

# HACHETTE LIVRE

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# Book publishing is a growing and attractive business

## Long life expectancy for books

→ Books remain the #1 cultural product in most countries

	Books		Pay TV		Video		Music		Cinema	
	value	volume	value	volume	value	volume	value	volume	value	volume
<u>2003</u> <u>(France)</u>										
Retail sales	> €4,5 bn	n/a	€ 2,8 bn	n/a	€ 2,2 bn	n/a	€ 1,64 bn	116 m	€1 bn	174 m
Net sales	€2,5 bn	413 m					€1,1 bn	151 m		

→ Consumers' interest for books hasn't decreased despite the arising of competitive products – especially since Internet and NTIC \*

	France	Italy	UK	Spain	USA
Number of home-connected Internet users : % growth 2004	+16%	+15%	+13%	+3%	n/a
% Internet Penetration 2003	41%	40%	51%	n/a	> 62%
CAGR 2001-03 ** Book industry	+1.9%	+4.1%	+4.3%	+3.5%	+5.5%

→ All studies tend to prove the high stability of the number of readers, the number of books read, etc .

# Book publishing is a growing and attractive business

## Why ?

### → Durable demand thanks to the book's following features :

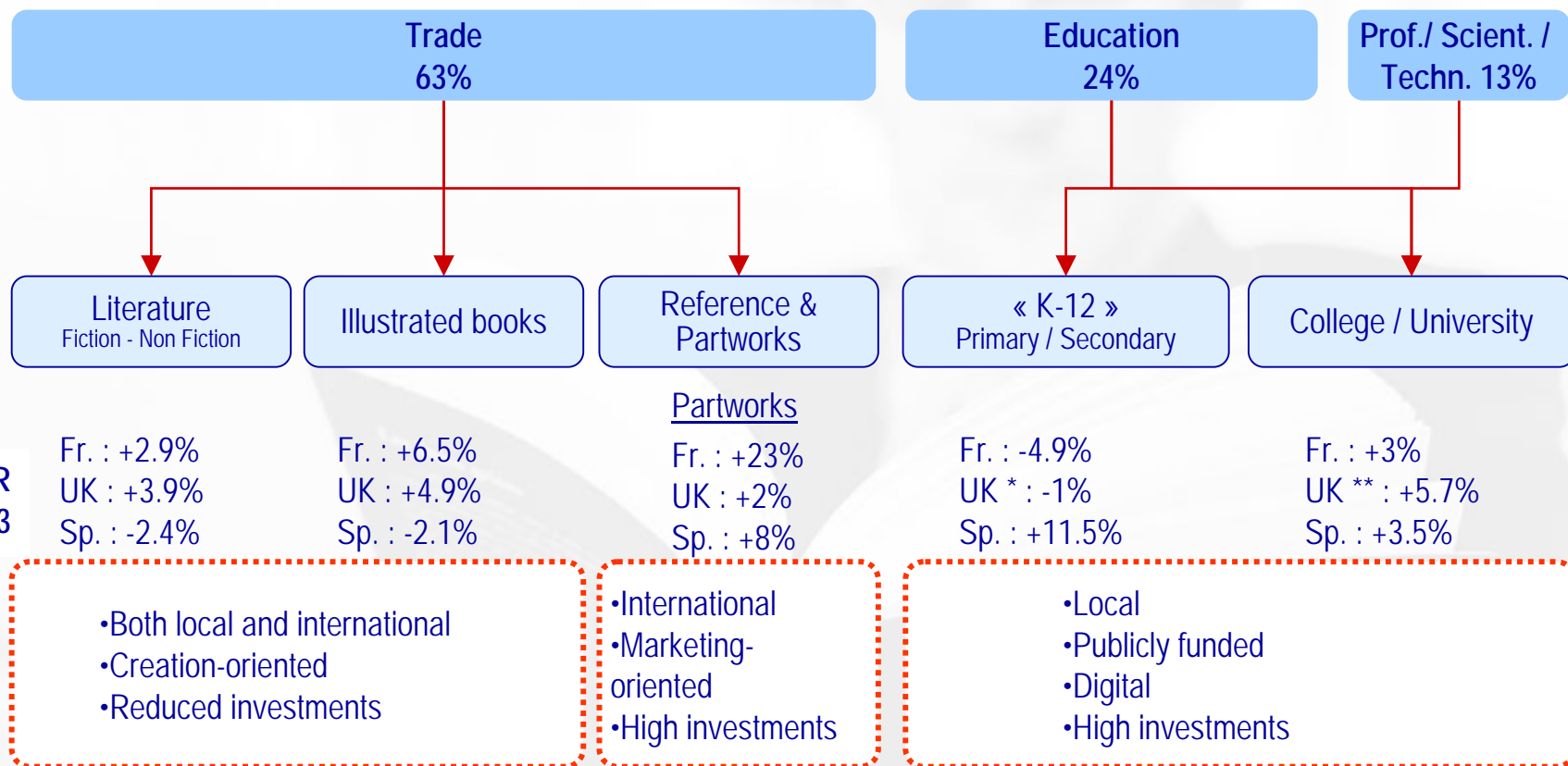
- The key to access reading and, as such, all formats of information, entertainment and culture.
- Its "symbolic" place in almost all cultures : children are exposed to books from birth to the age of 16.
- The "modernity" of its usage : light, mobile, compact, easy to use anywhere at any time.

