

**Lagardère**  
PUBLISHING

**INVESTOR DAY**

Paris, 12<sup>th</sup> June 2017



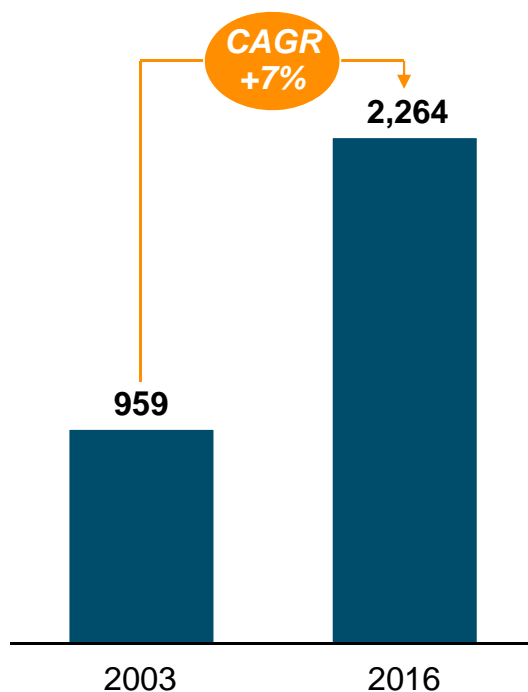
# AGENDA

## ▪ Introduction

- How does publishing live up to investors' expectations?
- Why us?
- What next ?

# WITHIN THE LAST DECADE, HACHETTE LIVRE HAS BECOME THE WORLD #3 PRIVATE-SECTOR CONSUMER BOOK PUBLISHER

Hachette Livre revenue  
- 2003-2016, €M -



Ranking in the worldwide  
private-sector consumer  
book market

#11

#3

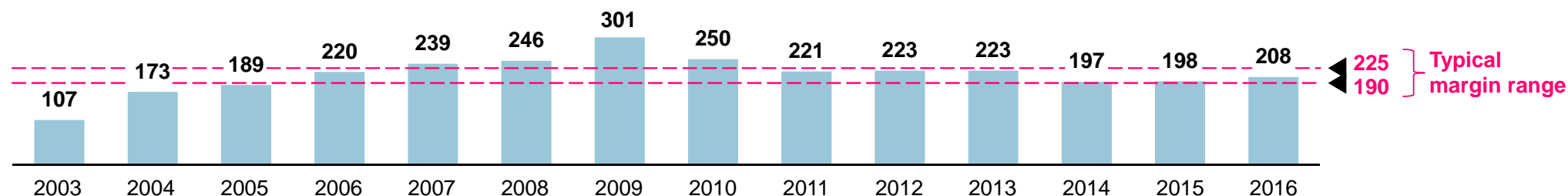
Growth fuelled by acquisitions



# HACHETTE LIVRE HAS DELIVERED SOLID PROFITS AND HEALTHY CASH FLOWS

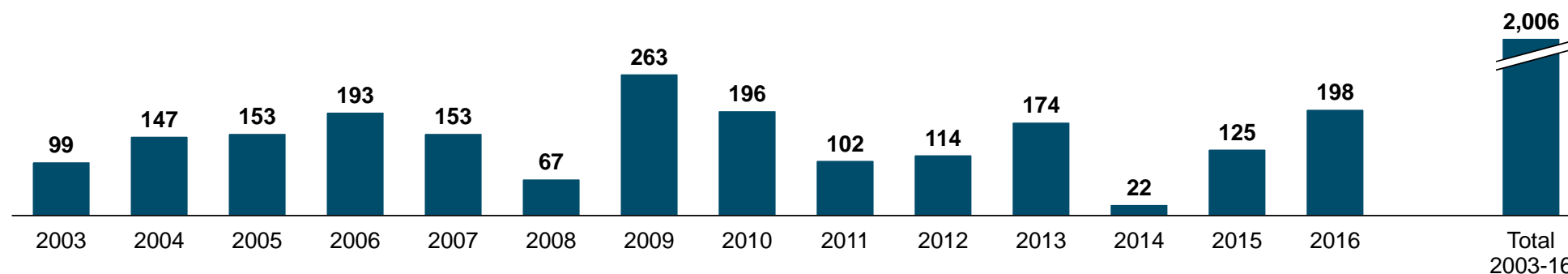
## Hachette Livre recurring EBIT

- 2003-2016, €M -



## Hachette Livre cash flow (after interest, taxes and CAPEX)

- 2003-2016, €M -

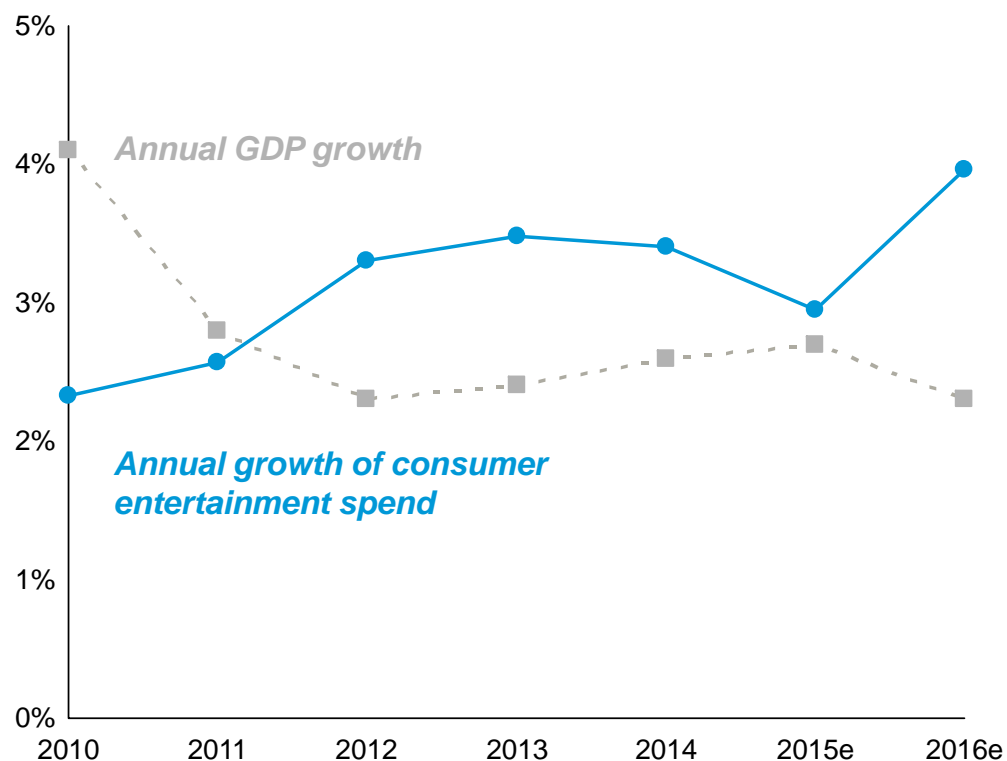


## AGENDA

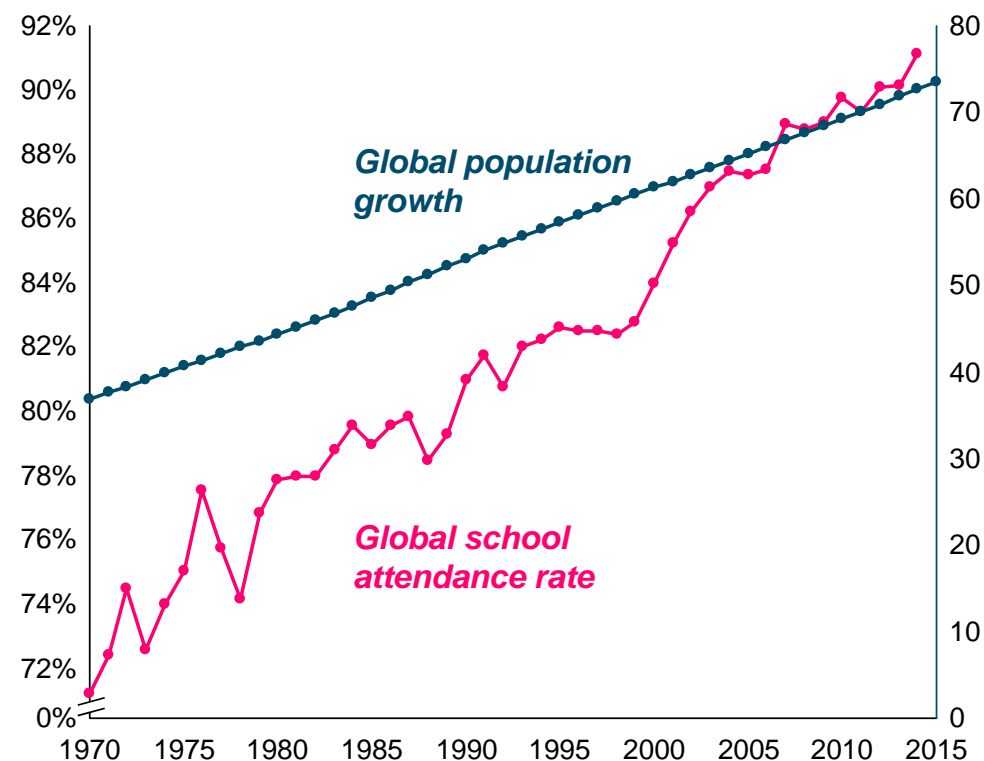
- Introduction
- How does publishing live up to investors' expectations?
  - Why invest in a content-oriented company?
    - ⇒ ***Content creation is and will remain a growth industry***
  - Why publishing vs another media?
- Why us?
- What next ?

