



Annual **PressConference** 2018

Business performance 2017 and strategy implementation

March 27, 2018 in Berlin

BERTELSMANN

Successful financial year 2017 – Improved organic growth, further progress in strategy implementation

Business performance

- Increase in revenues to €17.2bn, **organic growth of 1.7%**
- **Operating EBITDA** of more than €2.6bn at record level
- **Group profit of €1.2bn** above prior year

Strategy implementation

- Progress on all **strategic priorities**: Bertelsmann exhibits **higher growth** and becomes **more digital, more international** and **more diversified**
- **Share increase Penguin Random House**
- **Growth platforms developed further**

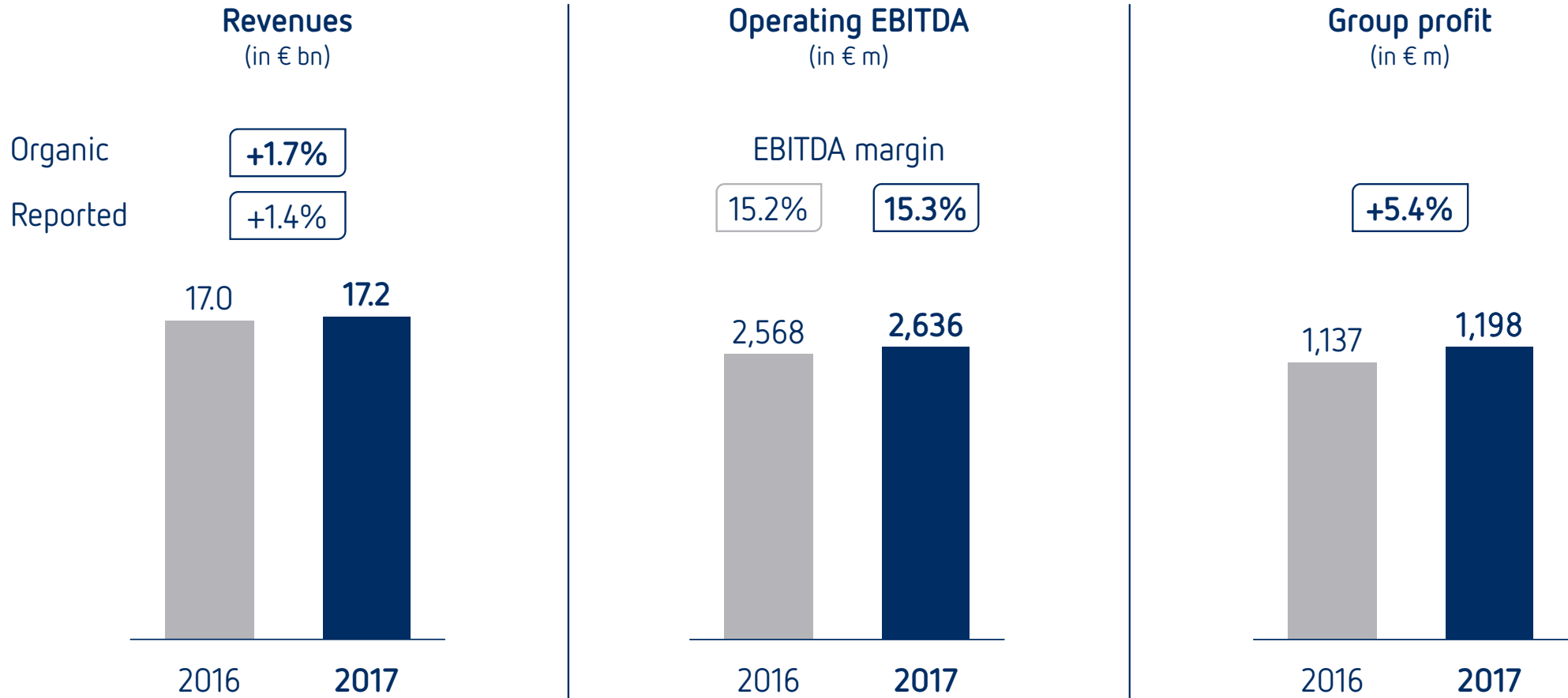


Business performance 2017



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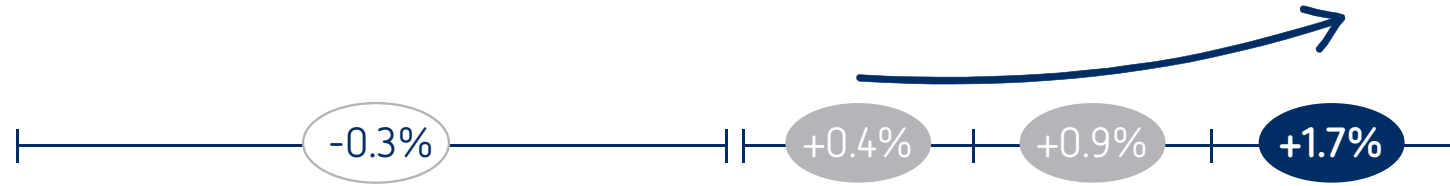
Group key figures – Organic revenue growth, operating EBITDA at record level, Group profit above prior year



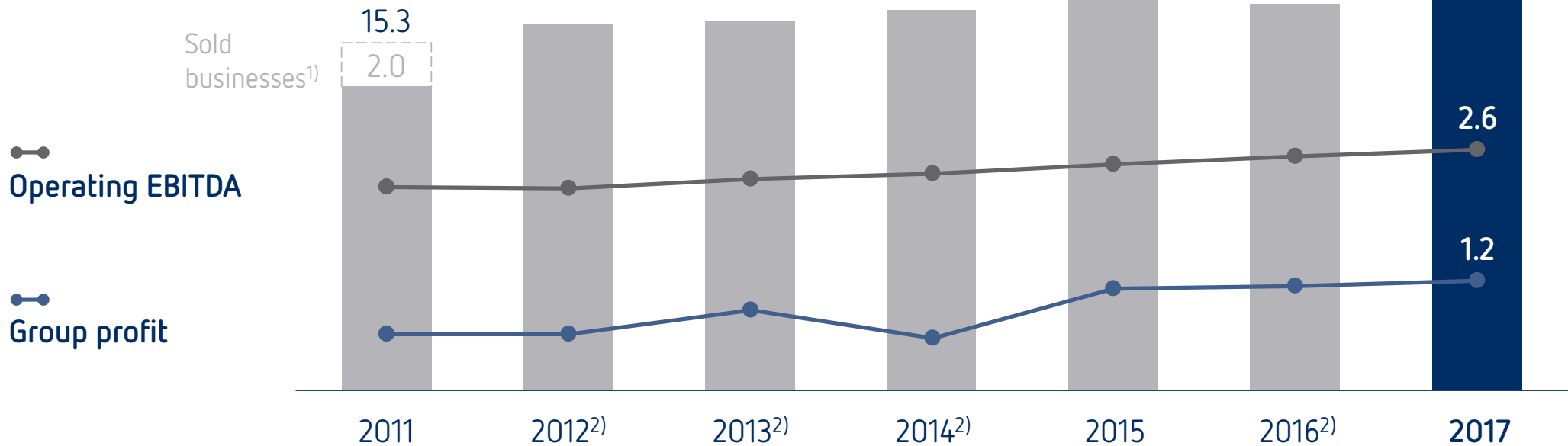
Long-term Group development – Improved growth momentum, continued increase in profits