### → Durable growth thanks to :

- The book's resistance to piracy. Digital formats haven't proven to add much value to books.
- The opportunity for publishers to add digital contents to books in Education, Reference, etc.
  - For instance in the UK : +18% CAGR 2001-03 in educational e-supplements / media
- Governments' and families' worldwide focus on Education and along-the-life training.

# Book publishing is a growing and attractive business

## Book publishing is a highly segmented market with diversified business models (1/2)



CAGR 2001-03

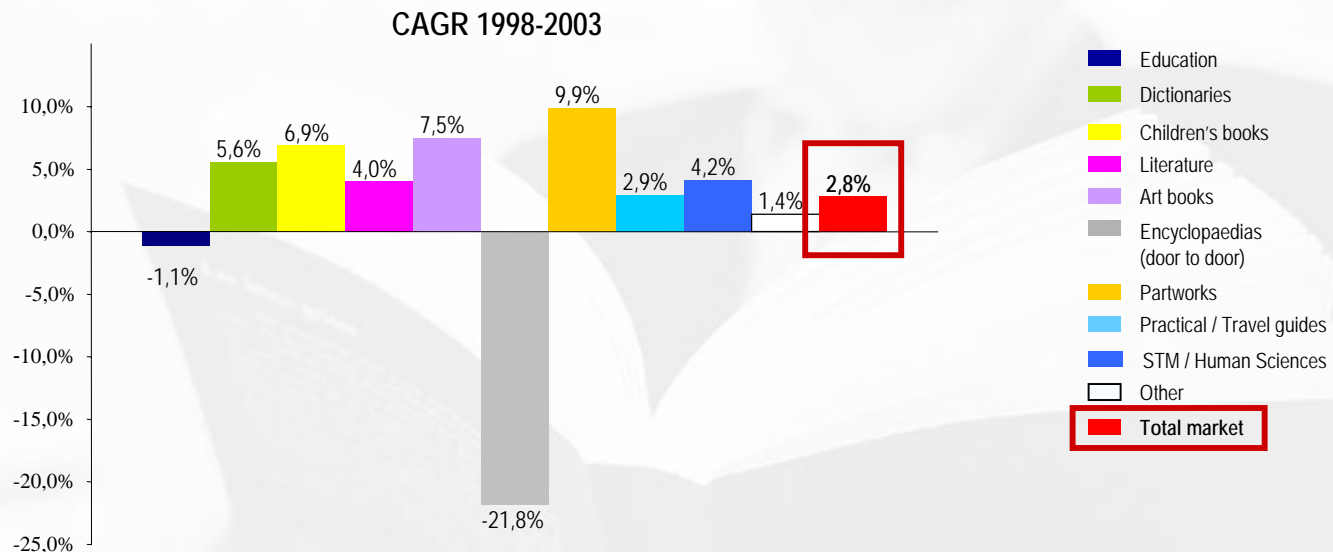
\* UK : Secondary ; \*\* UK : CAGR 2000-03

# Book publishing is a growing and attractive business

## Book publishing is a highly segmented market with diversified growth rates (2/2)

→ In most countries, behind the overall market growth, the various segments show highly different trends

- Zoom on the French book market : CAGR 1998-2003 : +2,8%



→ Resulting in the strategic need to be involved in different segments and countries to capture growth.

# How does Hachette Livre capture growth and performance ?

## 1992-95 : recovery & strategic repositioning

Continued growth of the publishing segments in France has started to offset the decline in door-to-door sales.

