RTL Group with record operating EBITDA, Penguin Random House affected by market factors

## Growth

Organic

Reported

+3.2%

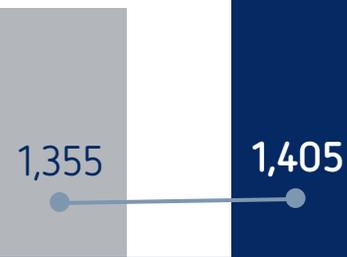
+3.5%



## Revenues

(in € m)

6,029      6,237



Op. EBITDA

(in € m)



EBITDA margin

22.5%

22.5%

- Record earnings at Mediengruppe RTL Deutschland, Groupe M6
- Viewership record in France due to EURO 2016
- Successful productions (e. g. The Young Pope)
- Expansion digital advertising sales (e. g. acquisition Smartclip)

## Growth

Organic

Reported

-3.9%

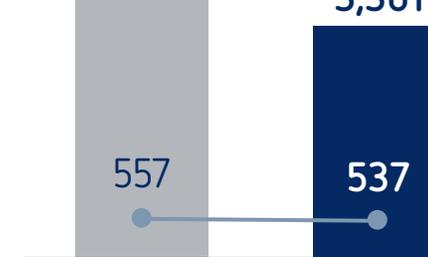
-9.6%

Penguin  
Random  
House

## Revenues

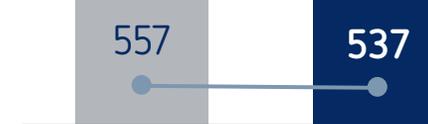
(in € m)

3,717      3,361



Op. EBITDA

(in € m)



EBITDA margin

15.0%

16.0%

- Exchange rate and portfolio effects, changed e-book sales terms
- Leading market positions in core and emerging markets
- Numerous bestsellers (e. g. 585 "New York Times" bestsellers)
- Various literary awards (including three Pulitzer Prizes)

# Media businesses (2/2) – Gruner + Jahr with EBITDA increase, BMG with significant growth

## Growth

Organic

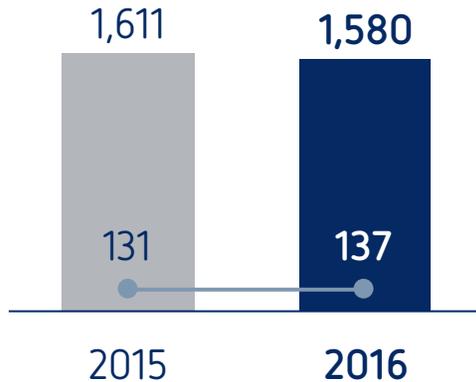
Reported

-1.3%  
-1.9%



## Revenues

(in € m)



## Op. EBITDA

(in € m)

## EBITDA margin

8.1%      8.7%

- Digital growth exceeds decline in print advertising revenues
- Earnings and margin increase despite ongoing transformation
- G+J Germany with revenue growth
- Focus on core markets through portfolio measures

Note: 2015 restated

## Growth

Organic

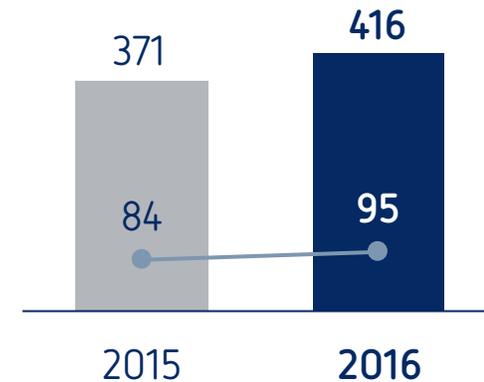
Reported

+12.8%  
+12.2%



## Revenues

(in € m)



## Op. EBITDA

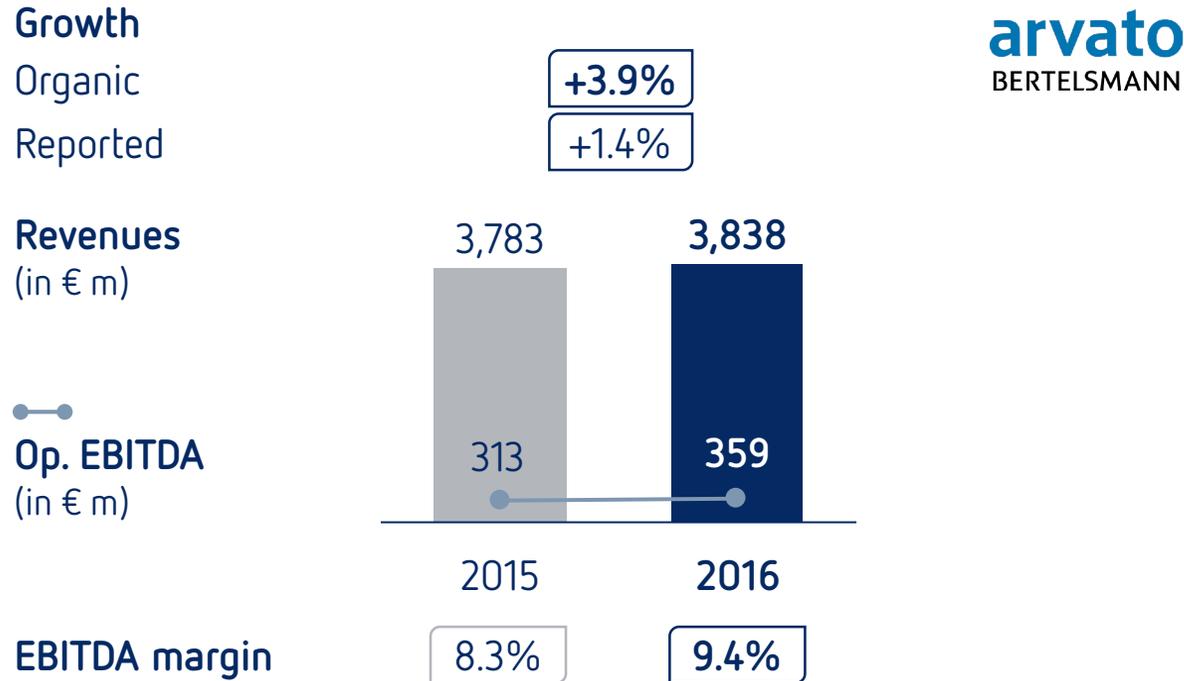
(in € m)