# ENTERTAINMENT AND EDUCATION ARE FUNDAMENTAL AND SUSTAINABLY GROWING NEEDS

## Consumption of entertainment

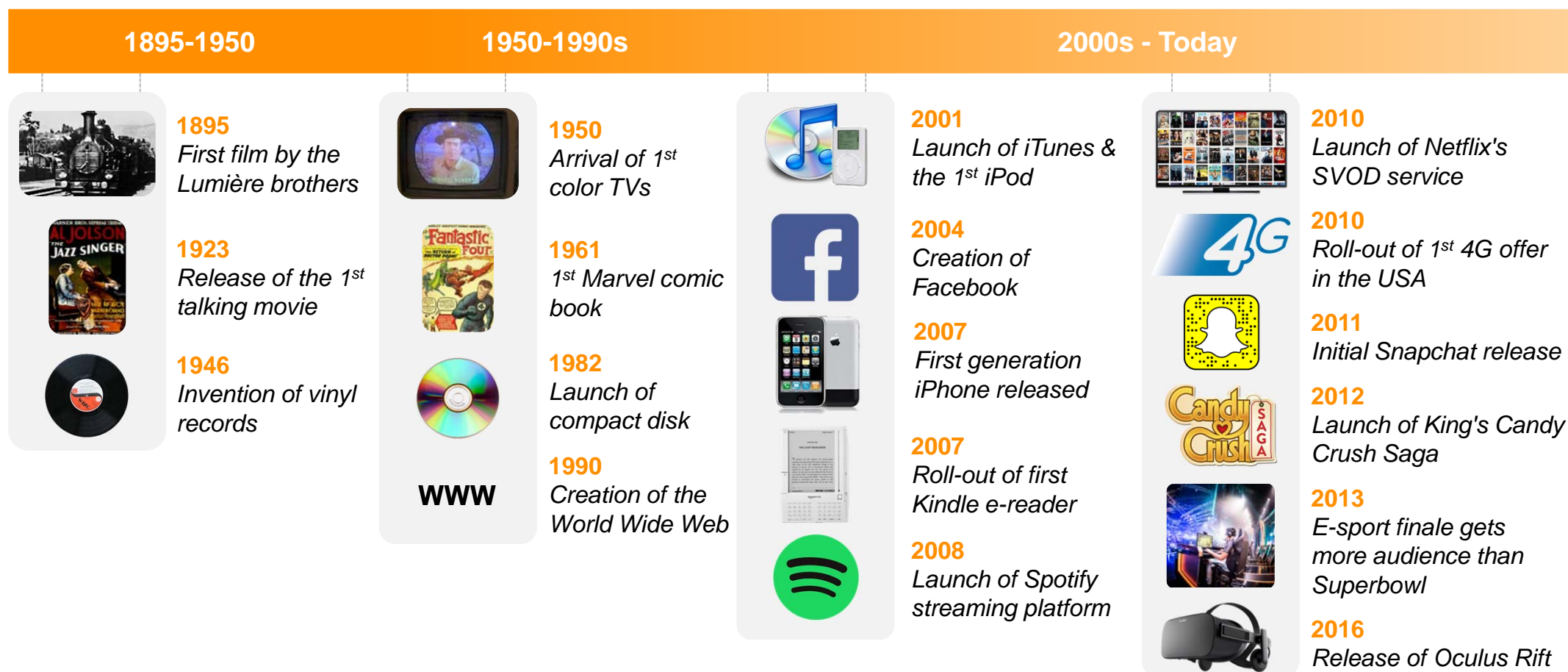


## Education of population worldwide



# INNOVATION ALLOWED CONTENT TO THRIVE, LEADING TO TODAY'S PROFUSION IN ENTERTAINMENT OFFERING

## Innovation milestones shaping entertainment





## SUCCESSFUL CONTENT CAN REACH WORLDWIDE AUDIENCES

### Book industry - Unit sales worldwide -

*The girl on the train*



~20M

*Millenium trilogy*



~80M

*"50 shades" series*



~125M

*Twilight saga*



~155M

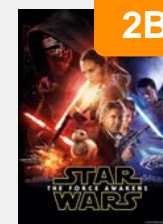
*Harry Potter books*



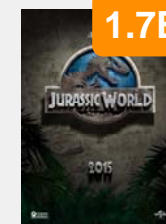
>450M

### Other content industries - Top 2010-2017 -

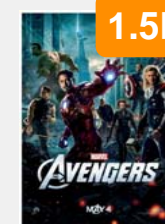
#### Cinema (Gross revenue, USD)



2Bn

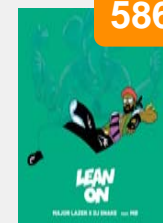


1.7Bn



1.5Bn

#### Singles (# of Spotify streams)



586M

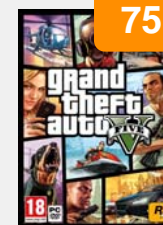


556M

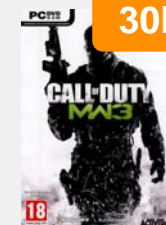


507M

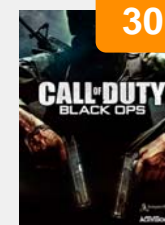
#### Video Games (Unit sales)



75M



30M



30M



## THE RACE FOR CONTENT ACQUISITION IS ON!

amazon.com®



**6 blockbusters** produced since 2015

NETFLIX



**600 hours** of original content produced in 2016

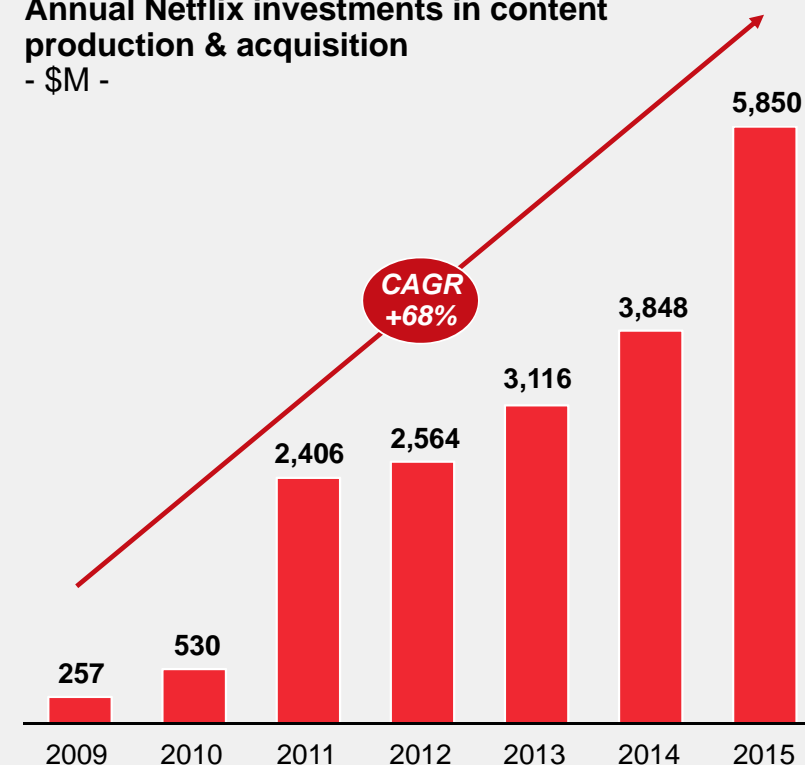


Co-production of latest **Europacorp / L. Besson** movie **Valérian**



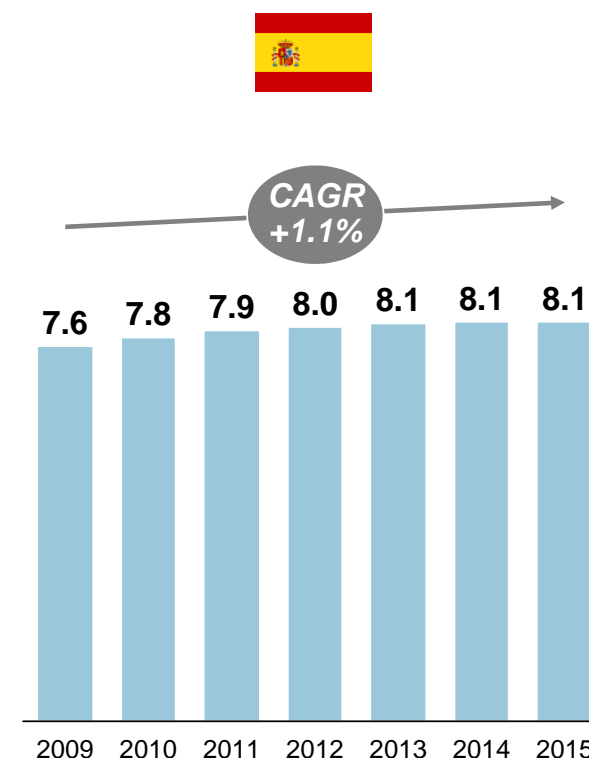
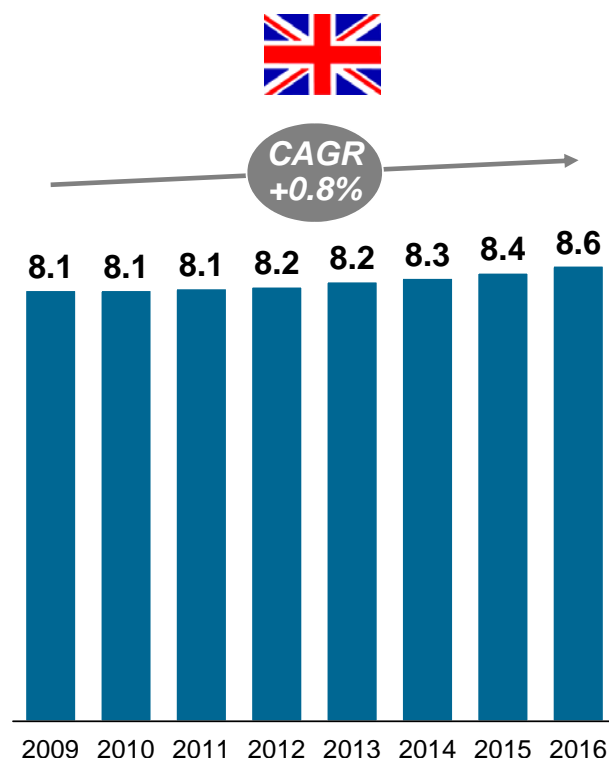
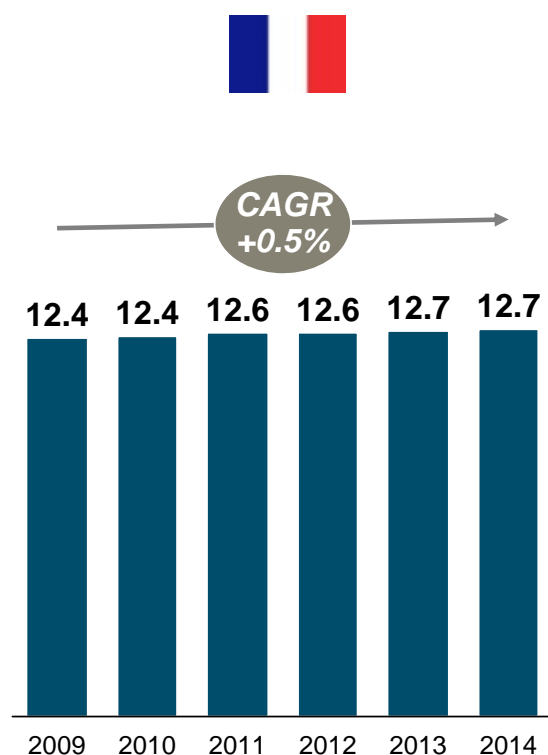
Creation of BT Sport with **exclusive rights** for **Sports transmissions**

Annual Netflix investments in content production & acquisition  
- \$M -



## SUSTAINABILITY OF NEED FOR EDUCATION IS SUPPORTED BY DEMOGRAPHICS

Number of K12<sup>1</sup> students  
- since 2009, millions of students -



<sup>1</sup>. K12 includes primary, secondary and vocational Education in France and in the UK; primary and secondary Education in Spain.  
Sources: Ministère de l'Éducation nationale, GOV.UK, Ministerio de Educación, Cultura y Deporte

## ENTRY OF NEW PLAYERS DEMONSTRATES ATTRACTIVENESS OF THE EDUCATION SECTOR

### Examples of new players - Education Market -



DigitalAssess



## AGENDA

- Introduction
- How does publishing live up to investors' expectations?
  - Why invest in a content-oriented company?
  - Why publishing vs another media?
    - ⇒ ***Publishing has the most attractive financial profile***
- Why us?
- What next ?

## COMMONALITIES CAN BE FOUND BETWEEN ALL CONTENT INDUSTRIES

All content industries...