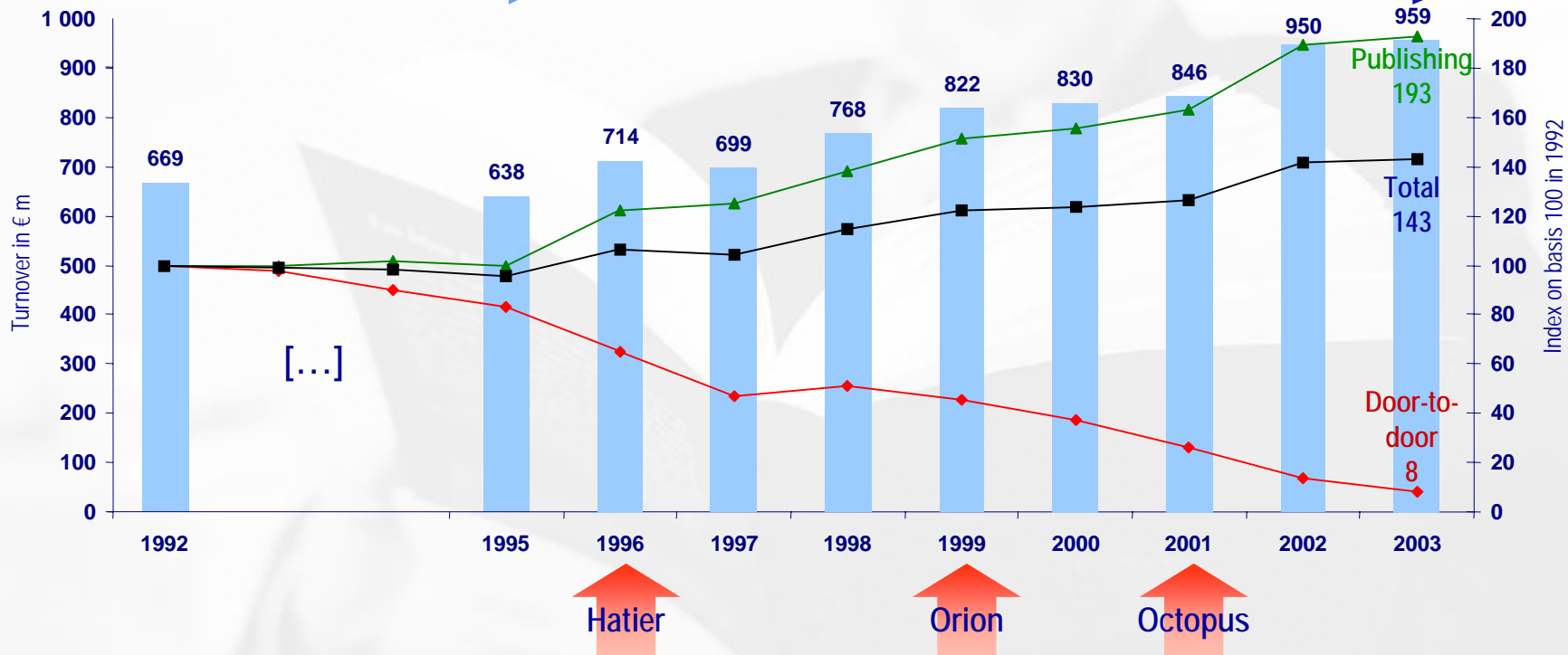
## 1996-2003 : growth & internationalisation

External growth both in France and abroad, together with investments in Partworks, has fostered the internationalisation process.

% Intern. in total turnover :

14%

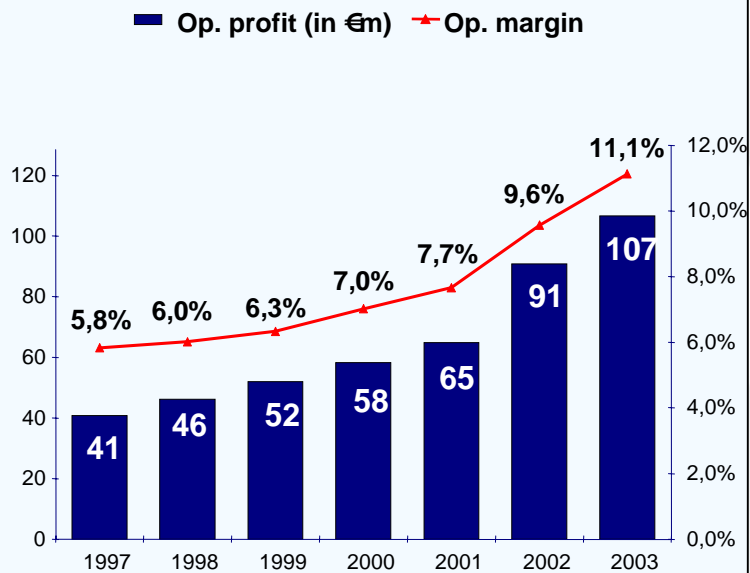
35%



# How does Hachette Livre capture growth and performance ?

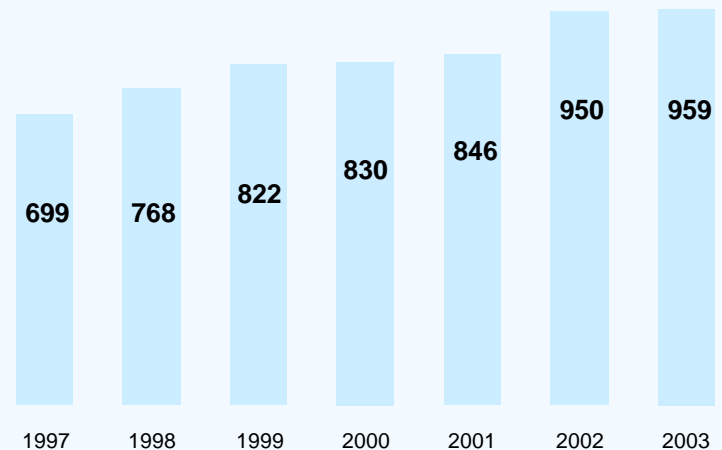
This strategy has allowed Hachette Livre to show significant improvement in profitability...