## EBITDA margin

22.6%      22.8%

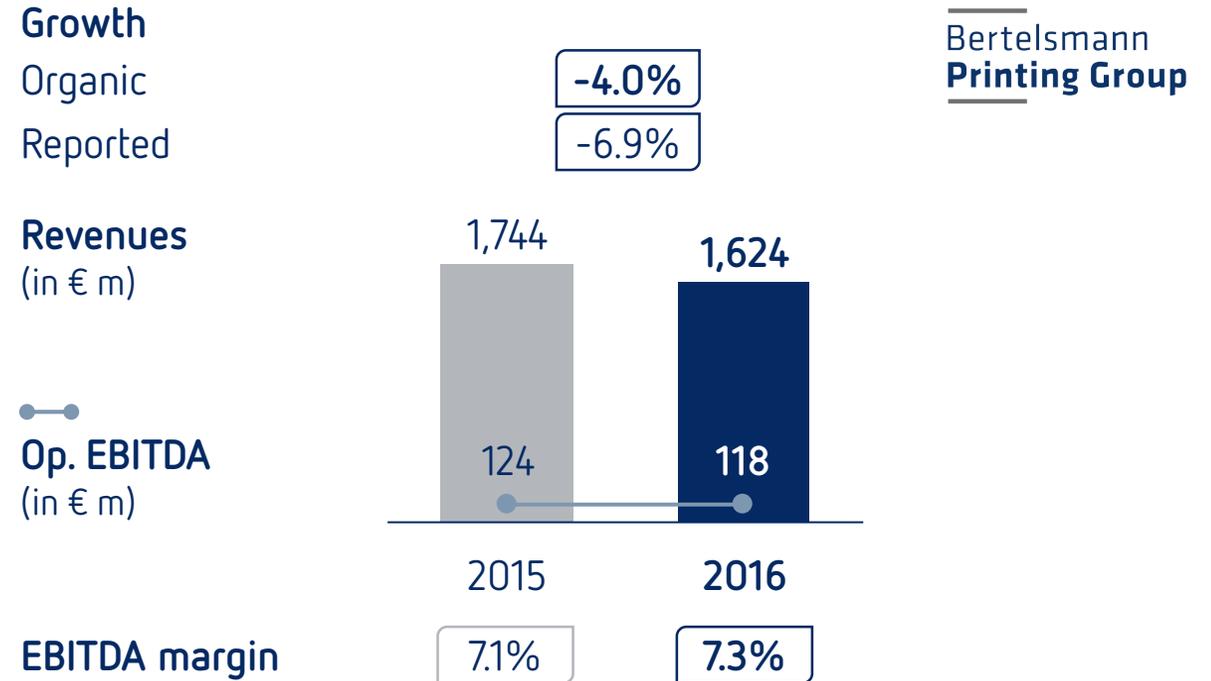
- Growth driven by further catalog purchases and acquisitions
- Various signings with artists/composers and creative successes
- Significant increase in streaming revenues
- International expansion and development of partnerships

# Services businesses – Revenue and earnings increase at Arvato, robust development of Bertelsmann Printing Group



- CRM Solutions: International business expansion, new customers
- SCM Solutions: Expansion logistics network and growth industries
- Financial Solutions: Positive business development, innovation
- Systems: Focus on industries commerce, media and utilities

Note: 2015 restated



- Revenue decrease due to divestments and market decline
- Earnings remaining at high level due to efficiency measures
- Print: Extension of existing customer contracts, new customers
- Replication: Sales successes and UHD Blu-ray production

# Education and fund businesses – Strong growth at Education Group, Bertelsmann Investments successful innovation platform

## Growth

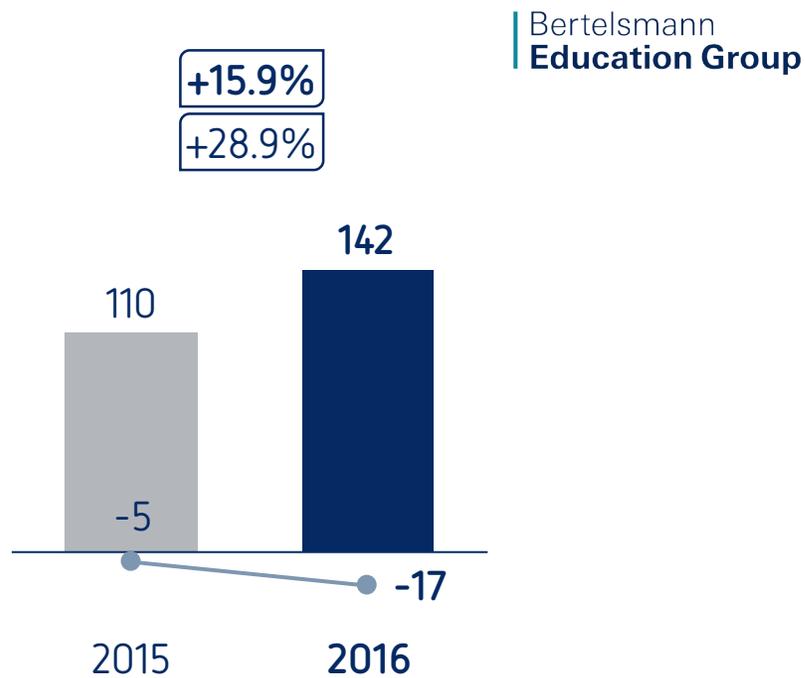
Organic  
Reported

## Revenues

(in € m)