...have to compose with **talent in limited quantity**

... **deal with artists** and their agents

... **cherry-pick** projects

... **are prototype industries:** each project is unique

... work with a **return on investment** approach

... need to **leverage technological evolutions**

# PUBLISHERS ARE THE IRREPLACEABLE LINK BETWEEN AUTHORS & READERS



## PUBLISHING HAS A LOWER-RISK INDUSTRY PROFILE... (1/2)

### Comparison of industry profiles

- Main features -



#### Publishing

- **Multiple houses within groups**, hedging individual performance
- **Numerous projects**
- **Limited budget per project** (large majority under €50k)
- **Contribution of best-sellers growing** but **not threatening** thanks to diversity and massive output: "Many eggs in many baskets"



#### Film industry

- **Consolidated groups**, sensitive to a single firm's performance
- **Few projects** at end of process
- **Massive budgets** (average production costs of French films in 2015: €4.5M)
- **High concentration of resources**: "Few eggs in same basket"



## PUBLISHING HAS A LOWER-RISK INDUSTRY PROFILE... (2/2)

### Comparison of industry profiles - Illustrations -



#### Publishing

... in two developed trade markets



**€4Bn** market with **over 100,000 titles**<sup>1</sup>



**\$24Bn** market with **over 300,000 titles**<sup>2</sup>

... as illustrated by major players



**200 brands,**  
**17k new titles, of which 12k in Trade,** in  
2016

**Top 10 sellers** generating **<5% of the**  
**Group Trade revenue**



#### Film industry



**\$1.6Bn** generated by **654 films**<sup>1</sup>



**\$11Bn** generated by **708 films**<sup>1</sup>



**5 studios,**  
**33 movies** in 2016<sup>3</sup>,  
**Top 9** generating **80% of Box Office**  
**sales**

1. 2015 figure

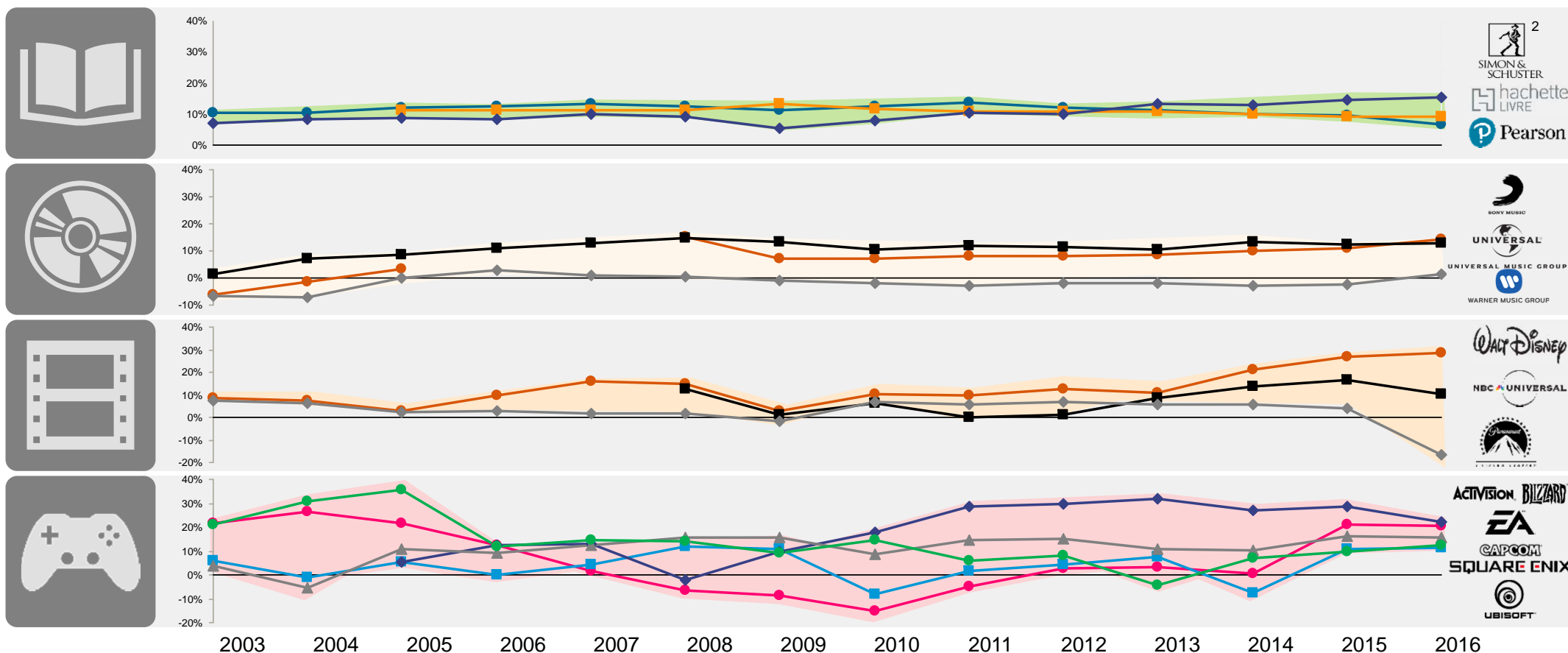
2. 2013 figure, excluding self-published titles

3. Including video-on-demand productions by Focus World

Sources: PWC, SNE, AAP, Box-office Mojo, desk research, Hachette Livre

## ... WHICH LEADS TO STABLE MARGINS

Margin rates per industry  
- 2003-2016, worldwide content activities<sup>1</sup> -

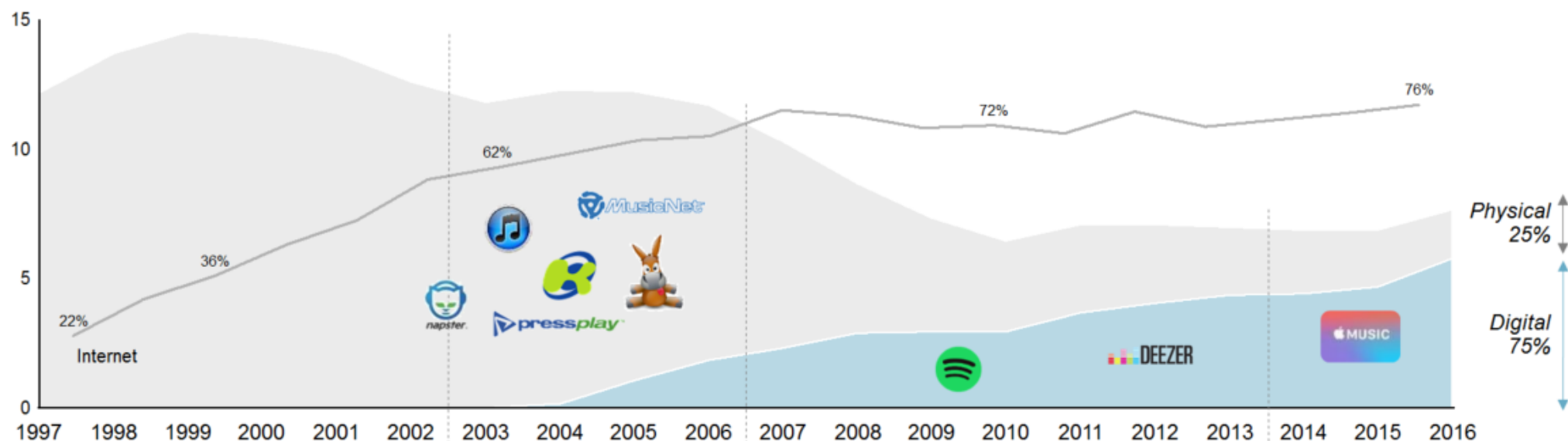


<sup>1</sup>. If not stated otherwise, movie majors: Profit Before Tax margin; Video Games and Publishing: EBIT; Music majors: Operating profit margin <sup>2</sup>. Operating profit before tax  
Sources: Publicly traded company reports, Capital IQ

# THE MUSIC INDUSTRY COLLAPSE RESULTED FROM LATE DIGITAL TRANSITION

## Music physical vs. digital sales and device penetration

- 1997-2016, \$Bn, % of US households equipped -



1 No adequacy between hardware and legal offer evolution

*Piracy, eventual sales loss*

2 Late & sub-optimal development of business models

*No control over pricing, further losses*

3 Growing digital market  
Paid subscriptions more than doubling between 2015-16

*Beginning of recovery*

# PUBLISHERS HAVE TAKEN PROACTIVE ACTIONS TO SUCCEED IN THE DIGITAL MIGRATION



## Music

Leverage of content to boost devices & services sales



Debundling leading to sales drop



Late legal offer, low barrier to piracy



Aggressive legal actions damaging brand image



## Pricing



## Business model



## Digital offering



## Reaction to piracy



## Publishing



Control over ebook prices to maintain margins across value chain



No debundling or "Pay as you read" offer



Content conversion & availability managed by industry players



Late-comer advantage: consumer maturity & technological solutions

## AGENDA

- Introduction
- How does publishing live up to investors' expectations?
- Why us?
  - ⇒ *Hachette Livre is the most balanced, diversified and resilient publishing group*
  - ⇒ *Hachette Livre develops a clear strategy and has a strong track record of delivery*
- What next?

# HACHETTE LIVRE OWNS A CONSTELLATION OF FAMOUS BRANDS EVERYWHERE IN THE WORLD

## Hachette Livre's brands - A selection -



## EDITORIAL HAS BEEN KEPT LOCAL, WHILE STRATEGIC VISION IS GLOBAL

### LOCAL MARKETS

- ✓ Deep **understanding of customer** expectations
- ✓ **Healthy competition** between publishing Houses
- ✓ **Boutique-style creativity**

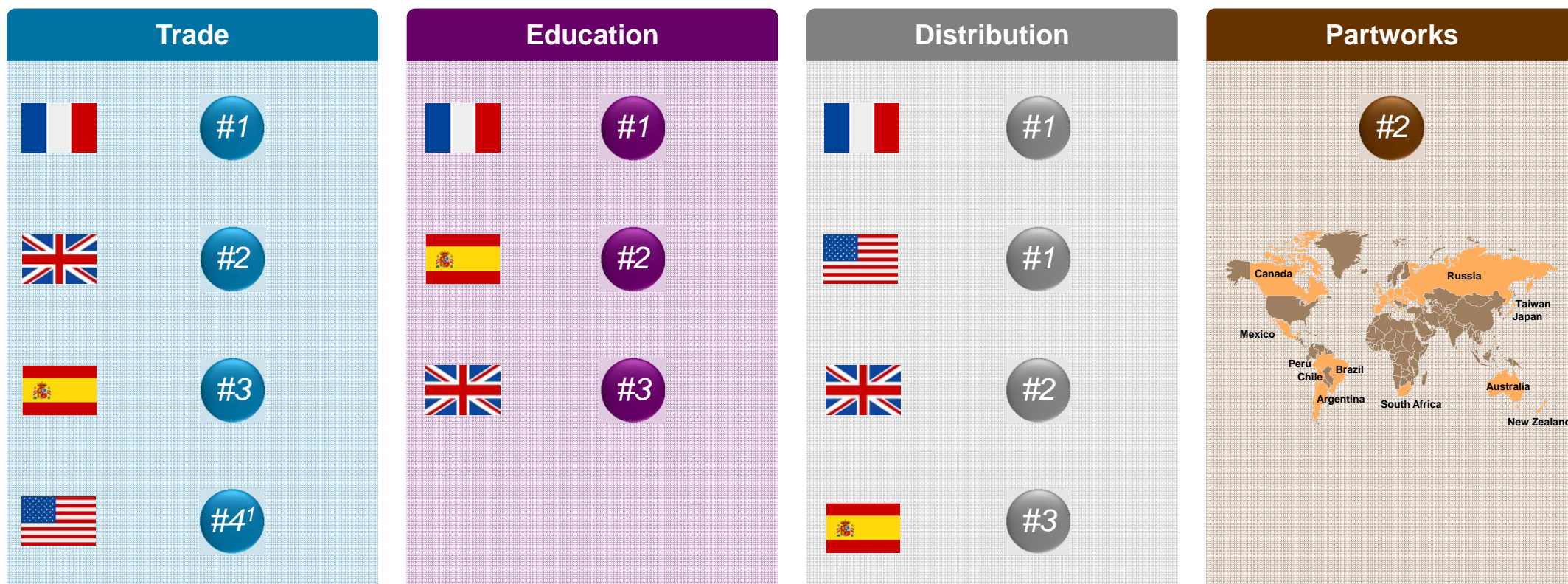
### GLOBAL VISION

- ✓ Provide **strategic vision and direction**
- ✓ Monitor and promote **technological changes**
- ✓ Monitor **relationship with key retailers**