## PROFITABILITY



## GROWTH

Turnover (in M€)



Data as of Dec. 31, 2003 (real, no pro forma data)

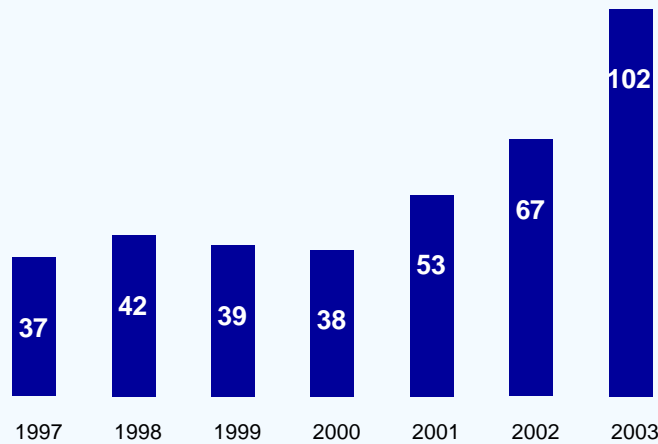


# How does Hachette Livre capture growth and performance ?

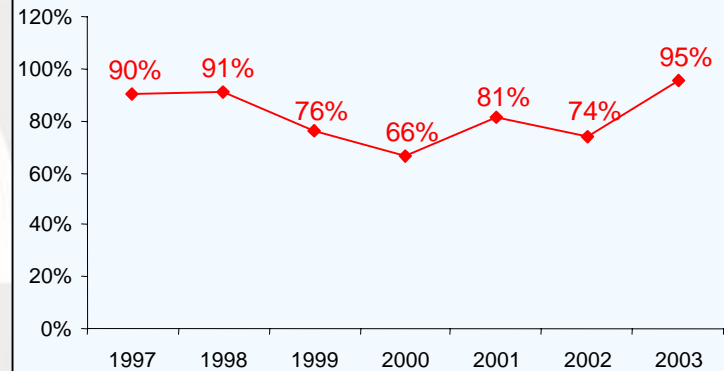
... with very high cash conversion rates

## CASH FLOW

Free cash flow \* (in M€)



## % CASH FLOW / OP. PROFIT



Data as of Dec. 31, 2003 (real, no pro forma data)

\* excluding dividends paid to Lagardère Groupe

# Growth drivers of Hachette Livre business portfolio

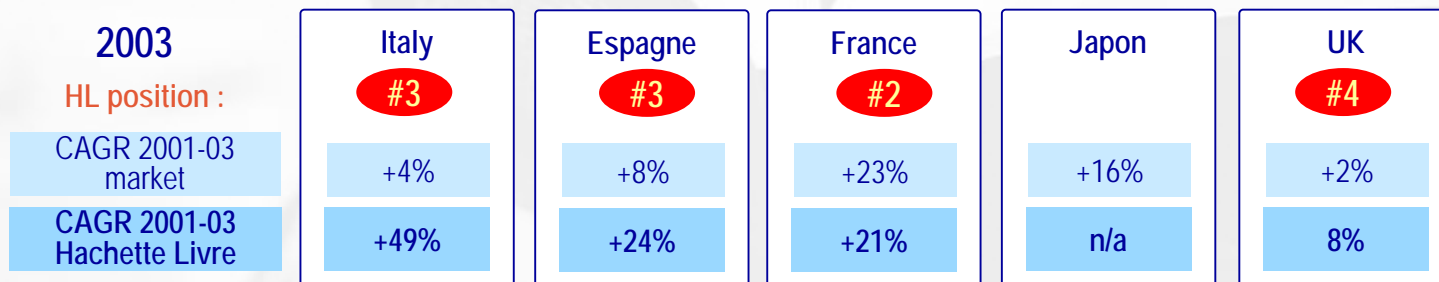
## Partworks : one of the key growth drivers in the last years

→ Key success factors of the business model include :

- Marketing-driven selection of collectible topics and heavy upfront launching investments in order to generate long term customer loyalty
- Careful cost management to maximise margins on follow-up issues
- Ability to replicate proven success on successive foreign markets

→ Rapid growth of the partworks business :

- 40 launches per year
- Continued internationalisation (Spain, Latin America, UK, Italy, Japan) through organic growth



# Growth drivers of Hachette Livre business portfolio

## Literature : Fiction / Non-fiction (France)

The business model is based on :

- ➔ The combination of
  - Innovative small first edition imprints (Grasset, Fayard, Stock, Calmann-Lévy, Lattès etc.)
    - Publishing a great number of low-risk titles and enjoying an overall stable profitability
  - And a highly powerful and profitable paperback imprint (Livre de Poche)
    - Supplied with backlist titles from the Group's imprints as well as from external publishers
    - Market leader

delivering recurring profits,

- ➔ Feeding our distribution operations with large volumes and, by doing so, increasing their profitability,
- ➔ Boosted from time to time by bestsellers such as *The Da Vinci code*.

	Hardbacks		Paperbacks	
# new titles (approx) :	950		1100	
% frontlist in turnover (approx) :	> 95%		> 55%	
Hachette Livre position :	#2		#1	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Market share :	14.9%	18.1%	32.4%	30.1%

# Growth drivers of Hachette Livre business portfolio

## Education : the company's highly profitable core business (France)

- High entry barriers due to the important investment required to gain customer access.
- High priority in long term public investment, worldwide
- A cyclical market subject to governmental policies
  - 2002-04 : entry into a challenging period for French educational publishers related to the slower-paced curriculum reforms and their reduced impact.
  - Partial reform in 2005 in K 6-9 (secondary schools) in Science.
- Despite the poorly funded educational environment, Hachette Livre has been able to gain market share in 2004 based on its strengths :
  - Quality of publishing teams
  - Strong backlist
  - Promotion and organisation efforts