## Op. EBITDA

(in € m)



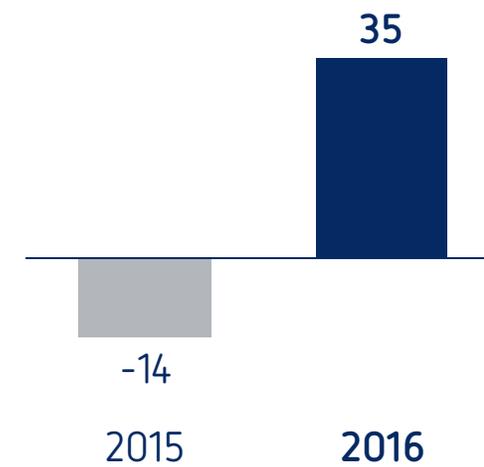
- Relias Learning: Expansion via organic growth and acquisitions
- Udacity: New nanodegrees, international expansion
- HotChalk: Strengthening of partnerships with US universities
- Alliant: Continued transformation

Note: 2015 restated

**BI** Bertelsmann Investments

## EBIT

(in € m)



- 43 new and several follow-on investments
- Investments e. g. in fintech, online services and VR
- Successful exits, significant positive EBIT contribution
- Trendscouting for the Group

# Strategy implementation



# Group strategy – Strategic framework

## 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 – Strategic framework

## Strategic priorities

- 1 Strengthening the core
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## Target portfolio

Higher growth  
More digital  
More international  
More diversified

Financial  
performance

# 1 Strengthening the core – World's largest trade book publisher

## Leading market positions

15,000  
new titles annually

with  
250  
imprints

2m  
books sold each day

in more than  
100  
countries

## Global strategic principles



Author-focused

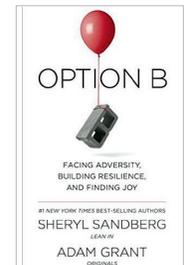
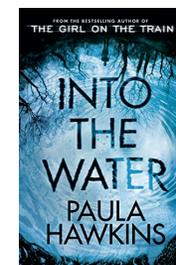
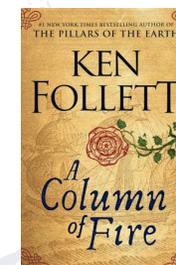
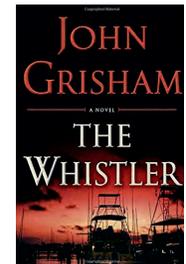
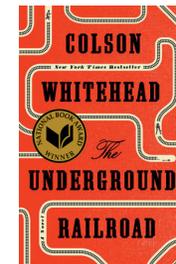
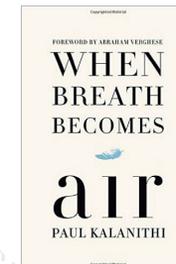
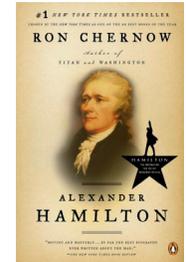
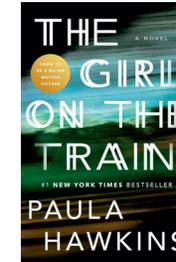