# HACHETTE LIVRE HAS DEPLOYED A LEADERSHIP STRATEGY IN 4 ATTRACTIVE MARKETS

Ranking by country of presence  
- 2016 -

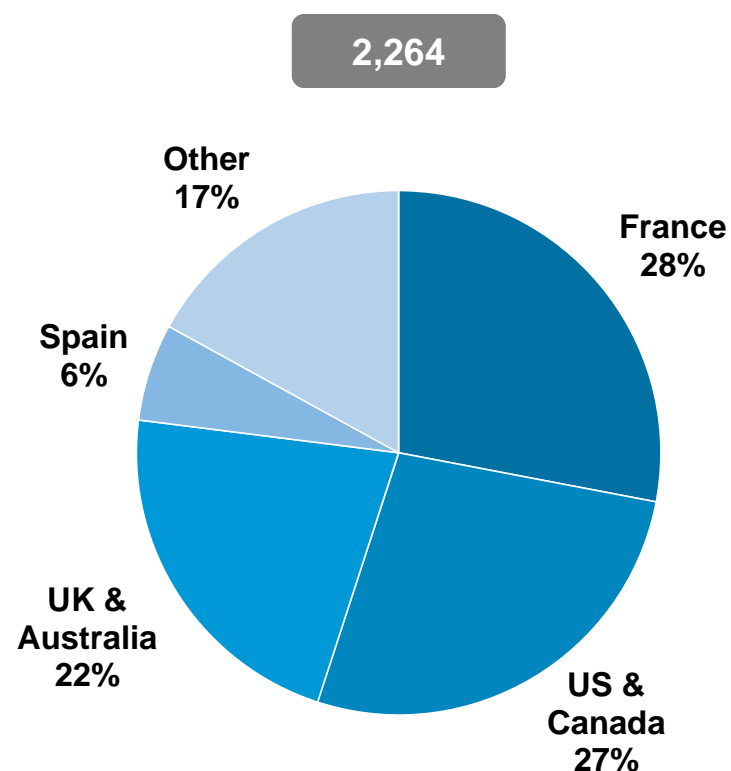


1. Considering the acquisition of Perseus Book Group in 2016  
Source: Hachette Livre

## HACHETTE LIVRE IS THE ONLY MAJOR PUBLISHER WITH A BALANCED PORTFOLIO ACROSS GEOGRAPHIES AND MARKET SEGMENTS

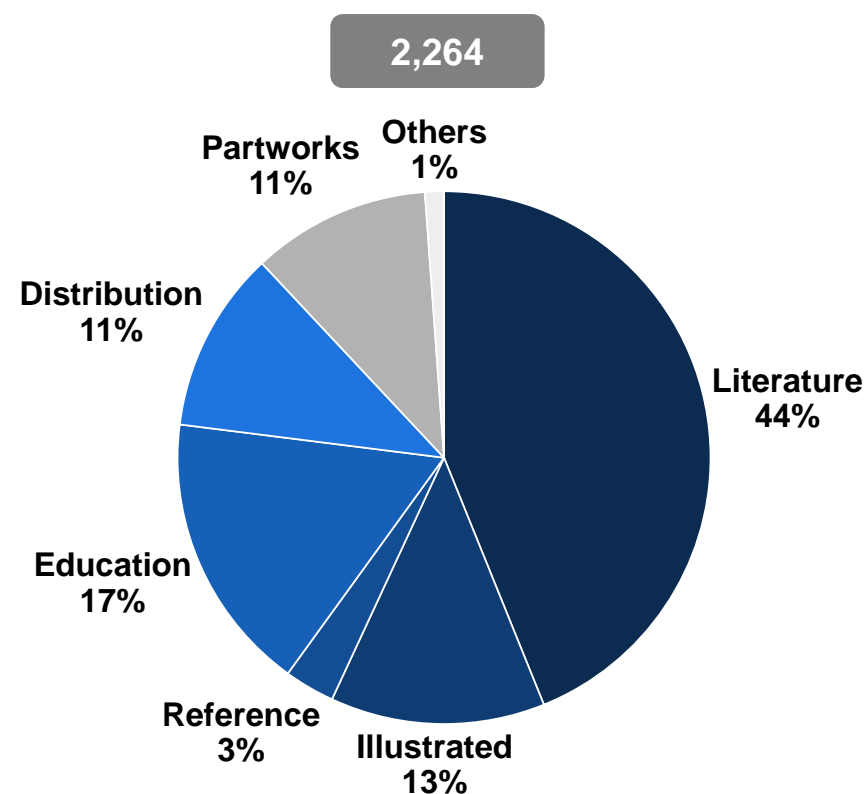
Breakdown of HL revenue by country of destination

- 2016, €M, % -



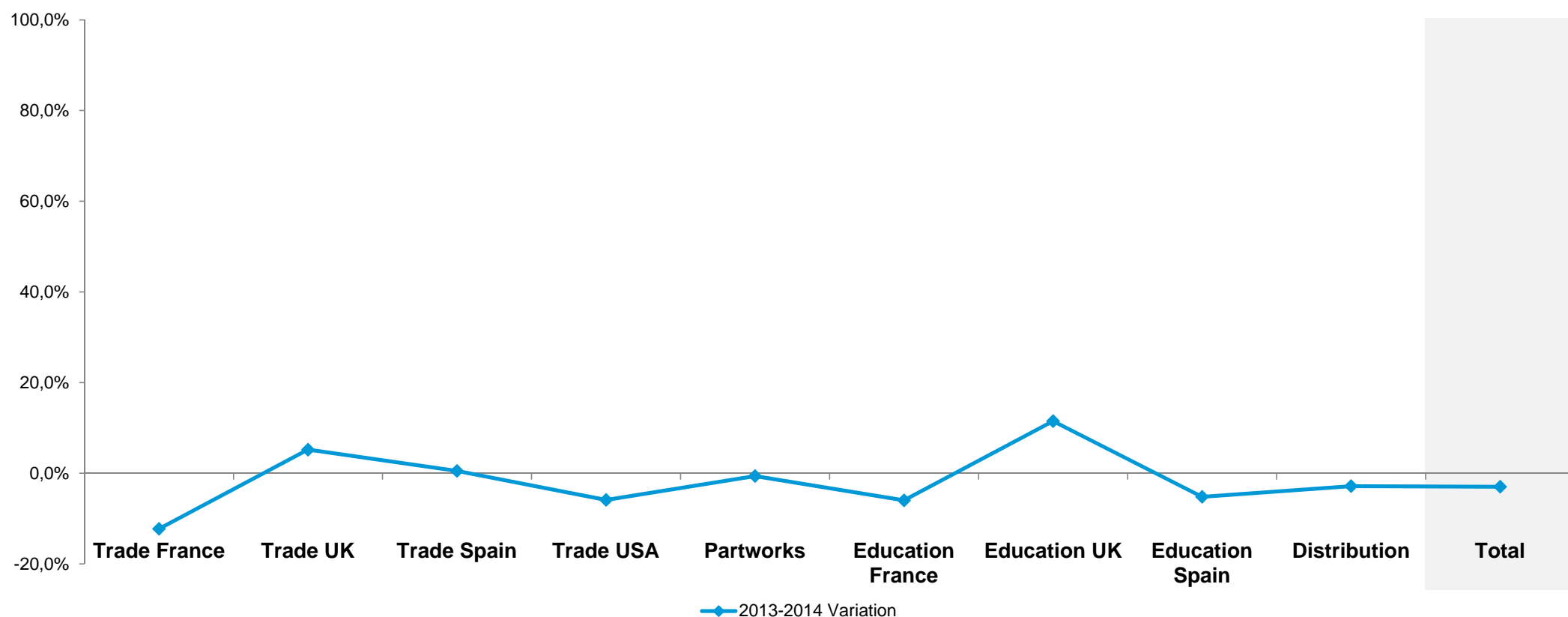
Breakdown of HL revenue by activity

- 2016, €M, % -



## HACHETTE LIVRE'S UNIQUE MODEL ALLOWS IT TO LINEARIZE REGIONAL AND BUSINESS CYCLES

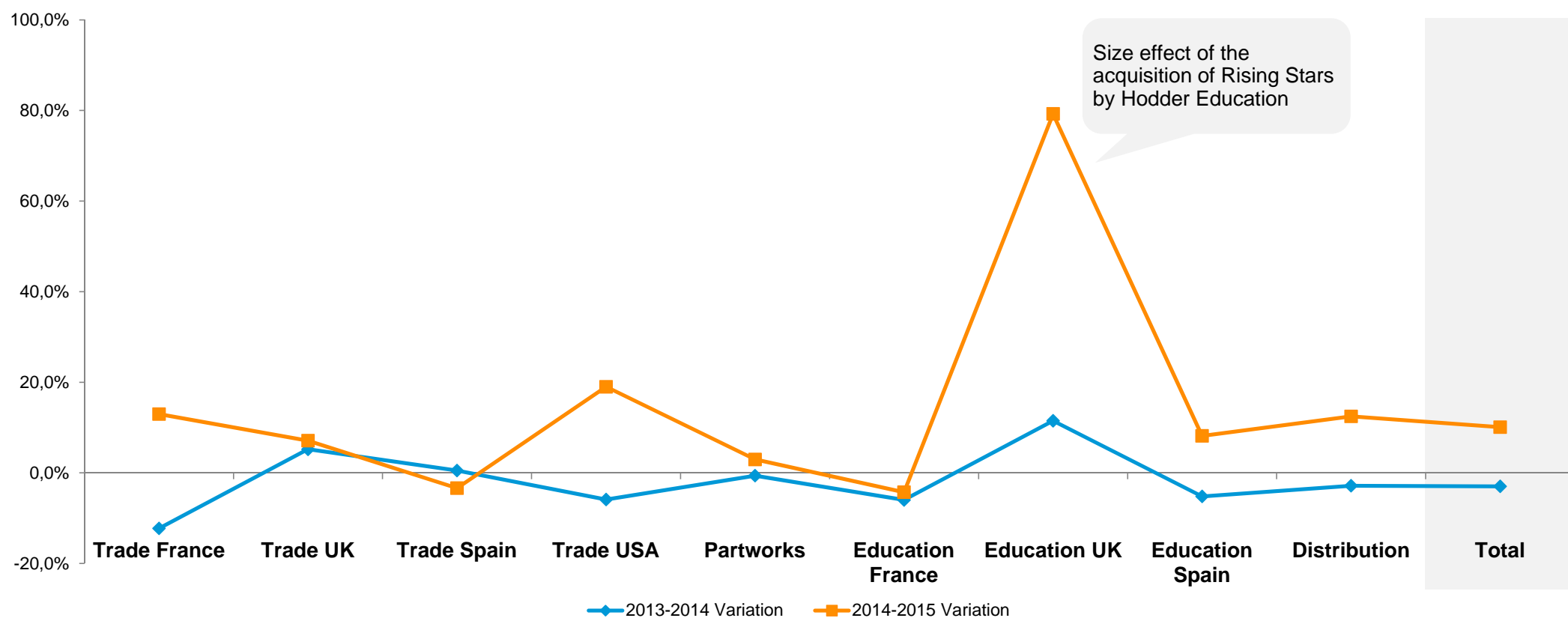
Evolution of Hachette's sub-segment revenue<sup>1</sup>  
- 2013-2016, % YoY variation -