# new titles (2004) :

750

357

% frontlist in turnover (2004) :

> 25%

30%

HL position :

#1

#1

Market share (2003) :

48.0%

47.5%

% growth  
2003 / 02 :      Market average  
                         Hachette Livre

-7%

+2.8%

-4%

+3%

### School textbooks

### Supplementals

# Growth drivers of Hachette Livre business portfolio

## Illustrated books (France)

- Cover the whole range of illustrated books from « useful » to « entertaining »
  - practical guides and how-to books, travel guides, art books, cartoons
- As well as Children's books :
  - Well-known series based on Hachette Livre's rich historical back-list and key characters (Astérix, Franklin, Babar, Disney characters...), complemented by children's reference and non fiction titles
- All enjoying strong, historical brands
- And benefiting from
  - Highly creative teams
  - Efficient marketing
  - Powerful salesforces

	Practical books		Travel guides		Children's hardbacks		Children's paperbacks		« Coffee table » and Art Books
# new titles :	320		185		480		185		165
% frontlist in turnover :	> 40%		65%		> 35%		30%		80%
HL position :	#1		#1		#1		#1		#2
Market share :	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	
	26.7%	28.4%	39.0%	38.9%	18.9%	18.7%	28.6%	29.5%	n/a
% growth Market average	+3.5%		-1.9%		+7.2%		+1.8%		n/a
% growth Hachette Livre	+5.8%		+4.5%		+9.1%		+8.7%		+10.3%

## Distribution (France)

[Maurepas]

- The Hachette Livre distribution is a state of the art warehouse and information system, servicing all our Trade publishing divisions.
- Given the high volumes provided by the Group, this fixed cost-based division is significantly profitable.
- Thanks to its well-recognised performance, Hachette Distribution supplies the main independent French publishers (non exhaustively: Albin Michel, Glénat, First etc.).
- Synergies expected in 2006 with the integration of Larousse French business.

# manipulated copies :

# new titles :

HL position :

Market share :

### Distribution (2004)

220 million units

9500

#1

33%

## UK Publishing

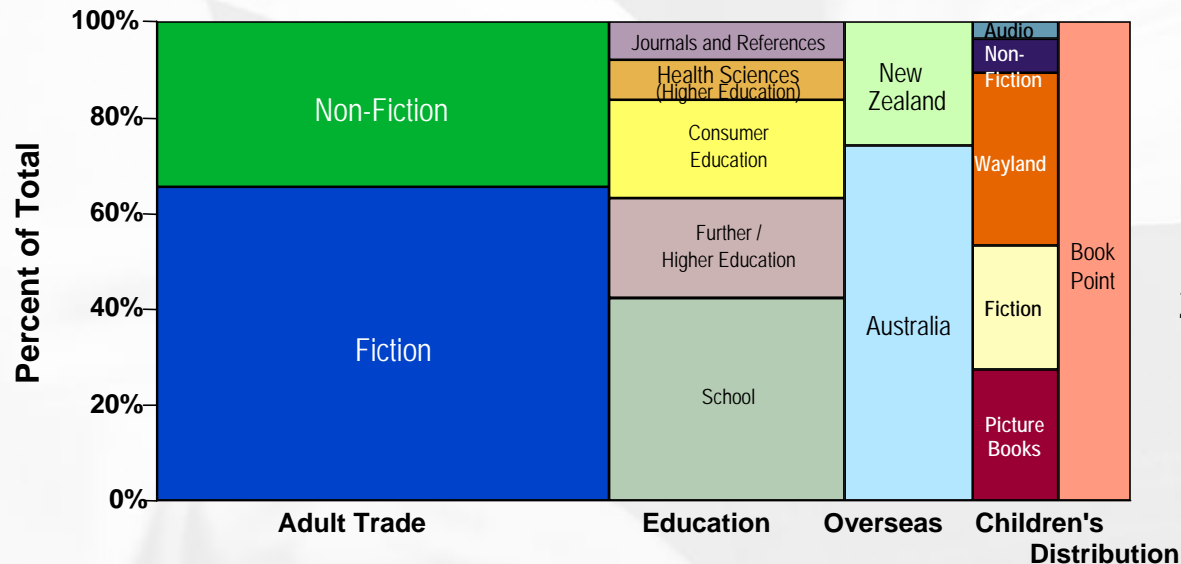
Before the acquisition of Hodder Headline, Hachette Livre was #5 in UK Trade publishing with Orion, Octopus and Watts.

- Orion is one of the most successful commercial Trade publishers in the UK market
  - 620 new titles in 2004
  - Frontlist : approx. 70% of total turnover
  - Market share 3.2% in 1998, 4.4% in 2003
- Octopus is the worldwide leader in illustrated book publishing with key brands such as Hamlyn, Mitchell Beazley, Conran, etc.
  - 620 new titles in 2004
  - CAGR 2001-03 : +10.8%
- LBS is Hachette Livre's integrated distribution organisation in the UK.