Service-oriented



Reader-centric

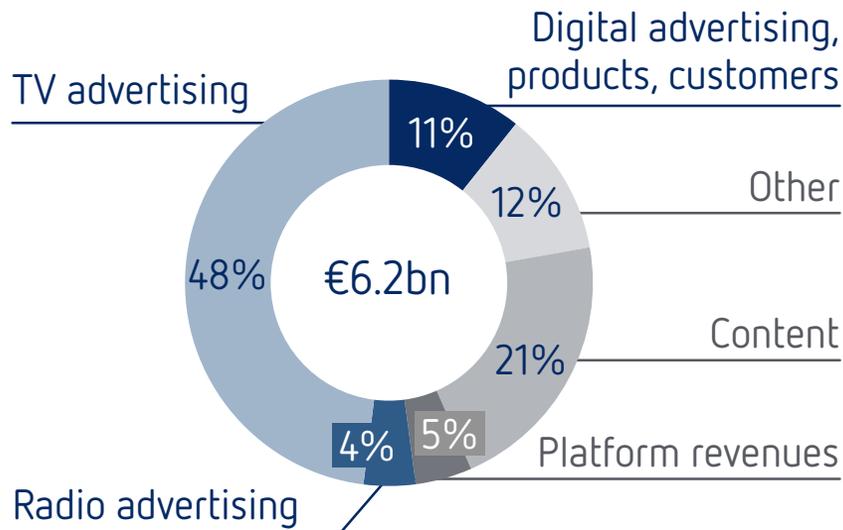
## Strong bestseller performance



# Digital transformation – Main driver of revenue diversification

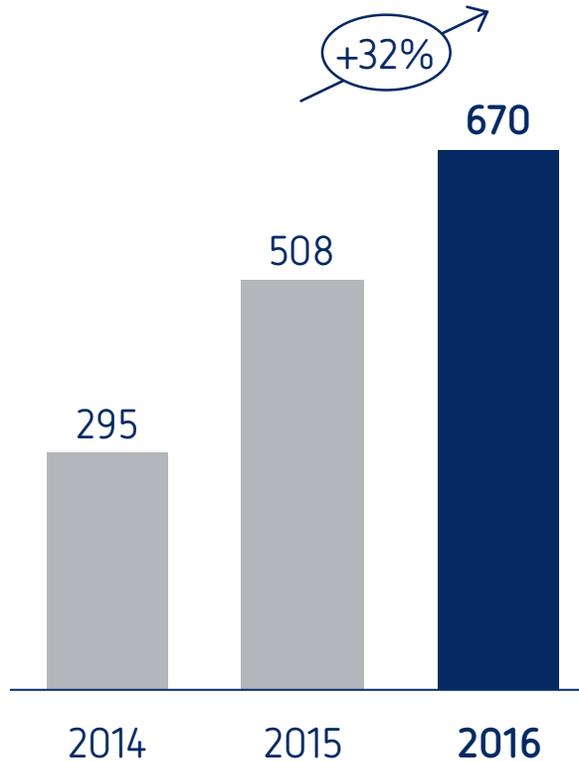
## Further diversification of revenue base

Revenue split 2016



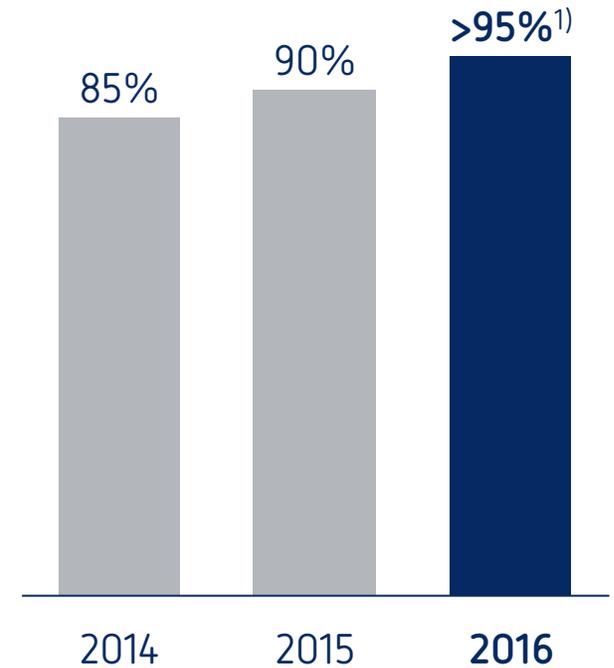
## Growth with digital advertising, products and customers

Revenues (in € m)



## Increasing digital distribution in European core markets

Share of digital TV signal distribution



1) Estimate

# 2 Digital transformation – Strong position across all parts of video value chain



## Growing exclusive content

Locally produced programs of TV channels with full stack of distribution rights



Fremantle Media with productions for linear and non-linear offerings



Original online content



## Distributed to all platforms

Leading catch-up TV services in Europe



Leading global multi-channel network on YouTube<sup>1)</sup>



## Monetization via leading ad stack

Leading TV sales houses in Europe



Among Top 5 global video ad exchanges



Germany's leader in addressable TV



Experts in programmatic TV and cross-screen ad buying



1) According to comScore in December 2016

## Growth platforms – Investments in innovation and international expansion

### Arvato SCM Solutions

#### Growth

- E-Commerce for consumer products
- Healthcare
- Hightech

#### Innovation

- Omni-channel
- Digital agency services
- Business intelligence

#### Internationalization

- New sites in the US, the Netherlands, France, Poland
- Growth with international clients

### Arvato Financial Solutions

- Risk management
- Payment solutions
- Receivables management

- SaaS offerings
- Credit assessment for digital B2B marketplaces

- Step-up of investment in Intervalor in Brazil
- Internationalization of product portfolio

### Select clients



Beiersdorf

s.Oliver



DB

Telefonica

ESPRIT

zalando

INDITEX

ZURICH

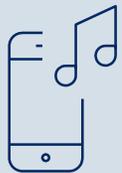
## Growth platforms – Expansion of BMG through organic growth and acquisitions

### Organic growth

#### New artists



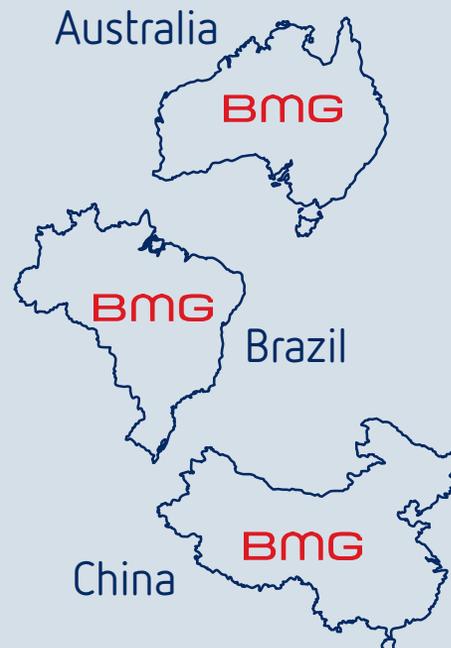
Market growth esp.  
through streaming



### Investments



### Market entries and expansions



### Creative and commercial successes

19 Grammys (US)

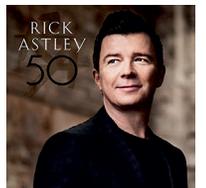
19 Echos (GER)