in € bn

Organic
growth p. a.



Revenues



1) Including effects from IFRS 11 changes 2) Restated

Group profit – Again exceeding 1 billion euros and above high prior-year level

in € m	2016	2017
Operating EBITDA	2,568	2,636
Depreciation and amortization	-630	-657
Special items	-139	-83
EBIT	1,799	1,896
Financial result	-244	-219
Income taxes	-419	-472
Earnings after taxes from discontinued operations	1	-7
Group profit	1,137	1,198

Major effects

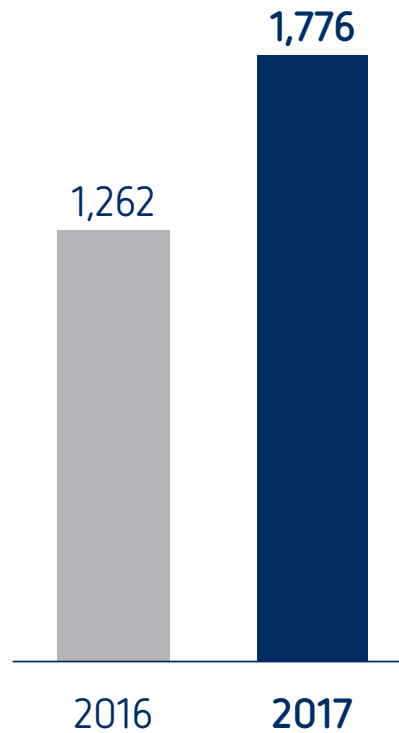
- **Further increase in operating EBITDA** mainly due to **TV, music and education businesses**
- **Lower burden from special items** due to increased capital gains from fund activities
- **Improved financial result** mainly because of lower interest expense
- **Higher tax expense** due to increase in profits and revaluation of deferred taxes resulting from the US tax reform

Financial position – Financial metrics in line with targets despite share increase Penguin Random House

Operating free cash flow (in € m)



Economic investments (in € m)



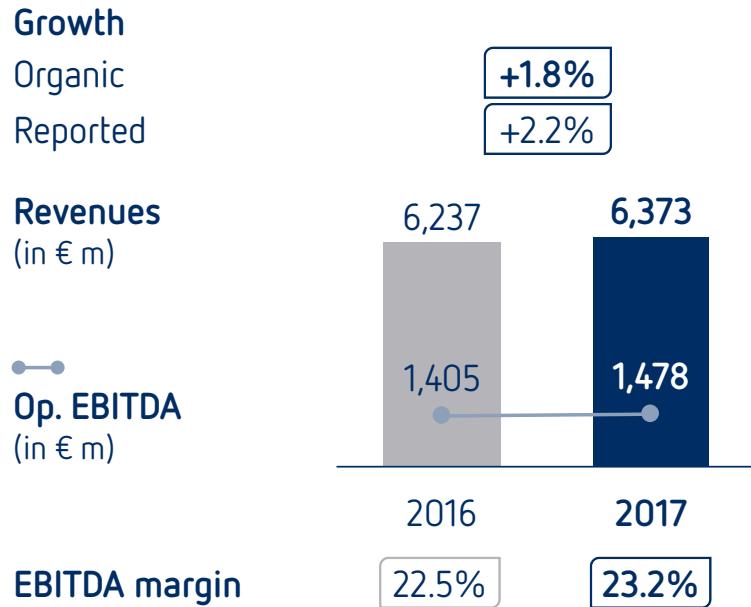
Leverage Factor



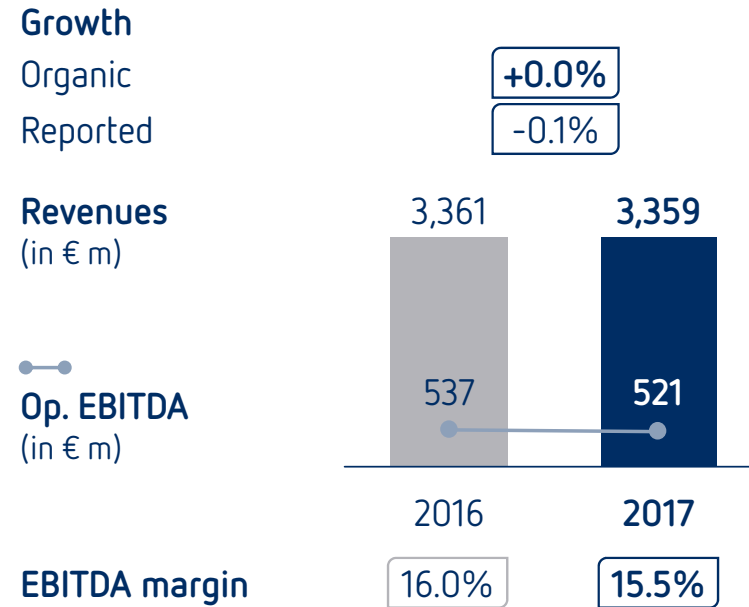
Ratings



Media businesses (1/2) – RTL Group again with record revenues and earnings, Penguin Random House organically stable