# 2004 : the transformation

## Acquisition of Hodder Headline : expansion in Education in the English speaking market continued international growth in worldwide Trade publishing

- ➔ Hodder Headline is the # 4 player in the UK trade market and # 6 in the UK textbook publishing market
- ➔ Hodder Headline is one of the most balanced top publishers in the UK, involved in every segment of expertise of Hachette Livre.
  - Trade fiction, non-fiction, children's, education
  - UK and overseas
  - Integration of publishing and distribution activities



Hodder Headline  
Revenues by Division,  
2002/03



### Hodder Headline : balanced business mix and attractive returns

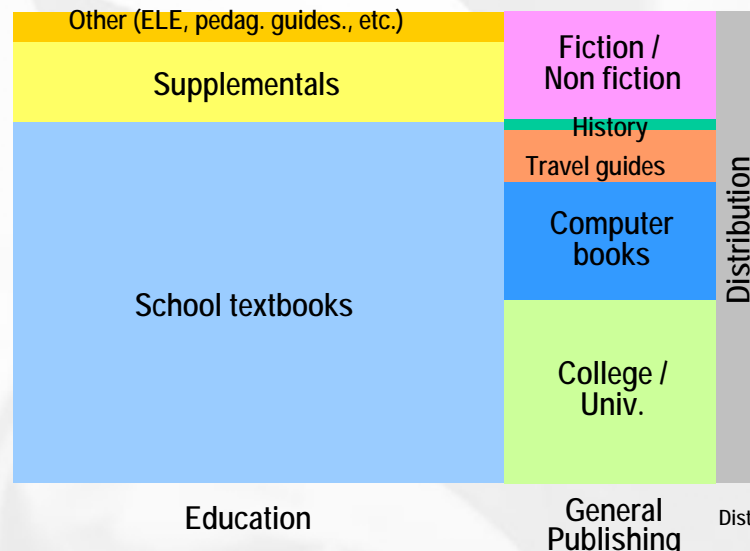
- ➔ The acquisition of Hodder Headline offers Hachette Livre the unique opportunity to:
  - Replicate in the UK its business model of diversified consumer publishing and distribution
  - Become the # 2 player in the UK Consumer market, the 2nd largest market in Europe
  - Initiate a significant and highly profitable presence in the UK education market
  
- ➔ Key synergies identified in the area of distribution back-office, manufacturing, IT and overseas subsidiaries.

# 2004 : the transformation

## Spain : with Anaya, Hachette Livre becomes the #1 educational publisher

Anaya profile : a major diversified Spanish publisher

- ➔ With a historical focus on primary and secondary Education
  - #1 pre-school, #1 primary, #2 secondary
  - Historical presence in Latin America
- ➔ Also active in Higher Education publishing with brands such as Catedra (literature), Piramide (economy / management / psychology), Alianza and Tecnos (law)
- ➔ And a significant player in Trade publishing : Alianza, Touring, Multimedia