12 BUMA awards (NL)

1 Sanremo award (IT)



“50” by Rick Astley  
#1 album in UK



“California” by Blink-182  
#1 album in US and UK



## Growth platforms – Innovative online education offerings with global potential

RELIAS LEARNING

E-learning  
in the healthcare sector

UDACITY

E-learning  
in the technology sector

HotChalk

Online services for universities

Alliant  
International  
University

Higher education

### Further expansion Relias Learning

Platform acquisition

RELIAS  
LEARNING

Internationalization



2014

2015

2016

2017

redilearning™  
Transforming Senior Care Education

ais  
Assessment &  
Intelligence Systems

CMT  
Care Management Technologies

AHC Media

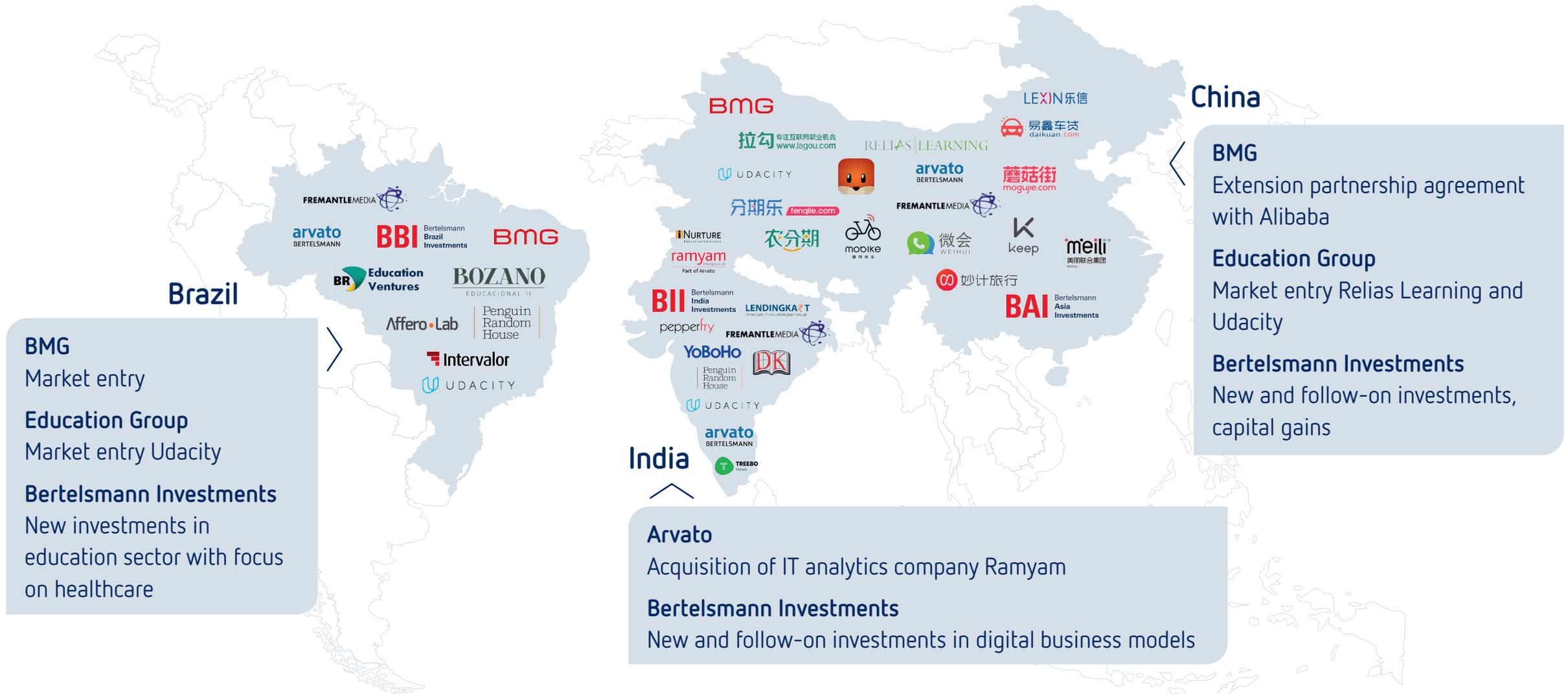
Swank HealthCare  
A Relias Learning Company

Expansion of core business

Entry into adjacent segments

Significant  
double-digit  
revenue growth

# Growth regions – Expansion of existing activities, additional investments in digital and education businesses





# Group strategy – Further progress in implementing HR strategy



## Learning

Digital learning portfolio with more than 10,000 online courses



## Digitization

More than 80,000 employees in 31 countries with access to online platform peoplenet



## Talent Management

Internal placement rate of 80% in Top and Senior Management



## Sense of Purpose

To Empower. To Create. To Inspire.



## Corporate Responsibility

Business-related initiatives in accordance with stakeholder interest



## Employee Survey

Participation rate of 89% worldwide

# Group strategy – Strategic framework

## Strategic priorities

- 1 Strengthening the core
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- 4 Growth regions