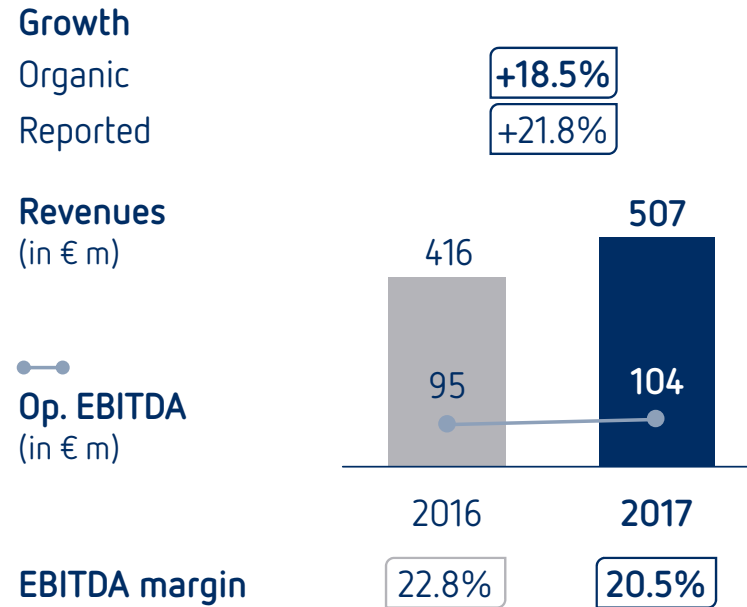
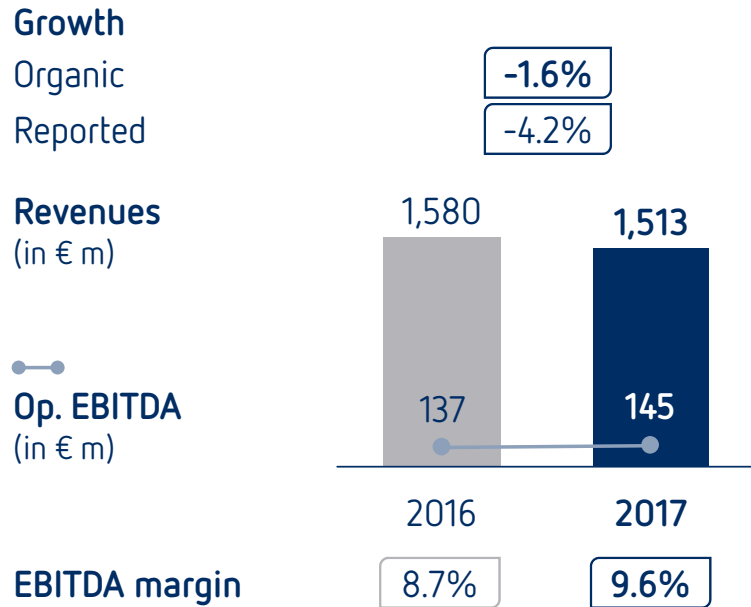


- Record earnings at Mediengruppe RTL Deutschland
- French TV business with significant advertising market share gain
- New productions at Fremantle Media (e. g. American Gods)
- Expansion digital advertising sales (e. g. step-up SpotX)



- Revenues and profits impacted by negative exchange rate effects
- Expansion Spanish-speaking business (acquisition Ediciones B)
- Strong bestseller performance (461 "New York Times" bestsellers)
- Numerous literary awards (e. g. Nobel Prize for Literature)

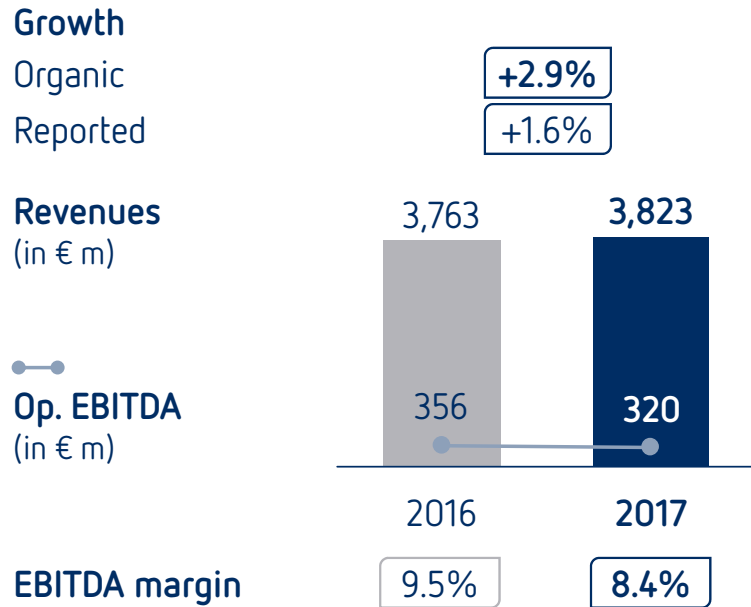
Media businesses (2/2) – EBITDA increase at Gruner + Jahr, BMG revenues exceeding 500 million euros for the first time



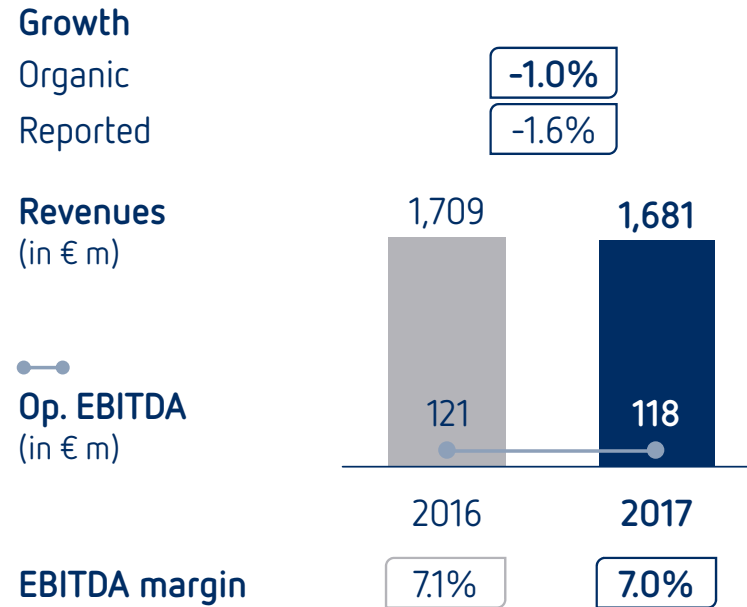
- Revenue development impacted by further portfolio measures
- Earnings and margin increase during continuous transformation
- G+J Germany with new titles, increase in revenues and earnings
- Digital businesses with double-digit revenue growth