<sup>1</sup>. Acquisitions taken into account in considered time periods  
Source: Hachette Livre

## HACHETTE LIVRE'S UNIQUE MODEL ALLOWS IT TO LINEARIZE REGIONAL AND BUSINESS CYCLES

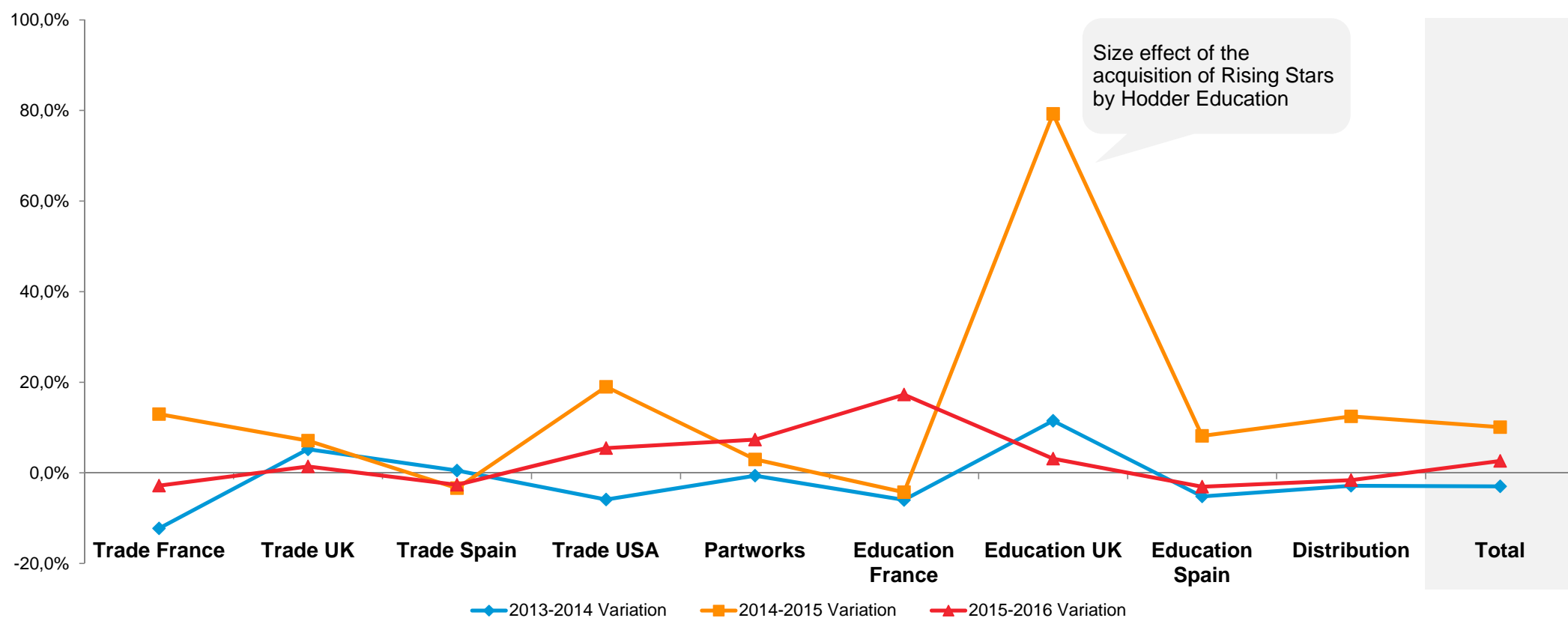
Evolution of Hachette's sub-segment revenue<sup>1</sup>  
- 2013-2016, % YoY variation -



<sup>1</sup>. Acquisitions taken into account in considered time periods  
Source: Hachette Livre

## HACHETTE LIVRE'S UNIQUE MODEL ALLOWS IT TO LINEARIZE REGIONAL AND BUSINESS CYCLES

Evolution of Hachette's sub-segment revenue<sup>1</sup>  
- 2013-2016, % YoY variation -



<sup>1</sup>. Acquisitions taken into account in considered time periods  
Source: Hachette Livre

## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility

## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

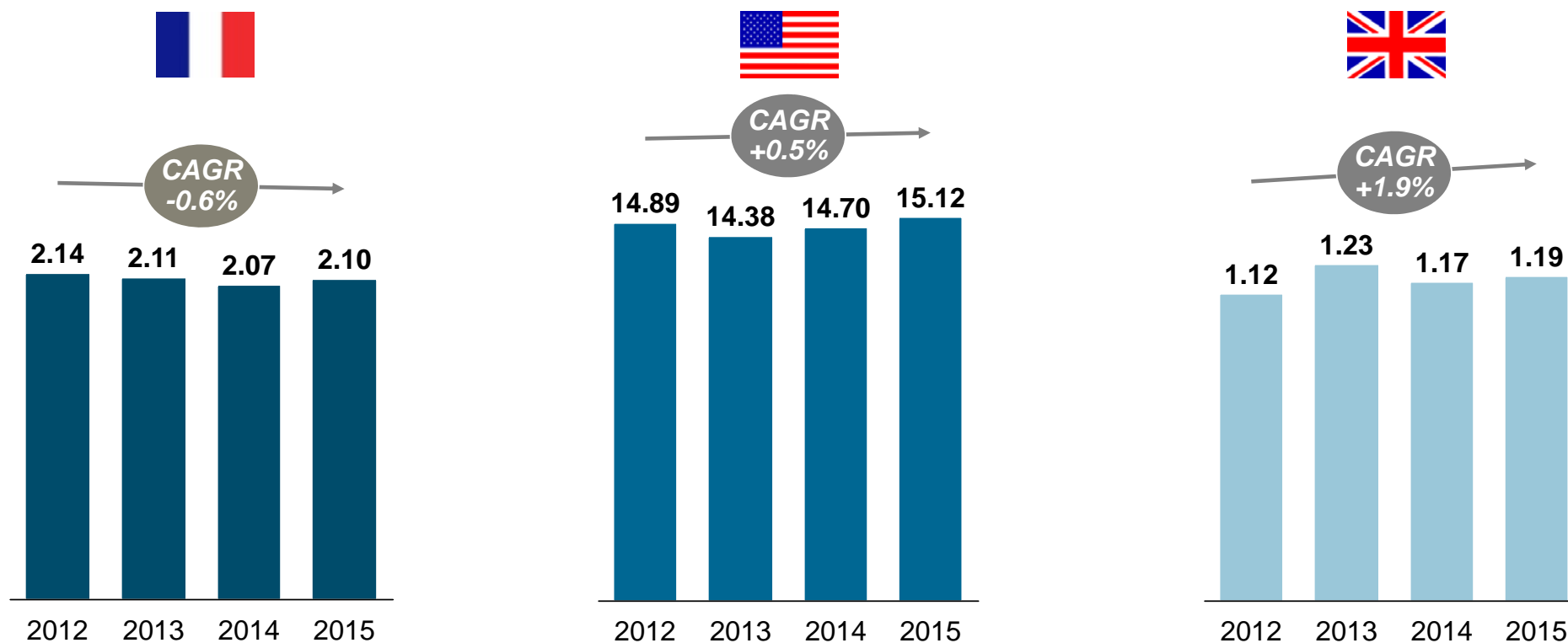
- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility



## TRADE MARKETS ARE MORE OR LESS FLAT IN HACHETTE LIVRE'S CORE GEOGRAPHIES

### Trade market total net sales evolution

- 2012-2015, Trade, Home sales only, Print+Digital, €Bn / \$Bn / £Bn -

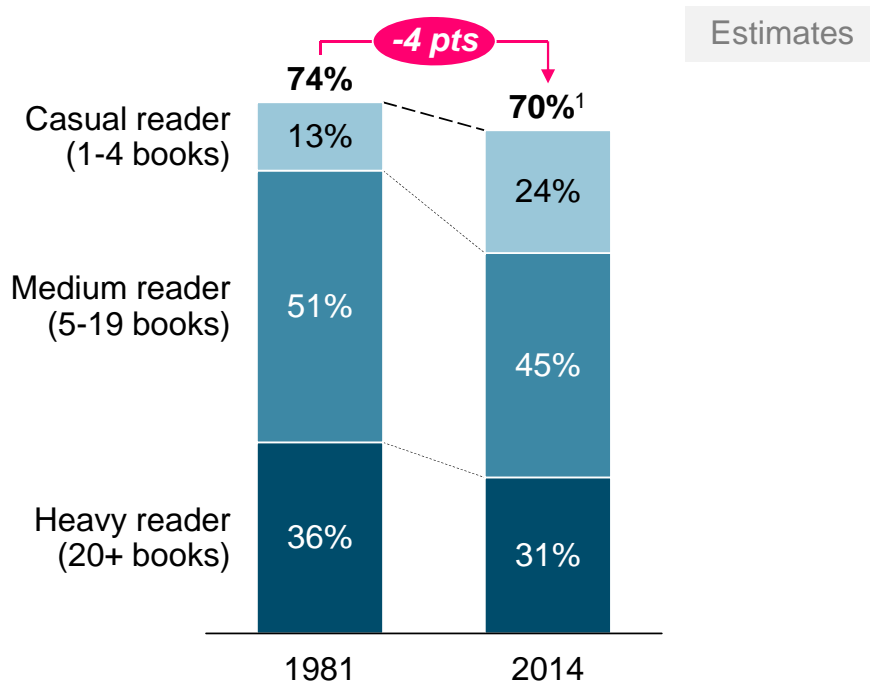


Notes: French figures include export sales. US figures include category "Other" from AAP reports  
Sources: SNE, AAP, PA

## WHILE PENETRATION OF BOOK READING DECLINES SLIGHTLY, HEAVY READERS STILL ACCOUNT FOR THE MAJORITY OF VOLUME

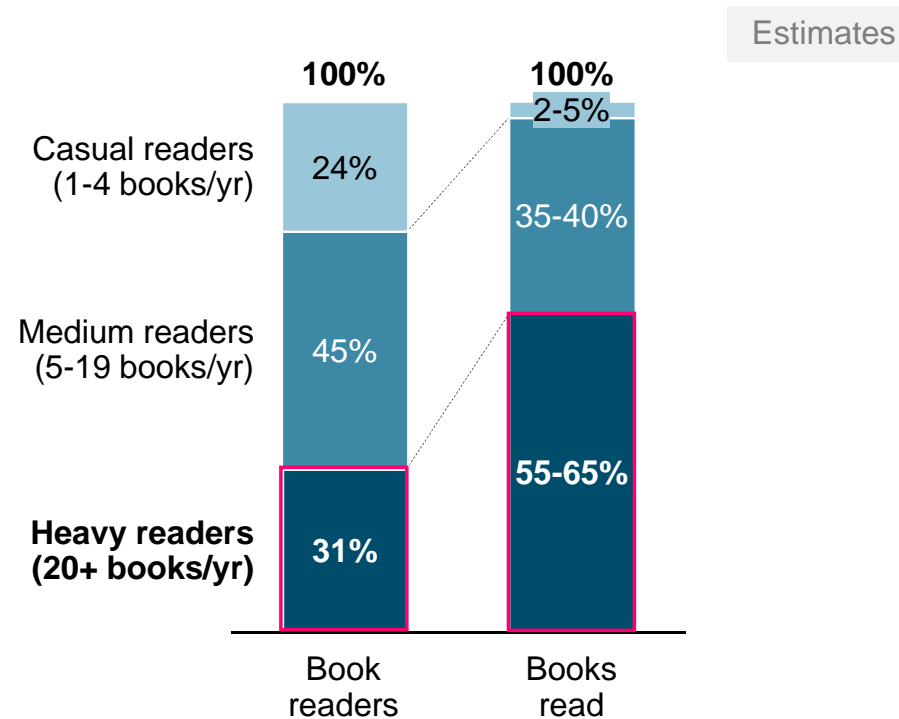
### Proportion of readers<sup>1</sup> in French population