Anaya Revenues  
by Division,  
2004

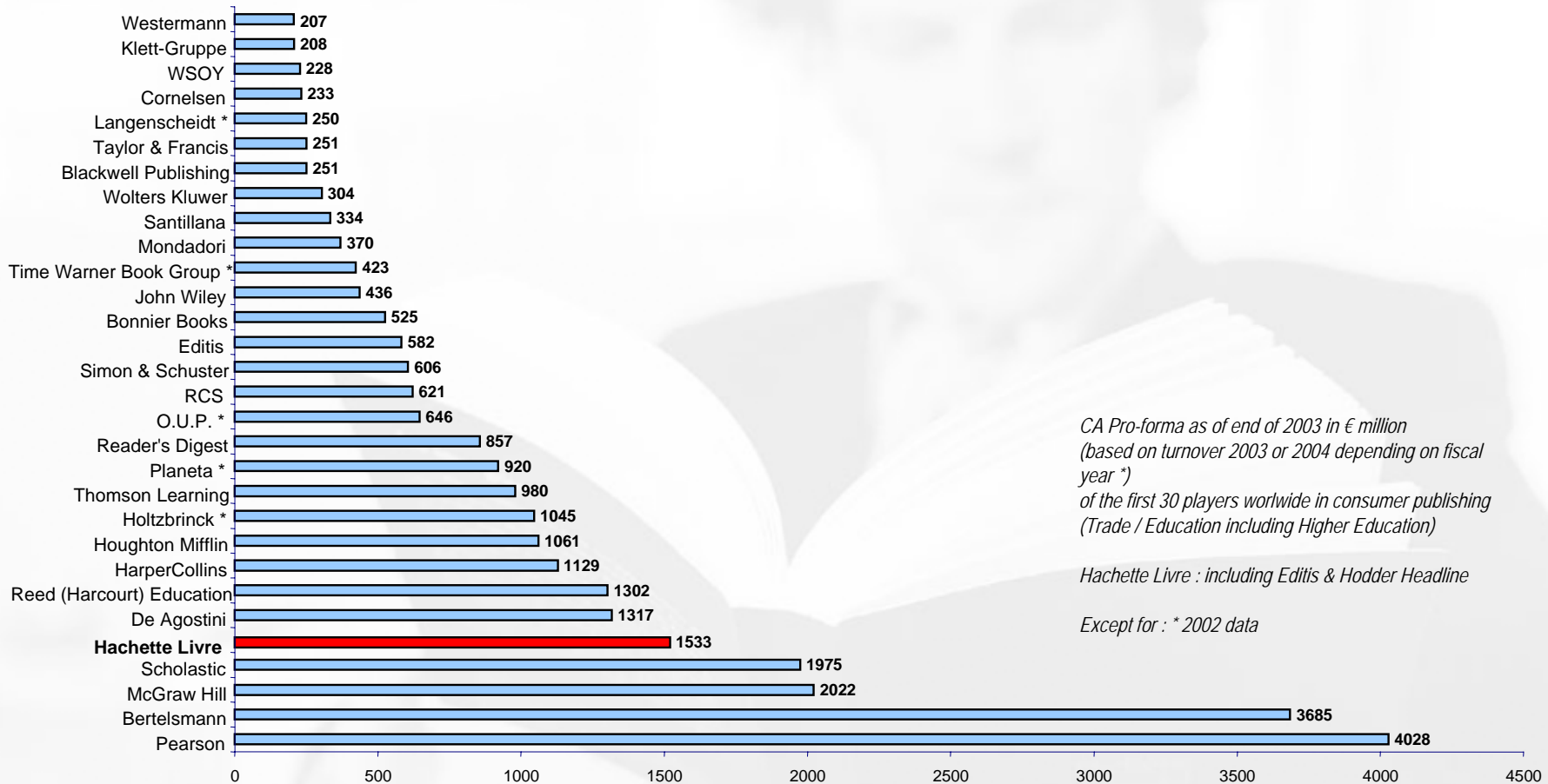
## Reference / Education

- Larousse is #1 in France on the monolingual as well as bilingual dictionaries market with market share > 70%
- The French dictionaries market is large-sized due to specific historical and cultural reasons
  - 80% of French households own a copy of *Le Petit Larousse*
  - In addition to its strong brand, Larousse enjoys an outstanding marketing power when launching new products
    - 1 million copies of *Le Petit Larousse* have been sold following the celebration of its 100th anniversary in 2004.
  - The Larousse brand enjoys an international reputation
    - More than 50% of sales made in Spanish language
    - A household brand across Latin America
- Dunod / Dalloz / A. Colin : these acquisitions initiate our presence in College Education.
- The carving out of these companies was successfully carried out in 2004.



# 2004 : the transformation

## Hachette Livre jumped from rank 11 to 5



CA Pro-forma as of end of 2003 in € million  
 (based on turnover 2003 or 2004 depending on fiscal year \*)  
 of the first 30 players worldwide in consumer publishing  
 (Trade / Education including Higher Education)