- Continued strong growth organically and through acquisitions
- EBITDA further improved, exceeding €100m for the first time
- Significant expansion of recording business (esp. acquisition BBR)
- Further international expansion

Services businesses – Growth at Arvato, Bertelsmann Printing Group with stable profitability



arvato
BERTELSMANN



Bertelsmann
Printing Group

- CRM Solutions: Growth, profitability impacted by start-up costs
- SCM Solutions: Business and network expansion, start-up costs
- Financial Solutions: Investments in Solaris Bank and Intervalor
- Systems: Extension of services in media and utilities segments

- Stable development in an overall declining market
- Extension of important customer contracts, e. g. in retail segment
- Further expansion of gravure printing business in UK
- Market share gains in replication business

Note: 2016 restated

Education and fund businesses – Increase in revenues and EBITDA at Education Group, funds with significant EBIT contribution

Growth

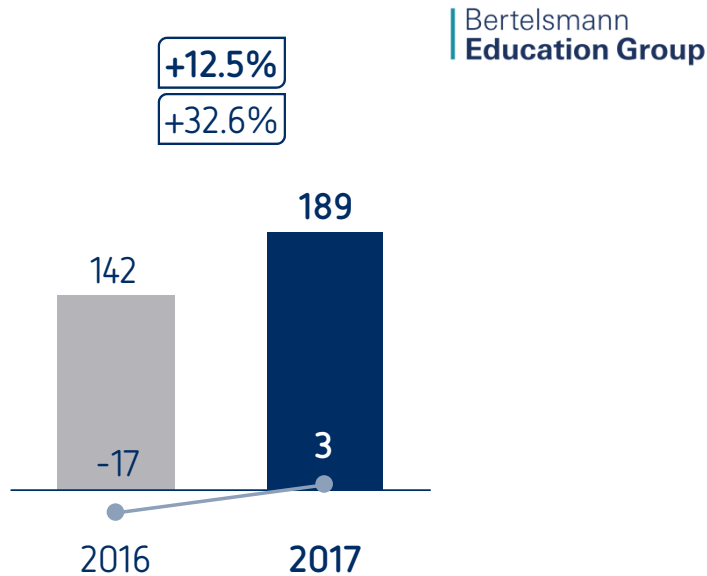
Organic

Reported

Revenues

(in € m)

Op. EBITDA
(in € m)

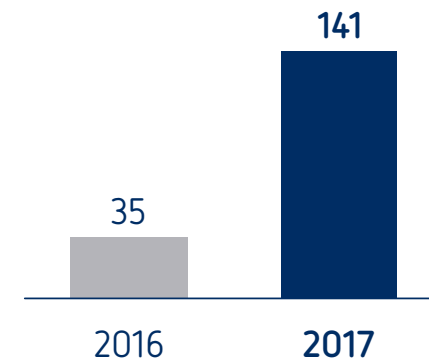


- Significant revenue growth and overall positive EBITDA
- Relias: Further organic and acquisitive business expansion
- Udacity: Number of students tripled, new Nanodegrees
- Alliant and HotChalk with significant efficiency gains

BI Bertelsmann Investments

EBIT

(in € m)



- Significant contribution to Group profit, especially through exits
- Successful IPOs of four BAI investments
- More than 40 new investments, numerous follow-on investments
- Focus on sectors with high relevance for the Group

Strategy implementation



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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

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Target portfolio

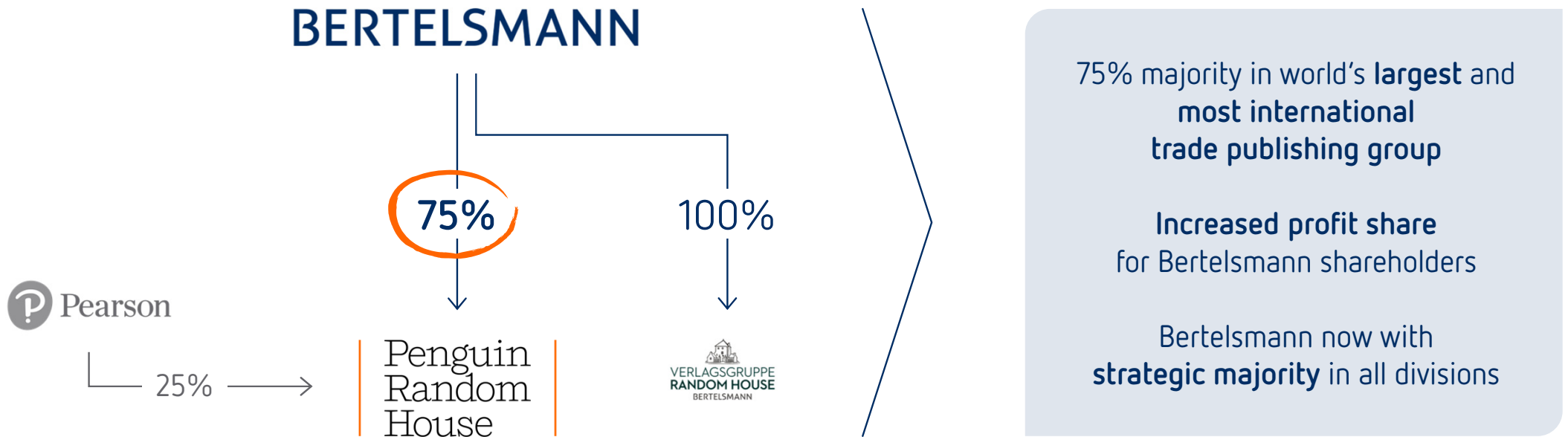
Higher growth
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More diversified