- 1981-2014, France, in % of 15yr+ population -



### Book readers and share of read books

- 2014, France, % of readers pop<sup>2</sup>, % of books read -



**Growing and ageing populations are likely to contribute to a stabilization of publishing markets**

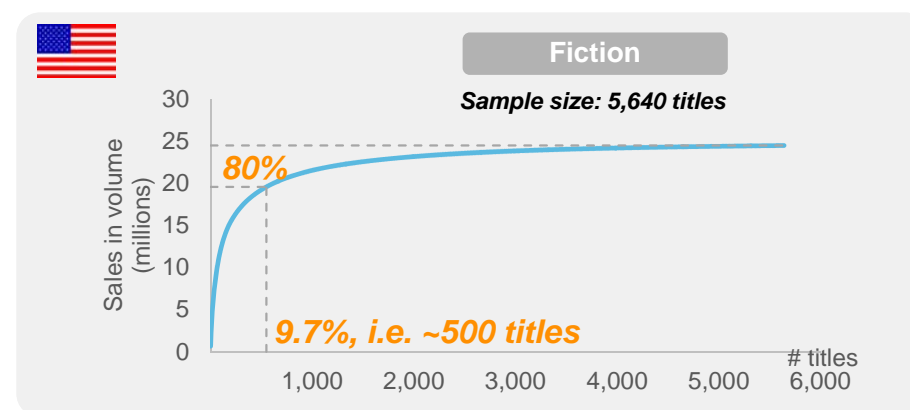
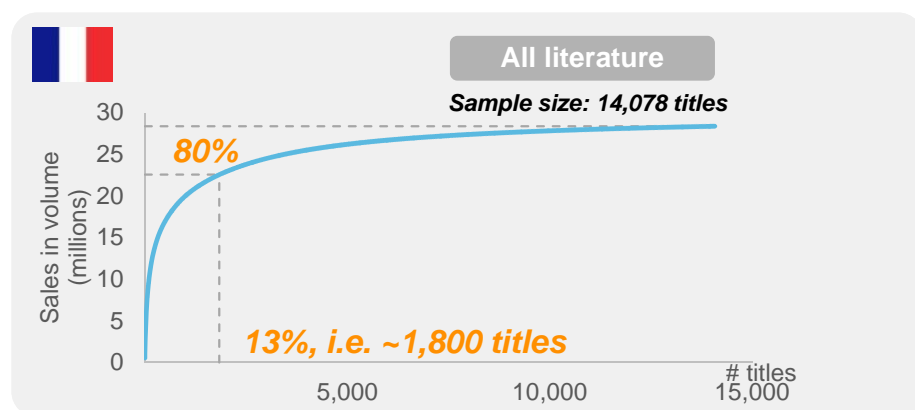
1. 1981-2014 readers percentage not comparable with more recent Ipsos figures, due to methodology change enforcing inclusion of all books in interviewees' answers

2. 15+ years population

Sources: DEPS, CNL- IPSOS, IFOP, A.T. Kearney

# BEST-SELLERS ARE STILL STRONG CONTRIBUTORS, BUT TOP 10 NEVER ACCOUNT FOR MORE THAN 15% OF SALES

**Adult hardback book sales**  
- 2016, # of titles, print, millions of units -

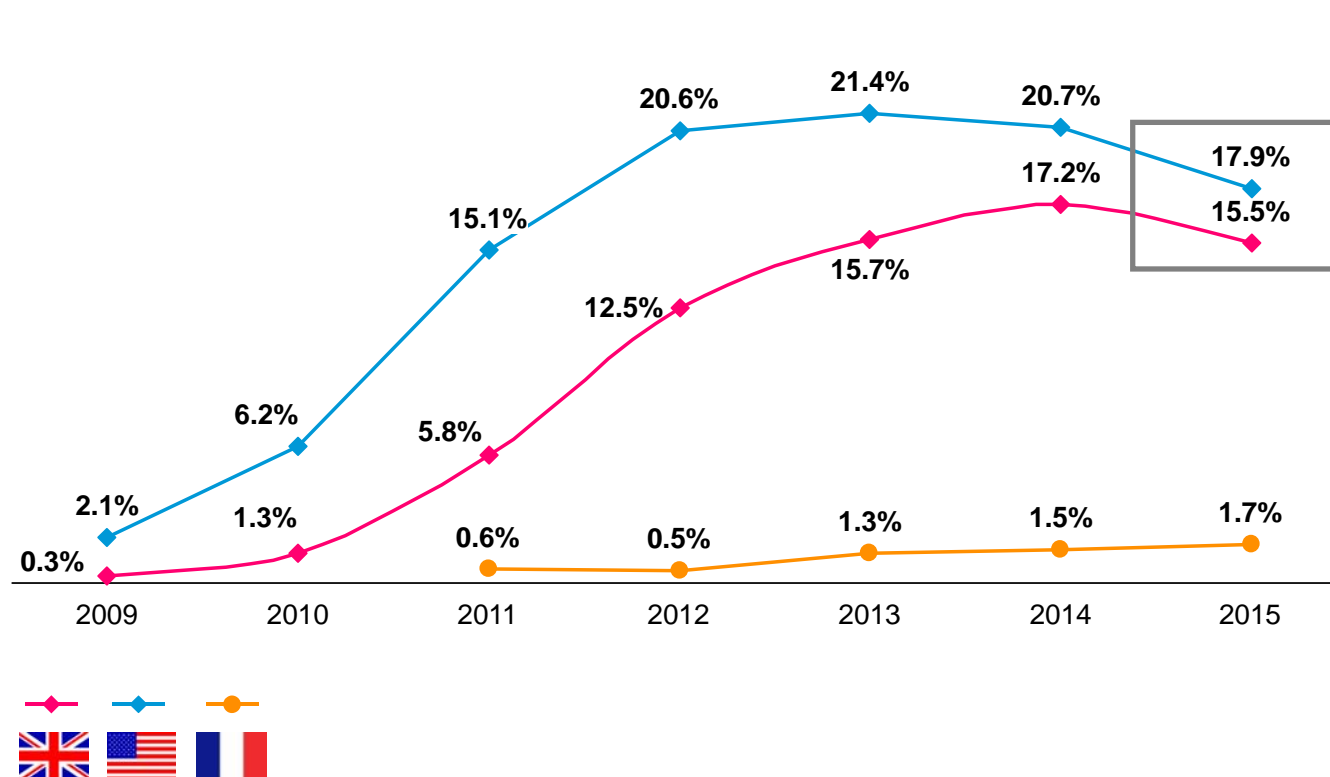


**Top 10** generating  
**<10%** of sales in volumes

**Top 10** generating  
**<15%** of sales in volumes

## eBOOKS ARE DECLINING IN MATURE GEOGRAPHIES

eBook penetration in Trade markets  
- 2009-2015, Trade, % of sales in value -



Current **eBook sales drop** in the US and the UK due to:

1

**Peaking device penetration**

2

**Ebook “buyer fatigue”**

Notes: Penetration in the UK includes all digital formats (i.e. eBooks, Audiobooks, online subscription offers, other formats); rate, based on PA figures, potentially underestimated  
Sources: GfK (France, 2011), SNE (France, 2012-2015), PA, Bookstats (US, 2009-2011), AAP (US, 2012-2015)

## DIGITAL HAS INTRODUCED NEW RULES TO THE GAME

### Other key digital trends in Trade

- **Growing share of online sales**, with Amazon holding a leading position
- **Copyright under pressure**
  - Development of Google Books (supported by the Supreme Court, rejecting the Authors' Guild appeal in April 2016)
  - European Commission project to unify European copyright rules
- Improved **access to customer data**, bringing deep reader insight
- **New expectations from authors**, in terms of digital marketing and promotional tools
- **New sources of bestsellers** (bloggers, self-publishing platforms, etc.)
- **New digital offers** to retain consumers attracted by **alternative forms of entertainment**
- Increasing share of content consumed on **mobile**

# HACHETTE LIVRE HAS SUCCESSFULLY RIDDEN THE DIGITAL WAVE

## Main initiatives launched by Hachette Livre

- **Hachette Digital, engaging with readers through digital channels**
  - Website factory: best-in-class online presence for our publishers and authors, performance monitoring
- **Cross-channel CRM platform** to develop a **direct relationship with readers**
  - Channels including email, SMS, surveys and competitions, push notifications and social media
- **Digital scouting practices**, with authors detected on blogs, self-publishing platforms, etc.
  - **Wattpad Partnership**, providing Hachette Livre a privileged access to self-published authors
- **Author care strategy**, notably regarding information
  - e.g. Author portal by HBG providing up-to-date sales information and analytics
- **Enriching reading experience & collecting data with Shazam Partnership**
  - Shazam app enabling to access exclusive content created by Hachette Livre