## Target portfolio

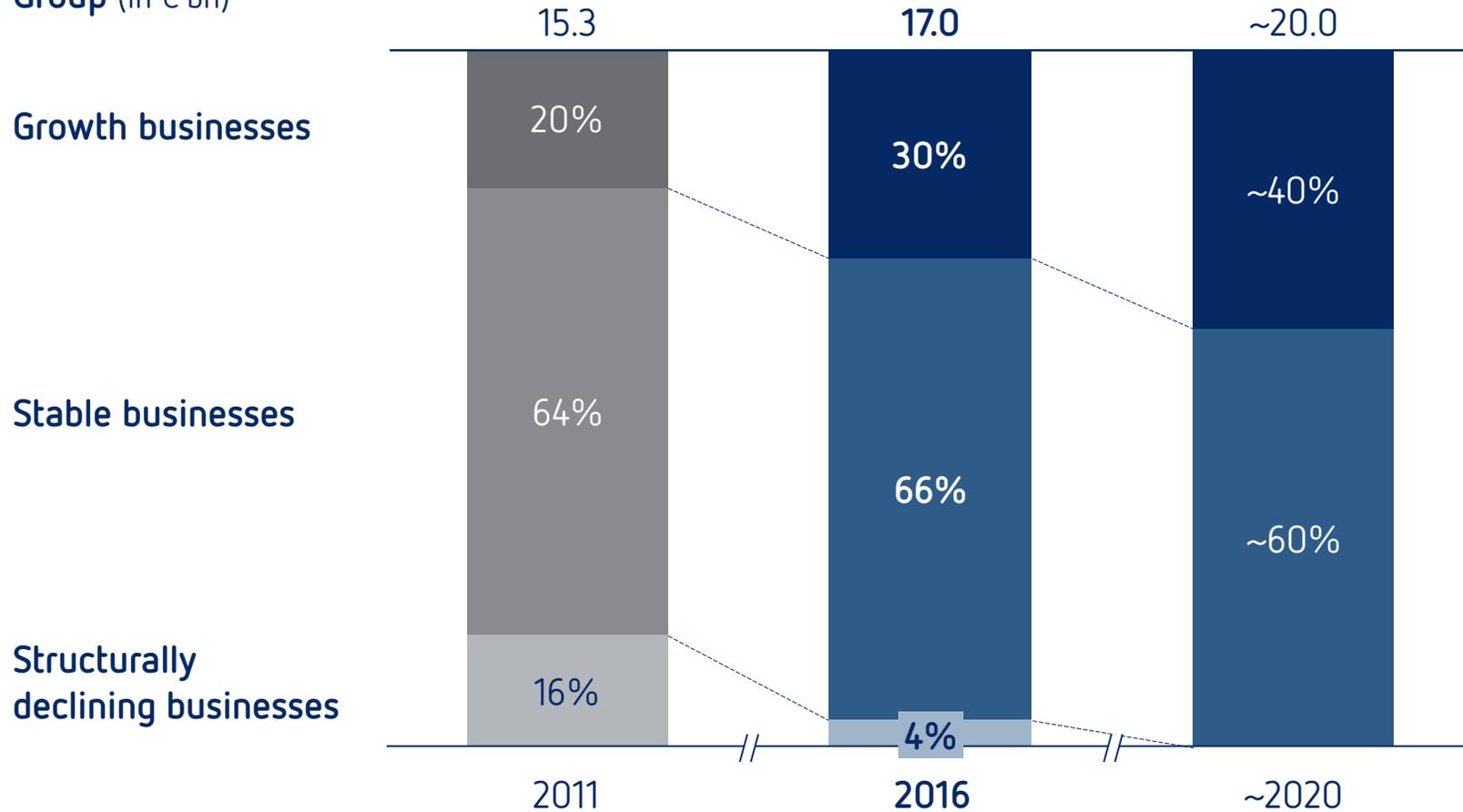
Higher growth  
More digital  
More international  
More diversified

Financial  
performance

# Group strategy: target portfolio – Higher growth

Share of Group revenues in %

Group (in € bn)



Increasing revenue share of **growth businesses**:

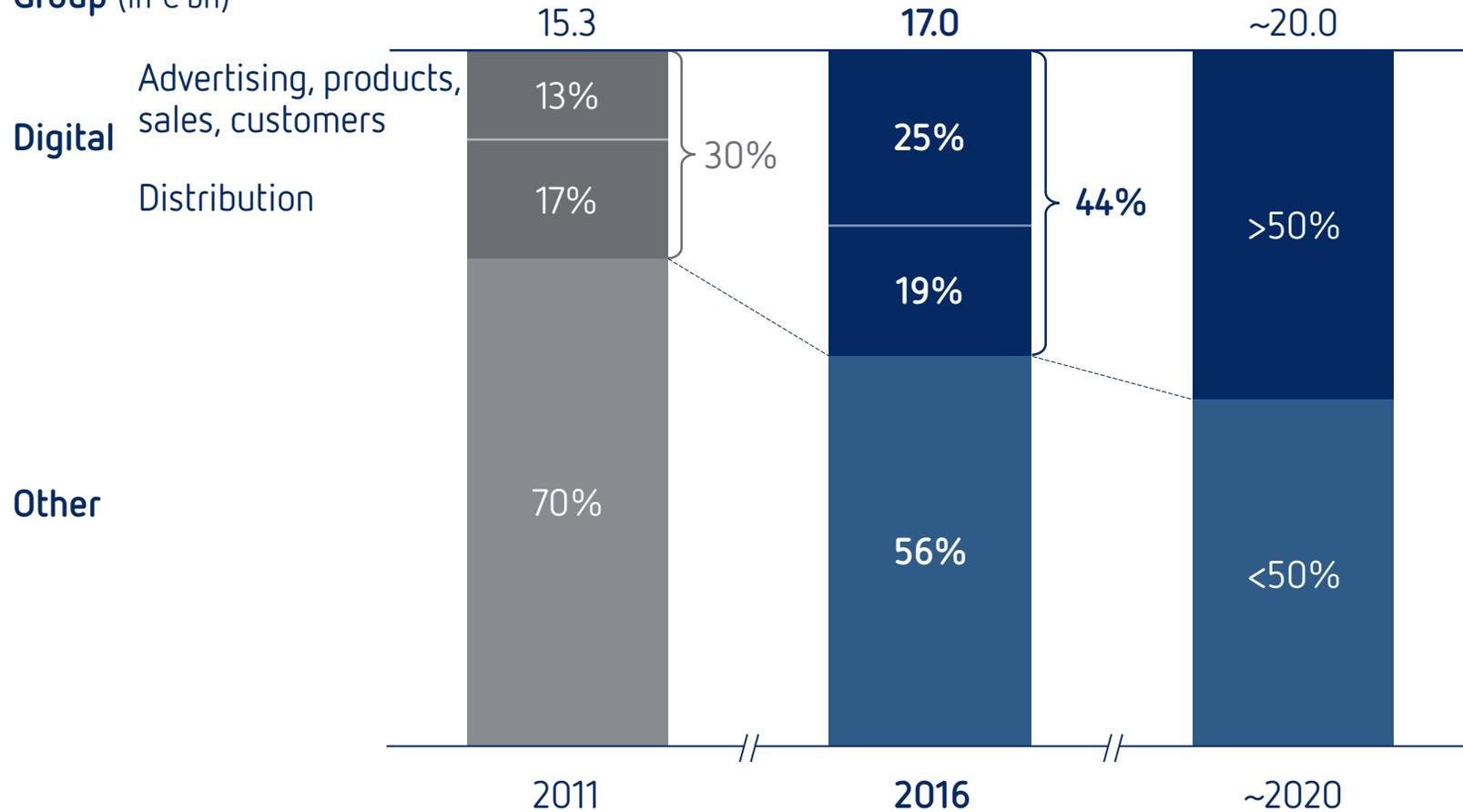


Organic revenue increase of growth businesses 2016: **6%**

# Group strategy: target portfolio – More digital

Share of Group revenues in %

Group (in € bn)



Digital revenues 2016 (in € bn)	Growth since 2011	
Advertising	0.6	3.4x
Products	1.5	2.4x
Sales	0.8	2.1x
Customers	1.3	1.6x
Distribution	3.2	1.2x
<b>Group</b>	<b>7.4</b>	<b>1.6x</b>

# Group strategy: target portfolio – More international

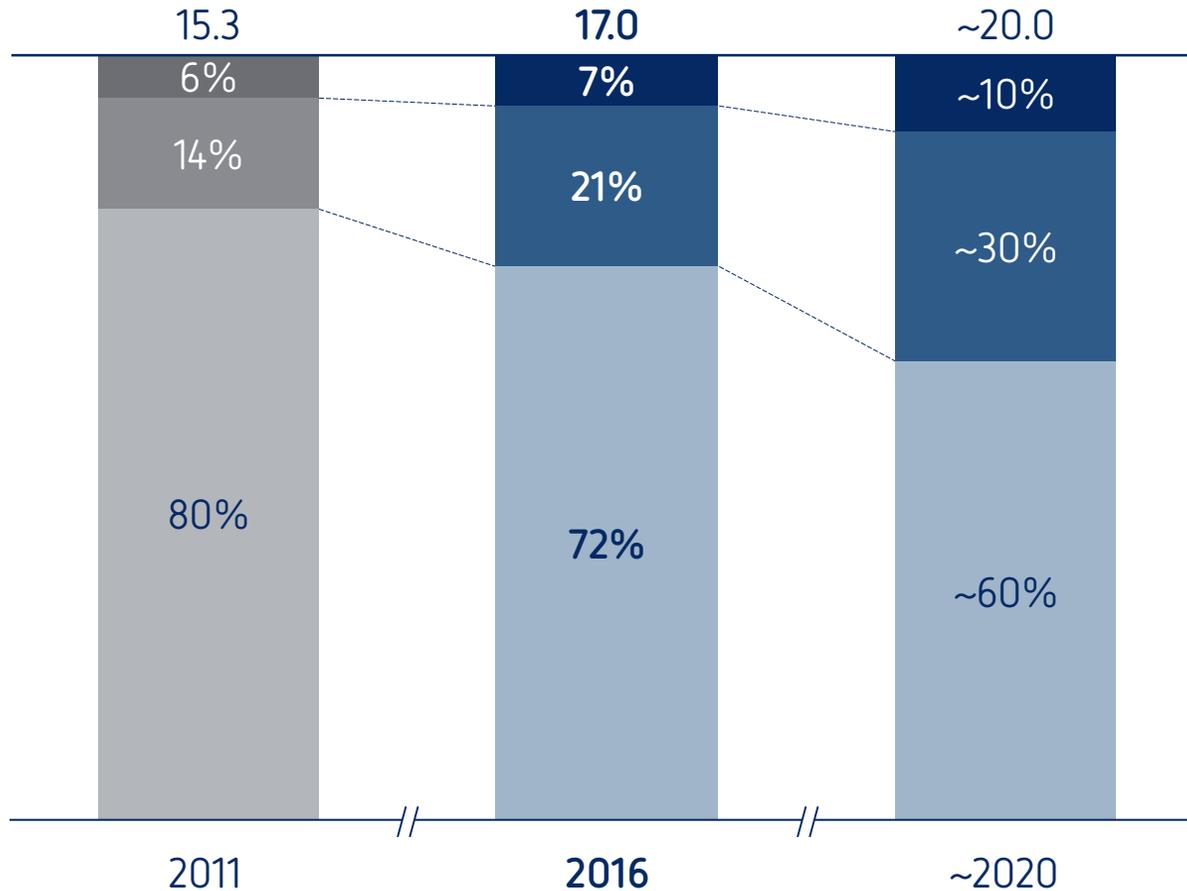
Share of Group revenues in %

Group (in € bn)

Other countries

US

Europe



- Increased focus on countries with higher growth potential
- Revenues outside of Europe increased by more than 50% since 2011
- Expansion of US activities via organic growth and acquisitions along all three pillars  
Media | Services | Education