Financial performance

1

Strengthening the core – Share in Penguin Random House increased from 53% to 75%

Penguin
Random
House



1 Strengthening the core – World's largest trade publishing group

Strong bestseller performance



Leading market positions

15,000
new titles annually

with **300**
imprints

2m
books sold each day

in more than **100**
countries

Positive market development

Growing book market

↳ Literacy rate ↳ Children and young adults books

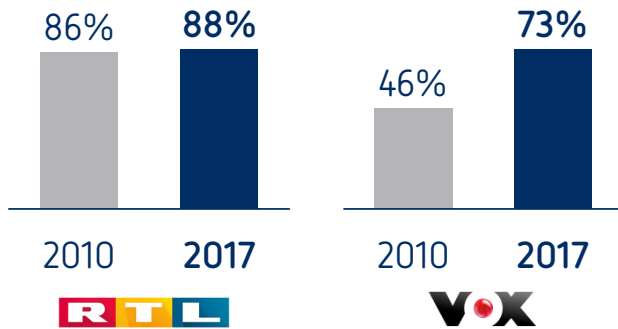
Stable business models

Healthy coexistence
e-books/print books

2 Digital transformation – Local content as driver of digital transformation

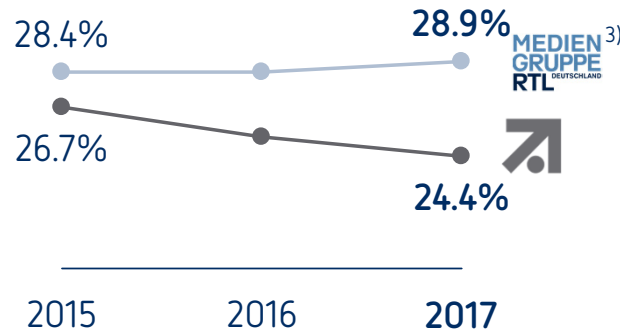
Investments in own content and exclusive rights ...

Share of own productions¹⁾



... to strengthen linear channels ...

Audience share, adults 14-59 years



... and online offers

TVNOW

>20k hours of content

+31% video views⁴⁾

+80% paying subscribers⁴⁾

- **4,800 hours** of own productions in 2017²⁾
- **Sports highlights** such as Formula 1 and Europa League secured
- **Seven** new fictional shows in 2018

- **Lead over main competitor** further increased
- **Exceptional advertising reach** with 93% of 100 ad slots with highest reach
- **Growth of TV advertising revenue** above market

- **Expansion** of linear and non-linear content offer
- **Strengthening** of direct customer relationships in hybrid business model (free/paid)
- **Improvement** of user experience

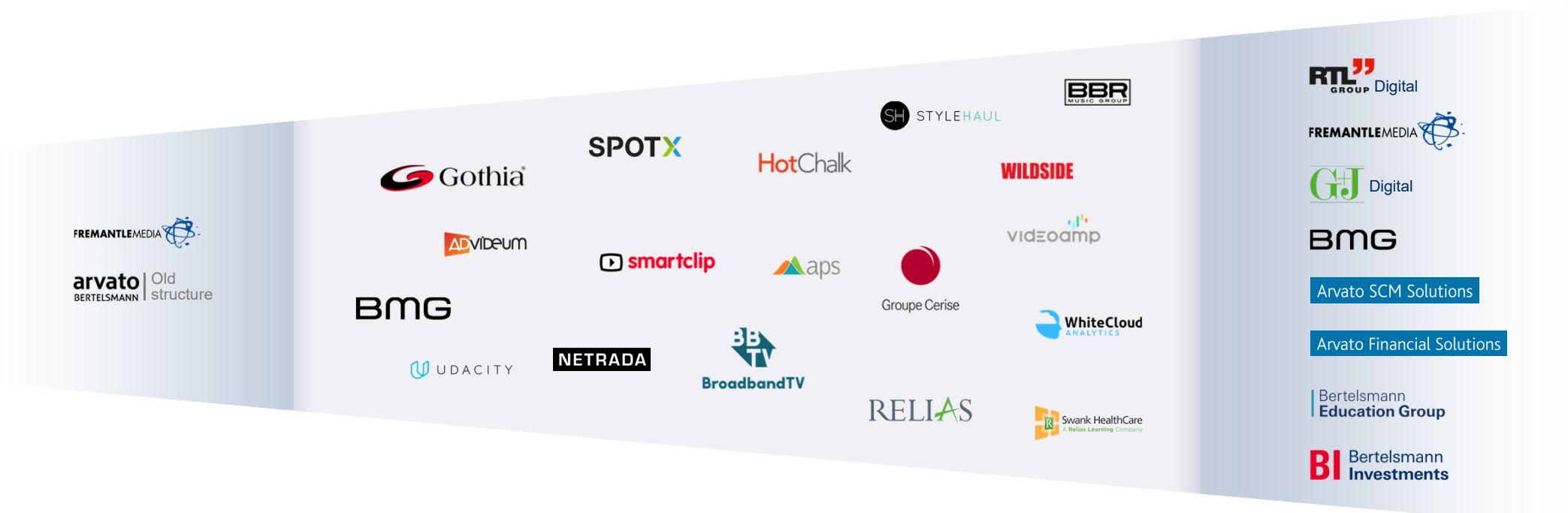
1) AGF/GfK, share of own productions, coproductions and contract productions of total program in hours 2) Only including first runs of own productions, excluding n-tv and RTL2 3) Including RTL2 4) December 2017 vs. December 2016

3 Growth platforms – Basis created for further organic expansion

2011

Investments €4.6bn

2017



3

Growth platforms: Examples – Expansion of BMG, Arvato SCM and Financial Solutions as well as Bertelsmann Education Group

BMG

- Significant **business expansion**



- **Creative and commercial successes**



- **Revenues in 2017 +22%, >€500m** for the first time
- **World's 4th largest player** in music rights
- Represents **2.5m songs and recordings**

10th
anniversary
2018

arvato BERTELSMANN

Arvato SCM Solutions

- **Expansion of locations** in Germany, Netherlands, Poland and the US
- Growth especially in verticals **hightech, healthcare** and **e-commerce** for consumer products
- **5% revenue growth** in 2017

Arvato Financial Solutions

- Organic **growth** in **receivables management**
- **Increase of share** in Brazilian financial services company **Intervalor**
- **7% revenue growth** in 2017