**2,000,000+**  
unique contacts (FR, UK)

**80+**  
campaigns sent every month

**65+**  
websites, apps and other  
sources of data connected

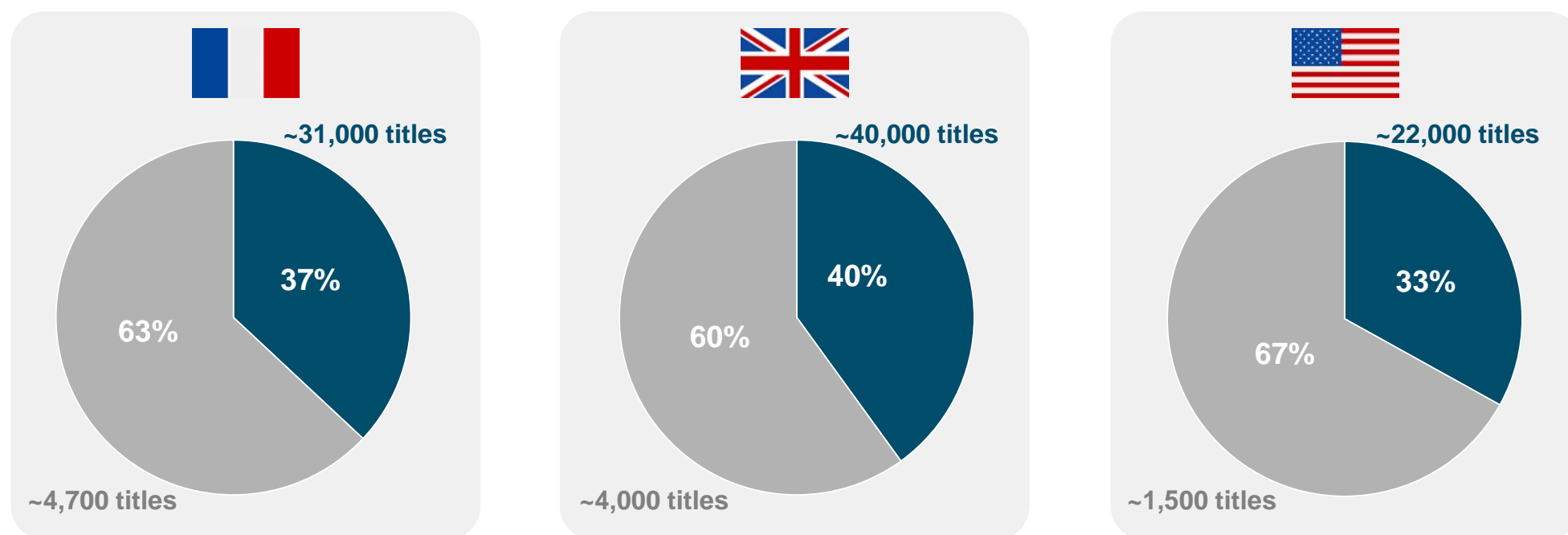
**30+**  
deployed publishers

**wattpad**



## HACHETTE LIVRE DEEP BACKLIST IS KEY TO ITS REVENUE & PROFITABILITY

Hachette Livre Trade revenue breakdown  
- 2016 -



■ **Backlist** – Titles published before 1<sup>st</sup> January 2016

■ **Frontlist** – Titles published after 1<sup>st</sup> January 2016



# HACHETTE LIVRE PUBLISHES ~17,000 NEW TITLES EVERY YEAR, OF WHICH ~12,000 TITLES IN TRADE

## A selection of Hachette Livre's 2016 trade frontlist

### Fiction & Non Fiction



NICHOLAS  
SPARKS



DAVID  
BALDACCI



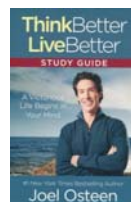
JK  
ROWLING



JAMES  
PATTERSON



STEPHEN  
KING



JOEL  
OSTEEN



ADELAÏDE  
DE CLERMONT  
TONNERRE



ANTOINE  
LEIRIS



G. DAVET  
F. LHOMME



LAURENT  
GOUNELLE



MICHEL  
CYMES



GAEL  
FAYE

### Illustrated & Reference



KES  
GRAY



MIKE  
HORN



PASSEPORT



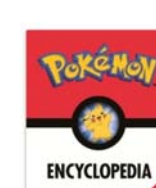
HIRO  
MISHIMA



GUINNESS  
WORLD  
RECORDS



ELLA  
WOODWARD



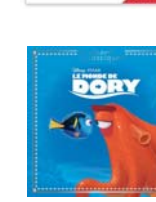
POKEMON



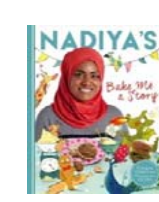
SABRINA  
GHAYOUR



GUIDE DU  
ROUTARD



DISNEY



NADIYA  
HUSSEIN



LAROUSSE  
DE POCHE

# HACHETTE LIVRE'S EDITORIAL TEAMS INNOVATE CONSTANTLY, WITH REMARKABLE SUCCESS

Examples of growth areas identified by Hachette

## Boxes



- **New segment**, launched and successfully established in France
- Started with *Diner au verre*, published by Hachette Pratique in 2007, initiated by a number of **competitors worldwide**

**FORMAT CREATION**

## "Simplissime"



- **Huge success of cook book**
- **450k copies** sold in France alone
- **12 spin-offs** bring total to **2,350 copies** in print in France
- **12 translations, 15 countries**
- **Development of brand content and TV shows** broadcasted by major TV channels in France (TF1, TMC)

**BRAND CREATION**

## "Art Therapy"



- Phenomenal success of **Art Therapy Coloring Books** in France, the UK, the US, starting 2014 (with a worldwide reach)
- **7.2M copies** sold worldwide
- Development of **other formats and concepts** (diaries, posters, boxes, calendars, etc.)

**CONCEPT CREATION**

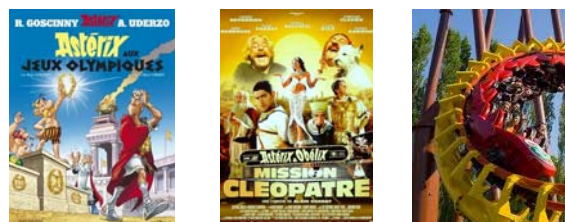
# HACHETTE LIVRE OWNS HIGH-VALUE LICENSES AND FRANCHISES WITH CONSIDERABLE GROWTH POTENTIAL

## Licenses



- **Strong expertise** in the publication of books based on renowned licenses
- **Long-term and privileged relationships with licensors**
- **Extension of licensing** partnerships to **other countries** (China, Russia, Lebanon, etc.)

## Astérix



- **All rights controlled by Editions Albert René**, owned by Hachette Livre
- **352M comic books sold** worldwide
- **110 translations**: most translated graphic series in the world
- **8 animated films & 4 live action movies**
- **1 theme park**
- **100 licenses**

## Enid Blyton



- One of the **best-known writer of children's books** with a portfolio of ~800 titles
- Translated into **40 languages**
- **500M copies** of Enid Blyton sold worldwide to date
- **All rights owned by Hachette** (audio, movies, books...)



## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

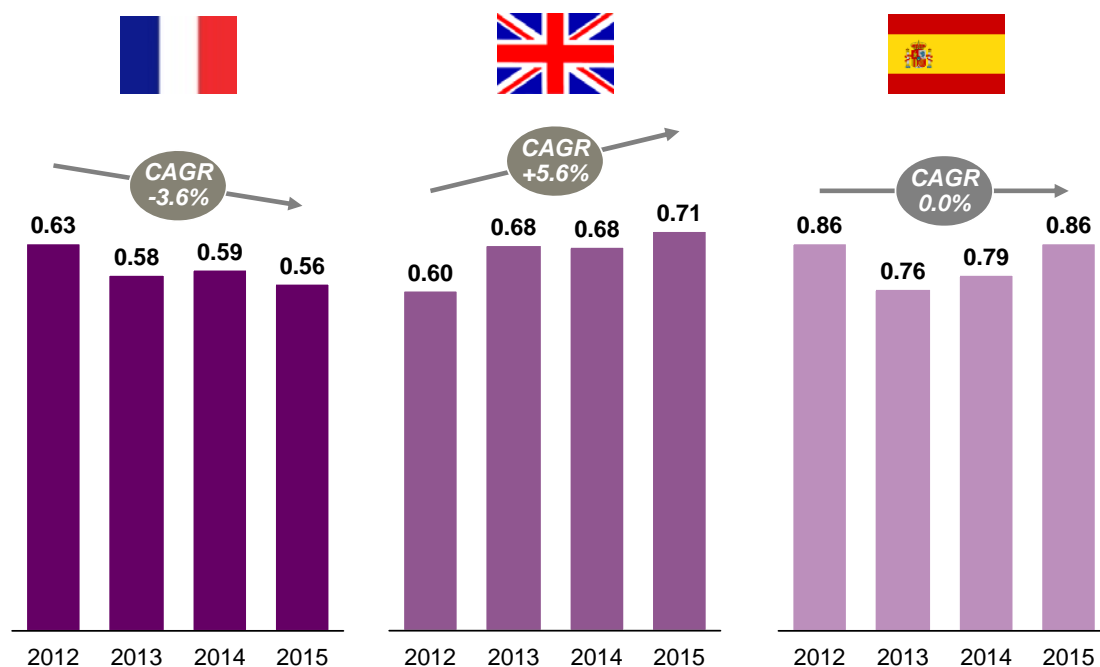
- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility



# EDUCATION IS A CYCLICAL MARKET

## Publishing market total net sales evolution

- 2012-2015, Education, Home sales only, Print+Digital, €Bn / £Bn / €Bn -



## Education markets

- **Cash intensive:** Players must have the ability to mass produce up front
- **Dependent on government priorities:** State decisions have major impact on markets
- **K12 segment publicly-funded:** Purchasing decision is not made by pupils
- **Influencer-driven market:** Teachers are the ones choosing teaching materials

Note: French figures include: *Enseignement scolaire, STMG, SHS*. UK figures include: *School, ELT, Academic/Professional*. Spain figures include: *Texto no universitario, Científico-técnico y universitario, Ciencias sociales y Humanidades*.  
French figures include export sales.  
Sources: SNE, PA, FGEE

# HACHETTE LIVRE BASES ITS COMPETITIVE POSITIONING ON STRONG ASSETS

## Hachette Livre's edge on Education markets

### Renowned brands



### Strong multi-local presence

- **#1** in France, **#2** Spain, **#3** in UK
- **Credibility in Education circles**
- **Limited synergy** between countries, strong focus on local curriculums

### Multi-language Know-how

- Served by **international acquisitions**
- Creating **potential for further expansion**

### Proven ability to anticipate changes

- Knowledge of **local policies**
- **Innovative** learning solutions

### Financial capacity

- Ability to sustain **high capital requirements**

# EMERGING PRACTICES ARE LIKELY TO TRANSFORM EDUCATION MARKETS

## Emerging educational practices

- 1 Away from "one size fits all"
- 2 Increase students' engagement & enrich knowledge delivery
- 3 Measuring impact of education on student outcome
- 4 Spread of mobile platforms
- 5 Focus on skills

## Trends



### Personalization

*Adaptive learning, artificial intelligence*



### Gamification & interactivity

*Video content*



### Services in addition to content

*Analytics, scoring, assessment*



### Fragmented content

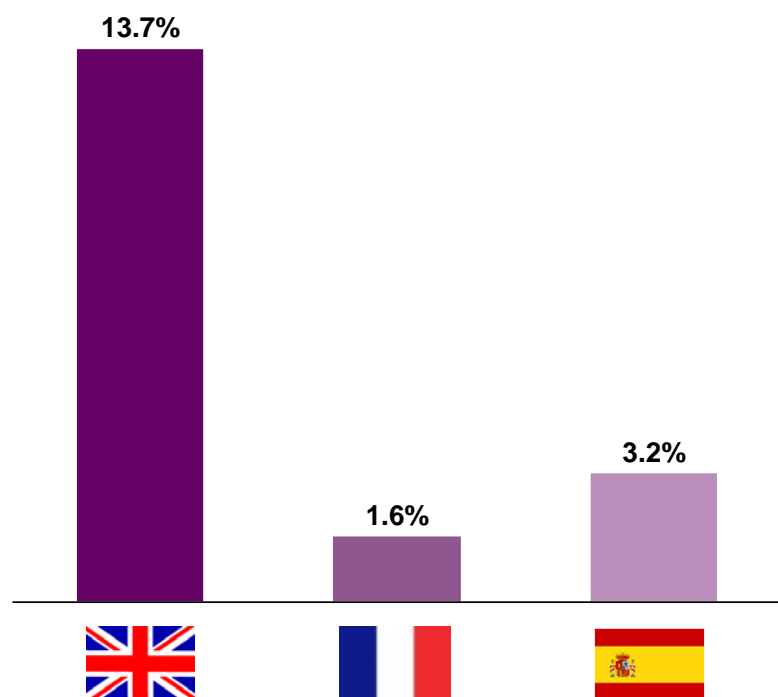


### Practice

*Creativity, multidisciplinary approach, problem solving, collaborative methods, peer-to-peer*

## DESPITE MARKET APPETITE, DIGITAL PENETRATION GROWS MORE SLOWLY THAN EXPECTED

Share of digital in K12 sales  
- % of total revenue, 2015 -



### Delaying factors

#### Budget & Equipment

- Historically **low budget** for digital content and digital equipment leading to
  - Lack of **hardware** in schools
  - Lagging **connectivity** (broadband)
- In K-12, limited learning applications of family devices