# Group strategy: target portfolio – More diversified

2011

BERTELSMANN



2016

BERTELSMANN

Media



Penguin  
Random  
House



BMG

Services



Bertelsmann  
Printing Group

Education

Bertelsmann  
Education Group



# Group strategy – Strategic framework

## Strategic priorities

- 1 Strengthening the core
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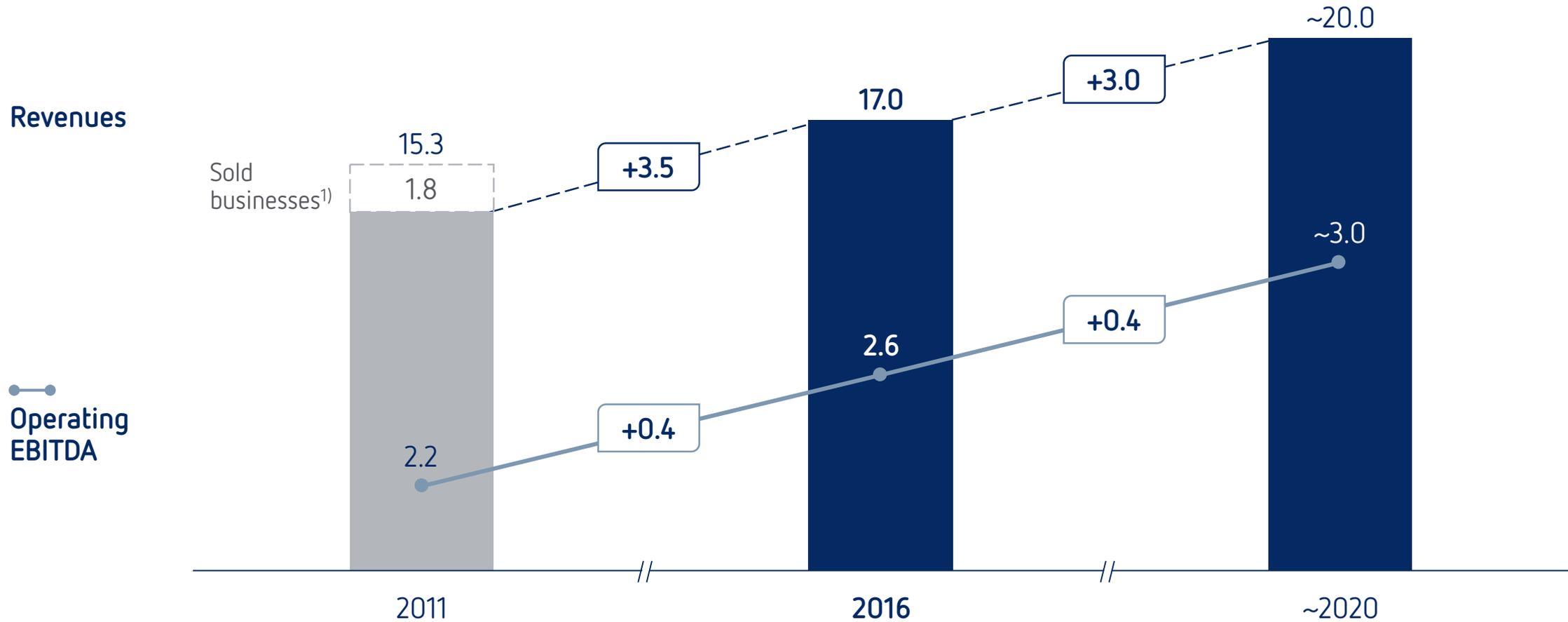
## Target portfolio

Higher growth  
More digital  
More international  
More diversified

Financial  
performance

# Group strategy: financial performance – Significant revenue and operating EBITDA growth despite divestments

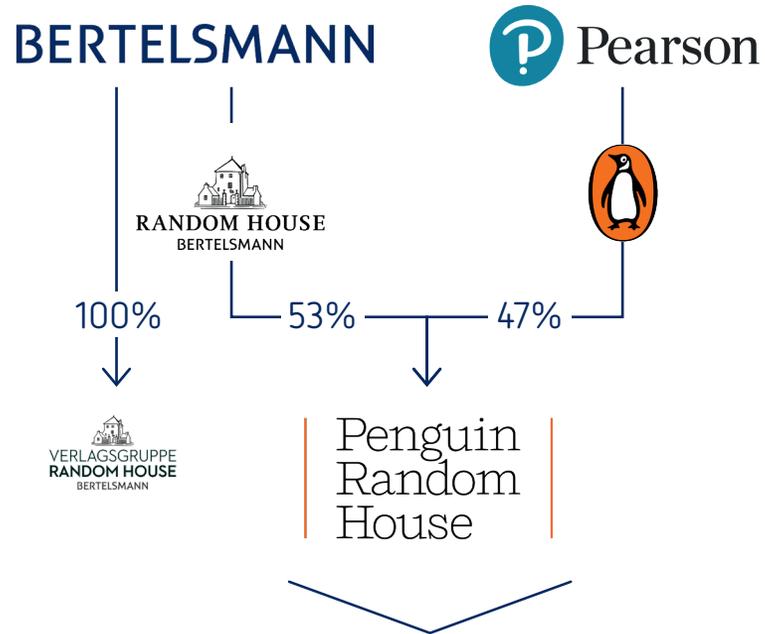
in € bn



1) Including effects from IFRS 11 changes

# Penguin Random House – Successful combination, Bertelsmann open to increase its stake

## Combination (06/2013)



Objectives of the combination:  
**Integration, innovation, internationality**

## Integration (2013–2016)

- Entrepreneurial and creative success story:
  - Expansion of leading market positions in core and emerging markets
  - Creative successes
- Integration completed successfully:
  - Significant synergies
  - Strong operating performance

## Possible stake increase (2017+)

- Book publishing business creating sense of identity for Bertelsmann for more than 180 years, oldest core business
- Open to increase stake, provided financial terms are fair
- Option of minority stake held by long-term oriented partner

# Summary and outlook – Successful business and portfolio development, further improvement envisaged

## 2016

### Business performance

- Organic growth
- Record operating EBITDA
- Group profit above €1bn
- Solid financial position

### Strategy implementation

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

## 2017

### Outlook

- Higher revenues
- Continued high operating profitability
- Group profit remaining in excess of €1bn
- Further progress towards target portfolio