Bertelsmann Education Group

RELIAS

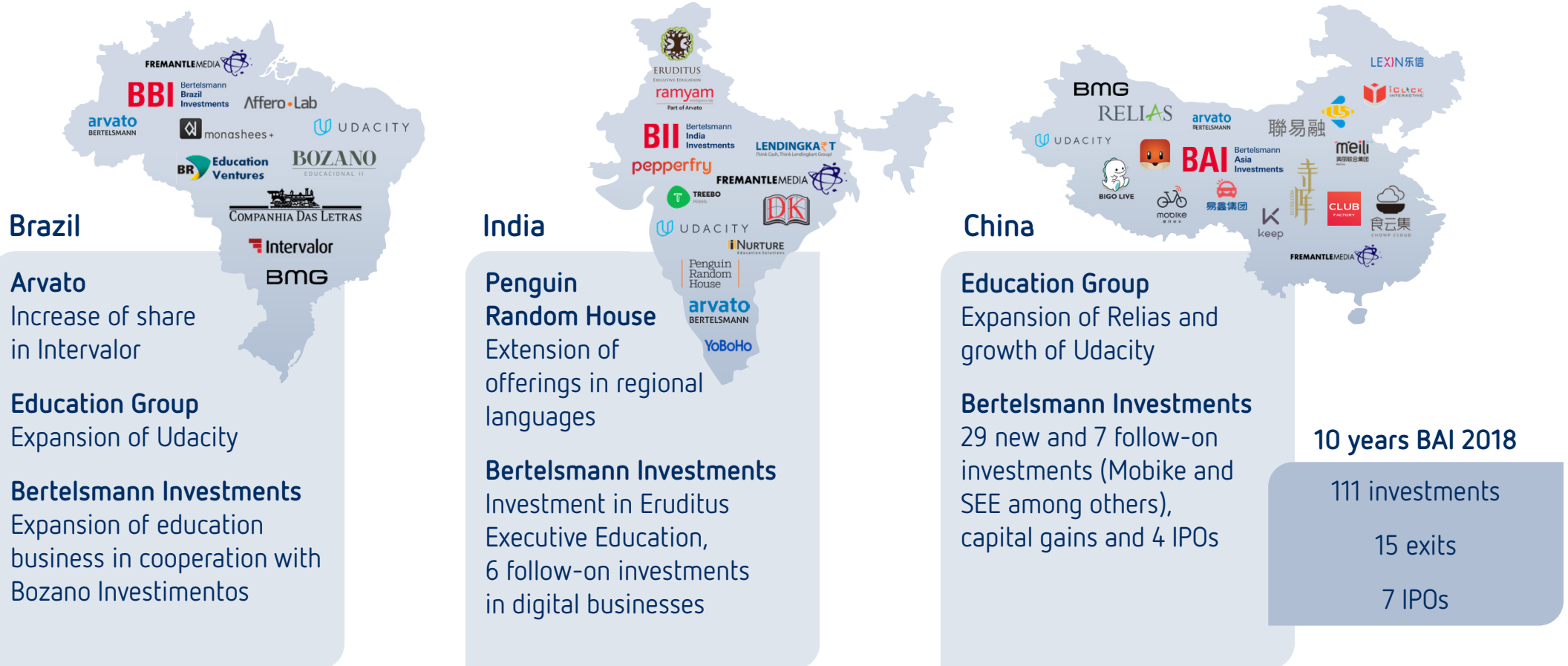
- Expansion into **new segments** (assessments, learning, analytics)
- More than **6,000 customers**
- **17% organic revenue growth** in 2017

UDACITY

- **New Nanodegrees** in digital marketing, robotics, deep learning and virtual reality
- **Number of students** more than **tripled** in 2017 to approx. 50,000

4

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



HR strategy – Optimal framework for transforming Bertelsmann

Talent Management

- Internal placement rate of 81%
- Career programs for creative, entrepreneurial and IT talents
- Bertelsmann Exchange Initiative

Digital Learning

- 90,000 employees in 46 countries with access to 13,000 online courses
- 75,000 scholarships with Google and Udacity

To Empower. To Create. To Inspire.

Creativity

- Trainee program for creatives and humanities graduates
- Creative Leadership Curriculum and Bootcamps
- Creativity Award

Corporate Responsibility

- 13 focus topics – from diversity to freedom of press
- Minimum health standards implemented

1

Strengthening the core

2

Digital transformation

3

Growth platforms

4

Growth regions

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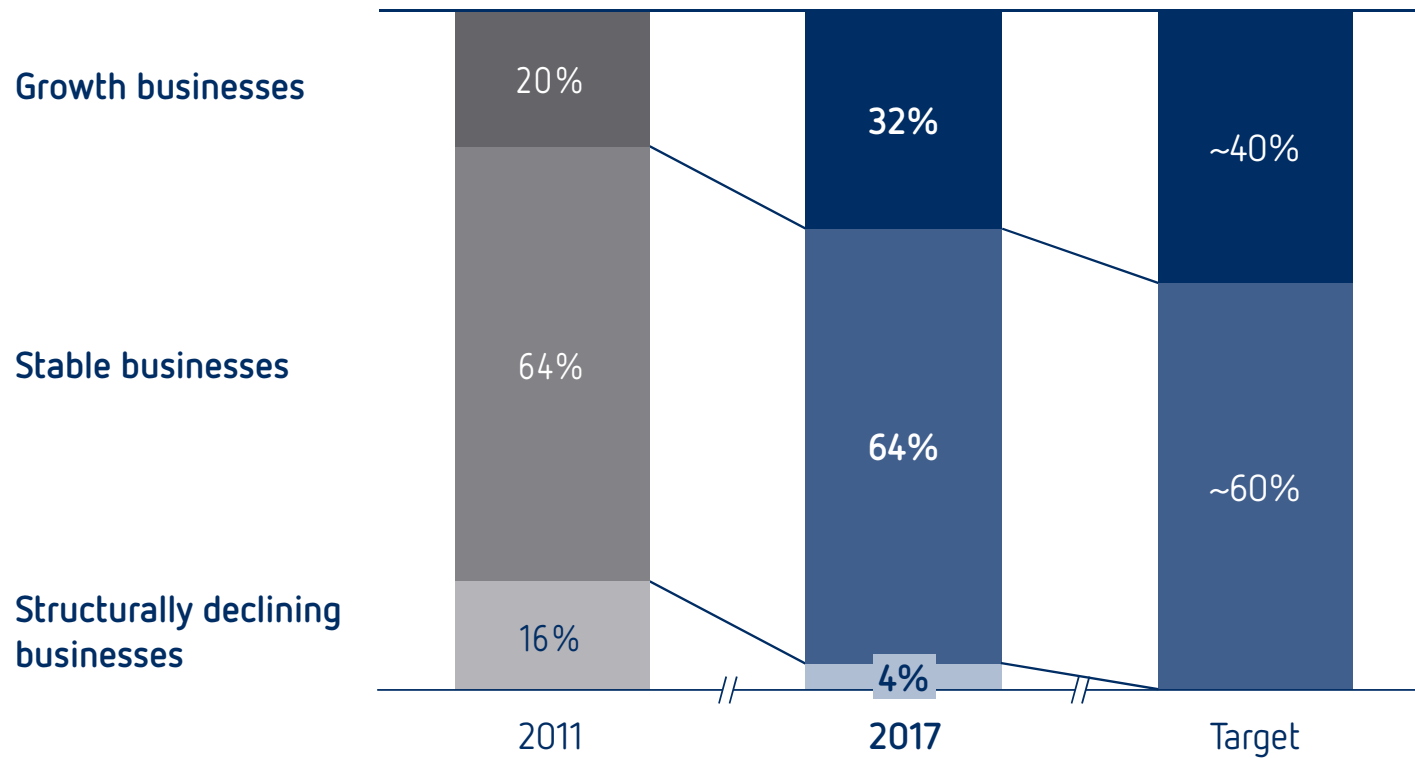
Target portfolio