Hachette Livre : including Editis & Hodder Headline

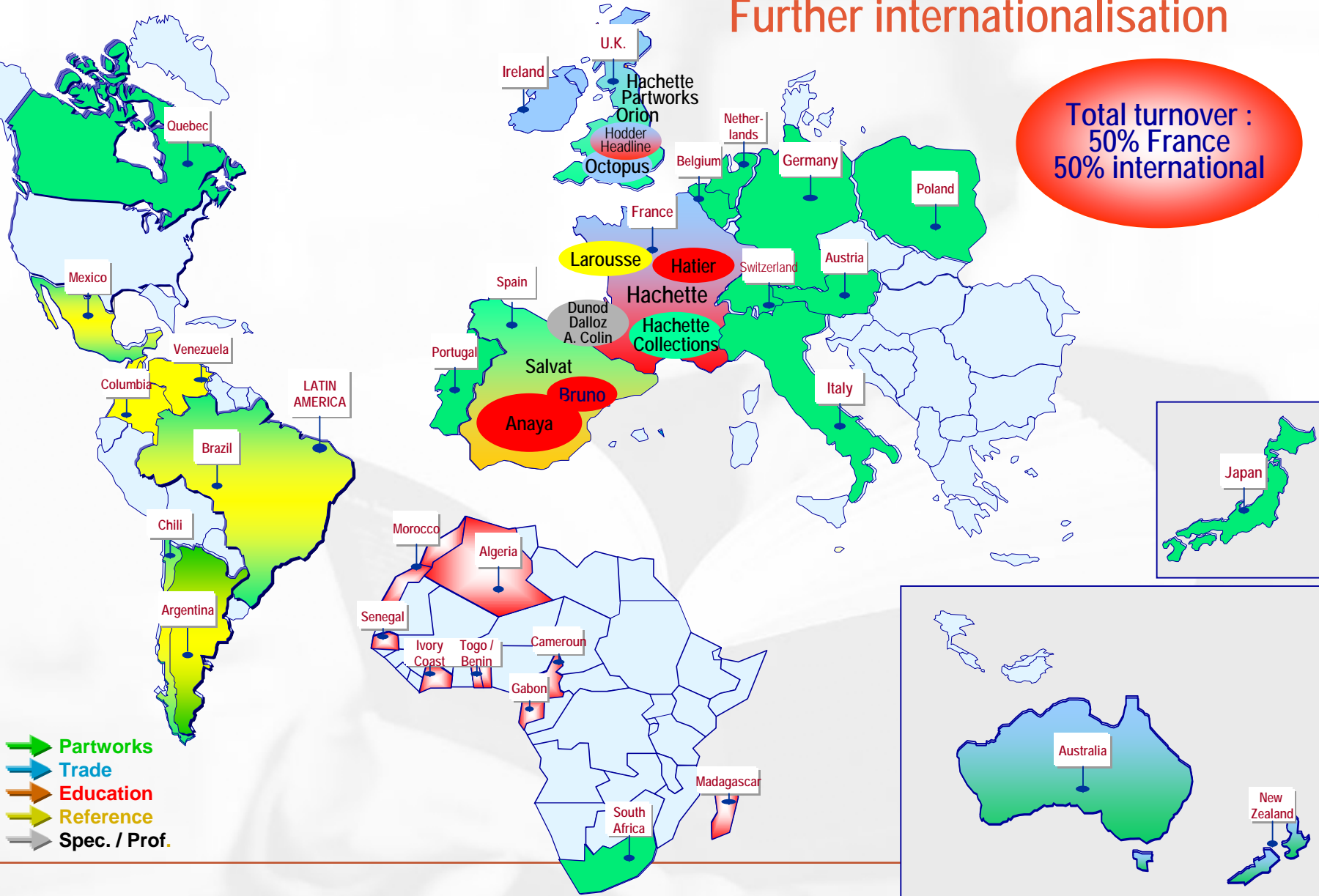
Except for : \* 2002 data

# 2004 : the transformation

## Further internationalisation

Total turnover :  
50% France  
50% international

(Books)

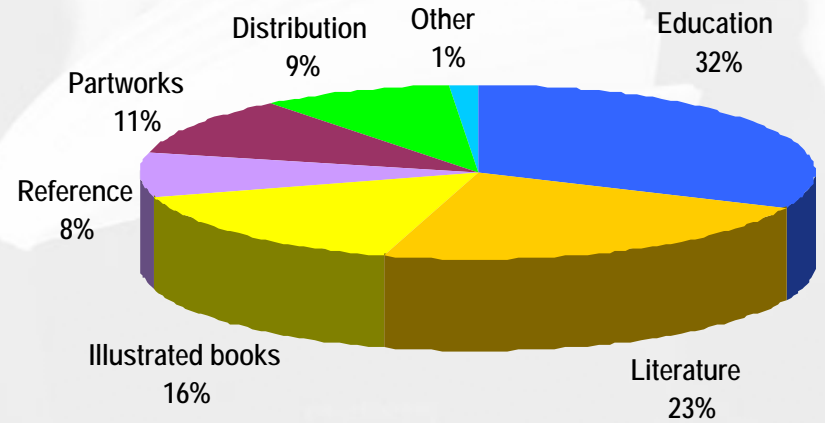
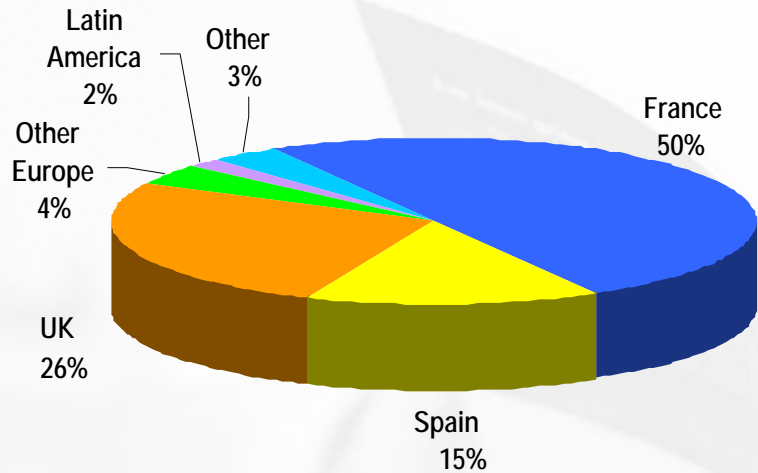


# Why is Hachette Livre well positioned to deliver future performance ?

## Key strength for delivering future performance : Hachette Livre benefits from a very well-balanced strategic position

➔ Hachette Livre is now one of the top multi-lingual / multi-specialist publishers in the worldwide « Consumer » market (Trade and Education), successfully smoothing the economic cycles of its different editorial segments and markets.

Market CAGR 2001-03 :	France	UK	Spain
	+1.9%	+4.3%	+3.5%



Hachette Livre turnover pro forma 2003 including Editis & Hodder Headline assets

## Why is Hachette Livre well positioned to deliver future performance ?

### Key strength for delivering future performance : Hachette Livre's management focuses on:

- Promotion of internal growth through fostering of creativity :
  - Publishers autonomy and responsibility
    - The publisher is the engine of the creative proces, in charge of his publishing plan and its development, as well as his P/L and balance sheet
  - Internal competition
  - 12.000 new titles in 2004
- Rigorous cost controlling & optimisation of internal processes
  - Tight procedures to reduce print runs and return rates
  - Identification & implementation of synergies in all countries : manufacturing, IT, distribution etc.
  - Reorganisation of sales teams / increased focus & dedication to retail channels
  - Increased efficiency of IT systems and use of Internet
  - Tight management of fixed costs

## Next steps

- In 2005-06 the Hachette Livre management will dedicate its efforts to build the synergies resulting from the 2004 transformation.
- While focus will be put primarily on organic growth,
- there will be further consolidation in the industry and, given its size and performance, Hachette Livre is well positioned to be active and pursue external growth.