Higher growth
More digital
More international
More diversified

Financial performance

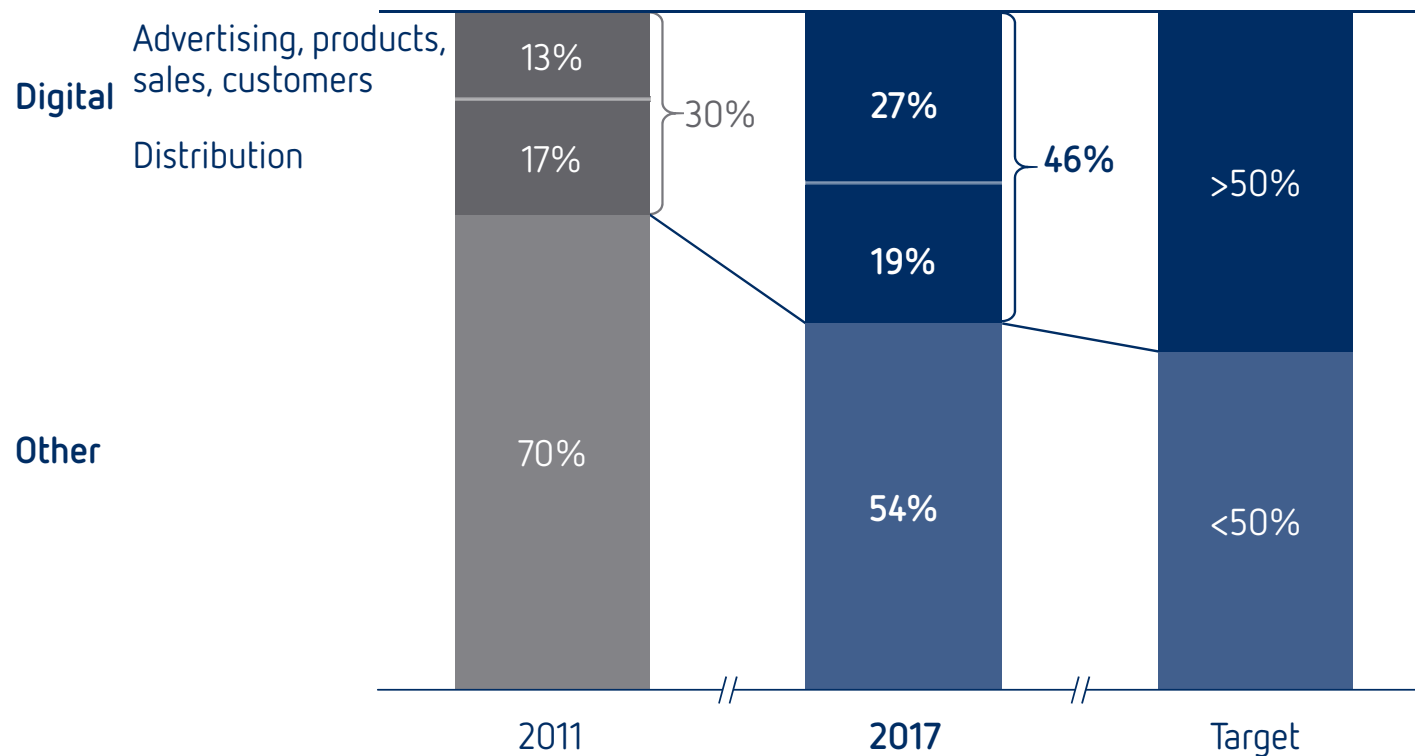
Target portfolio – Growth businesses already accounting for almost one third of Group revenues

Share of Group revenues in %



Target portfolio – Share of digital revenues improved from 30% to 46% since 2011

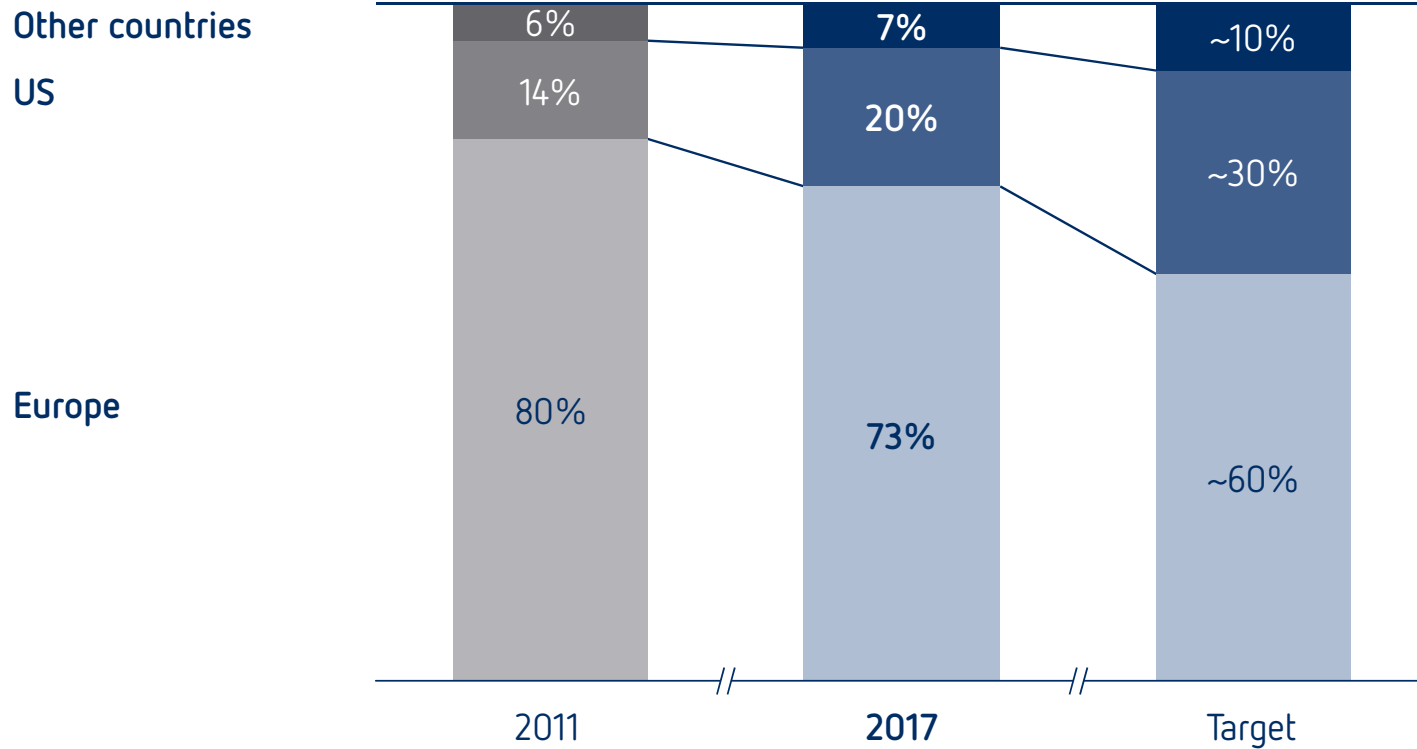
Share of Group revenues in %



	Digital revenues 2017 (in € bn)	Growth since 2011
Advertising	0.7	3.8x
Products	1.6	2.5x
Sales	0.9	2.4x
Customers	1.4	1.8x
Distribution	3.3	1.3x
Group	7.9	1.7x

Target portfolio – Increasing internationalization

Share of Group revenues in %



- Revenues outside of Europe increased by more than 50% since 2011
- Expansion of activities in countries with sustainable positive growth potential



US



Brazil



India



China

Group structure –
Balanced portfolio with eight divisions, strategic majority in all divisions

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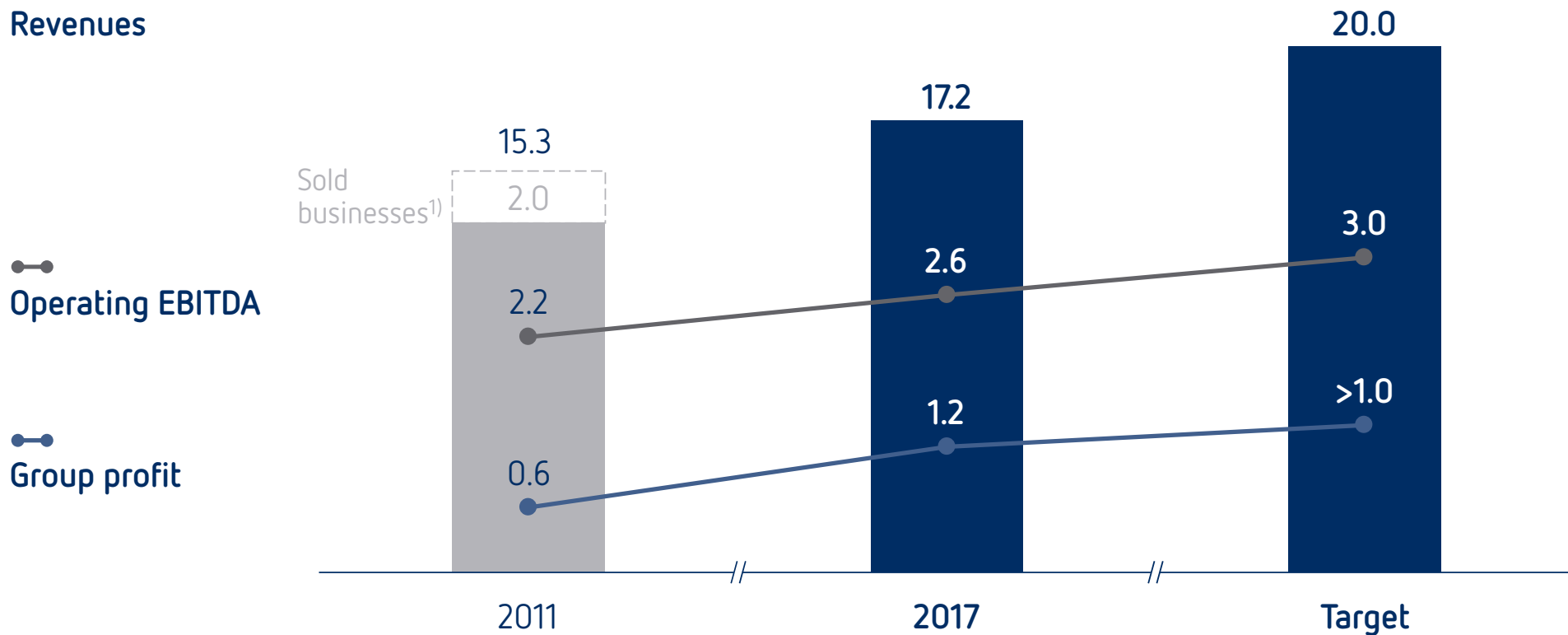
Higher growth
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Financial
performance

Financial performance – Further improvement of revenues and profits envisaged

in € bn

Revenues



1) Including effects from IFRS 11 changes

Status quo

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

Figures without France

However ...

- **Significant investment requirements ahead** due to technological developments
- **Alternative investment options:** Eight growth platforms **with higher investment priority**

Outlook

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

Competitive environment – Structural change of competitive landscape, Bertelsmann sustainably well positioned

New dimension of competition

Global technology platforms
with increasing relevance in
the media sector



Bertelsmann's responses

Investments in
premium **content**
(ca. €5bn annually)

Offer **brand-safe**
advertising
environments with
high reach

Build **digital**
capabilities and
own **digital**
businesses

Provide
products/services
to and **cooperate**
with platforms

Push for **regulatory**
level playing field

Summary and outlook – Successful transformation continued, even stronger focus on organic growth going forward

2017

Key developments

- Organic growth improved
- Operating EBITDA at record level
- Group profit of €1.2bn
- Further progress towards target portfolio

2018

Outlook

- Further improvement of growth profile, especially through organic expansion of existing growth platforms
- Continued high operating profitability
- Group profit to remain in excess of €1bn