#### Market Fragmentation

- Fragmentation in **formats**
- **Technical challenges** in deploying digital content
- Lack of interoperability between systems

#### Teachers training

- Lack of training within teacher population, **restraining usage**

#### Connectivity

- Lack of **quality connections** (broadband) preventing larger use of devices in the classroom, especially in rural areas

Notes: Penetration in the UK includes all digital formats (i.e. eBooks, Audiobooks, online subscription offers, other formats). Penetration in France and in Spain is based on eTextbooks  
Sources: EPC, SNE, FGEE



# HACHETTE LIVRE IS READY TO RIDE THE DIGITAL WAVE

## Digital content

- **Enriched and interactive eTextbooks, granular content, websites, and auto-corrective exercises paths / banks and augmented reality**
- Unified **reader apps for digital resources** with embedded libraries and teacher-specific features: Educad hoc, Dynamic Learning, CGAvisor, AULAdigital...
- **4 digital resources banks implemented** for French Ministry for Education (Sept. 2016)
- **Origen**, multi-environment interactive digital resources generator

## Personalization

- **Partnerships** with technology providers & startups to **leverage data** (Knewton, Microsoft, Blinklearning, etc.)
- **Acquisition of Kwyk**, startup providing a **differentiated and gamified learning platform**
- **Espacio Digital Greta** – platform providing personalized paths & interactive content

## Services, in addition to content

*Analytics, scoring, assessment*

- **Dynamic Learning Generation 2, with assessment functions**
- **MARK** (Rising Stars) – specialized marking, reporting and interactive assessment tool
- **Assessment Bank and Exam Builder** – online assessment and marking tools for teachers (licensed to a UK examination organization)
- **GestiónAULA** – Modular, administrative and academic services for schools, with innovative assessment functions

## Gamification

- **Edugames and serious games**



Initiatives 2017 / 2018

# HACHETTE LIVRE IS PREPARED TO LEVERAGE ITS KNOW-HOW IN 3 MAJOR LANGUAGES TO EXTEND ITS INTERNATIONAL FOOTPRINT

Hachette's recent acquisitions in Education & potential areas of expansion

## Hodder Education Caribbean



(acquired in 2014)

- Full coverage of Caribbean education cycle
- Strengthening position in Math, English, Science & Economy

## Rising Stars

(acquired in 2015)



- Specialized in Primary Education
- Present in 8,000 schools in the UK
- Distributed globally

## Hodder Education Singapore



(acquired in 2016)

- Specialized in Geography and Social Sciences
- Long-term significant growth potential in neighboring countries

Potential areas of expansion for Education segment

- In English
- In French
- In Spanish

## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility

# HACHETTE LIVRE OPERATES A MULTI-POLAR, STRATEGIC & FINANCIALLY ATTRACTIVE DISTRIBUTION BUSINESS

## Key facts & figures

- #1** in France      **#1** in the US
- #2** in the UK      **#3** in Spain

~360,000+ m<sup>2</sup> of distribution centers

580m+ of books processed each year

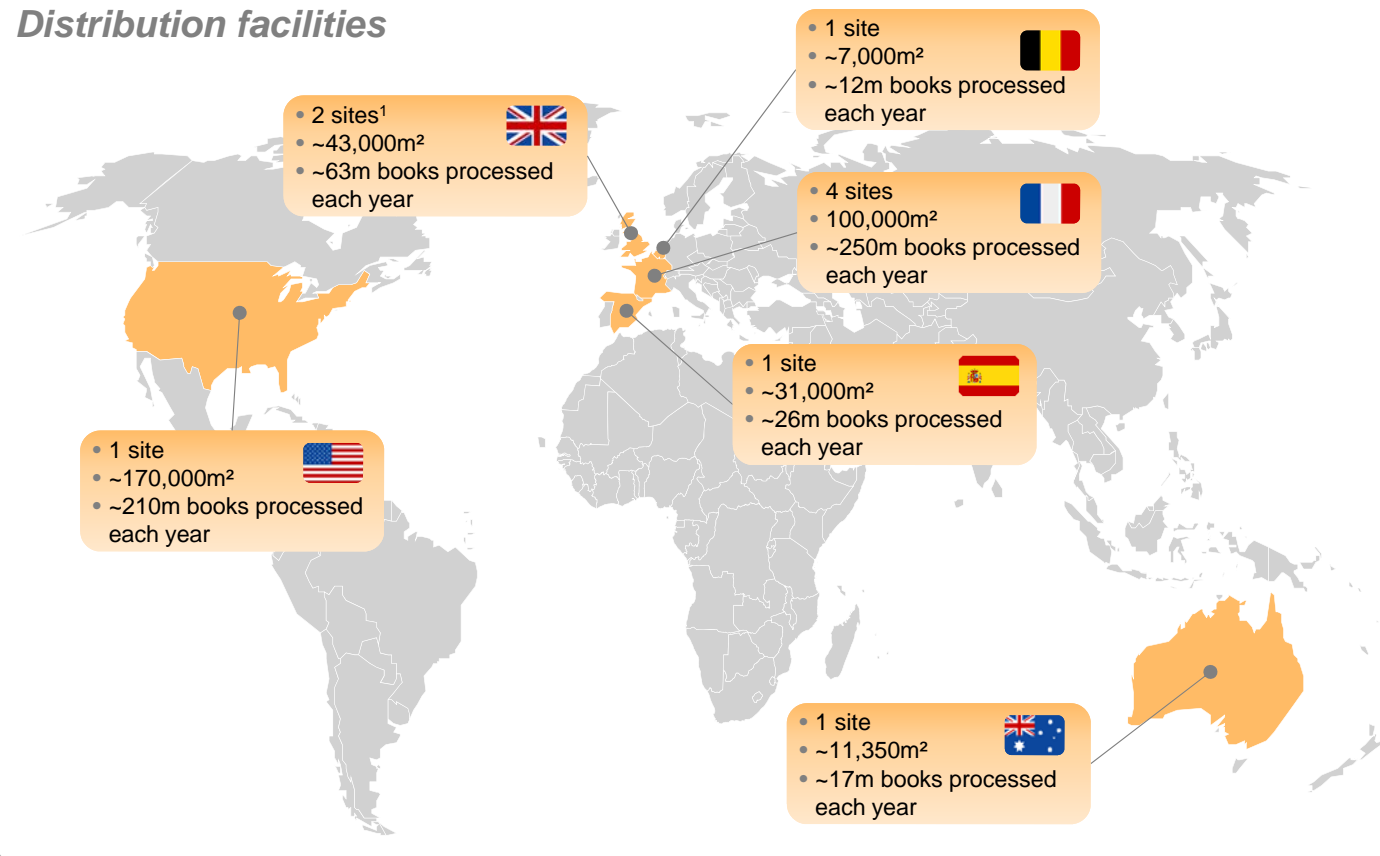
**Global eBook delivery** platform

~40% third-party clients in volumes

## Business fundamentals

- **Capital & labor intensive**, creating high barrier to entry
- **Relative** – Profitability driven by volume, efficiency and technology
- **Negative working capital**

## Distribution facilities



<sup>1</sup>. Merger of the two distribution centers starting from 2018/2019  
Source: Hachette Livre

## THE DISTRIBUTION BUSINESS IS CONSTANTLY OPTIMIZED

### Distribution optimization – Key initiatives

**Merger of the 2  
distribution centers  
in the UK starting  
2018/2019**

**New third party contracts  
signed in key territories:**



Disney



O. Jacob, Bayard



Pearson

**Continuous efforts  
on the cost structure**

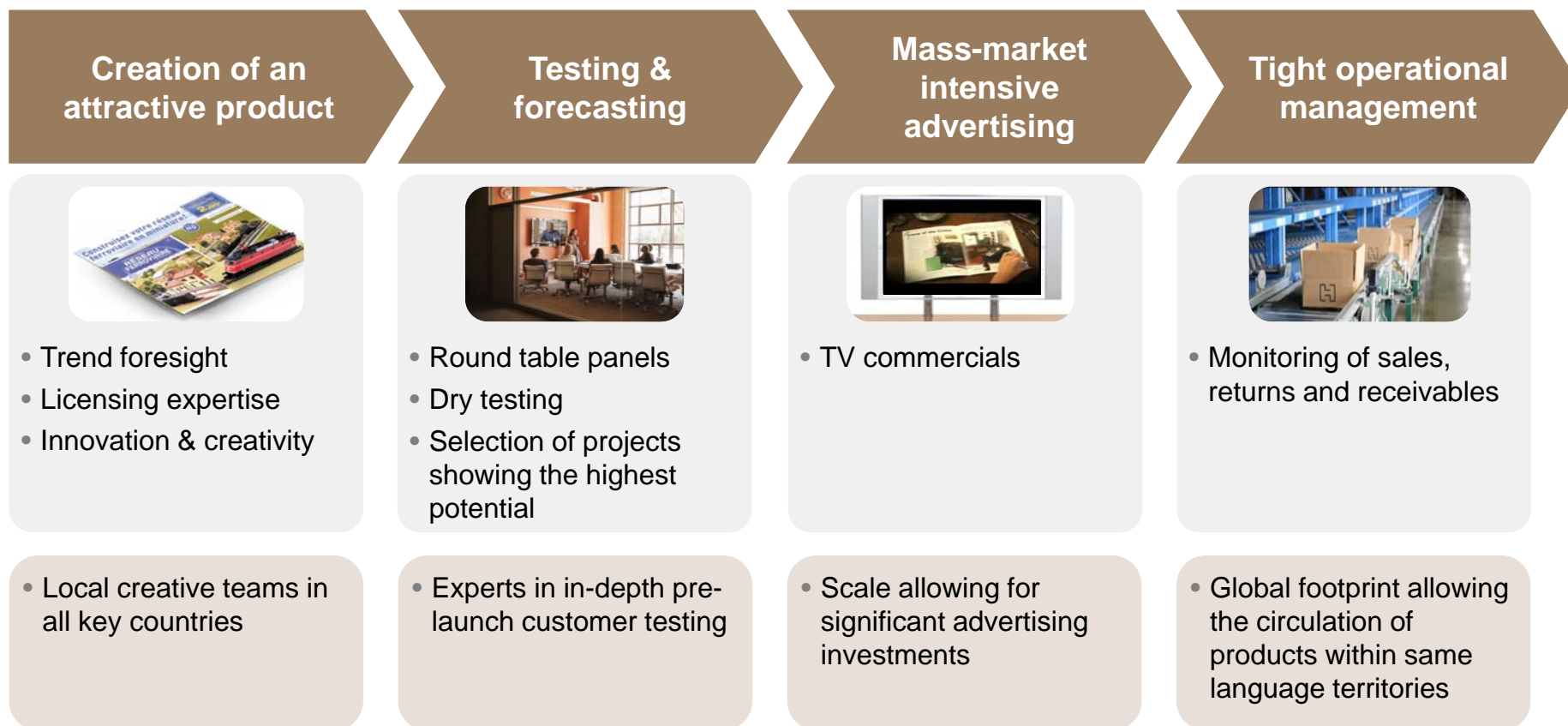
## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks**
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility



## PARTWORKS COMBINE ARTISTIC CREATION & SCIENTIFIC TESTING

### Key steps in the launch of a new partwork collection



# HACHETTE COLLECTIONS IS THE #2 GLOBAL PLAYER IN PARTWORKS

## 2016 ranking & key figures

**#2** Worldwide

**27** countries

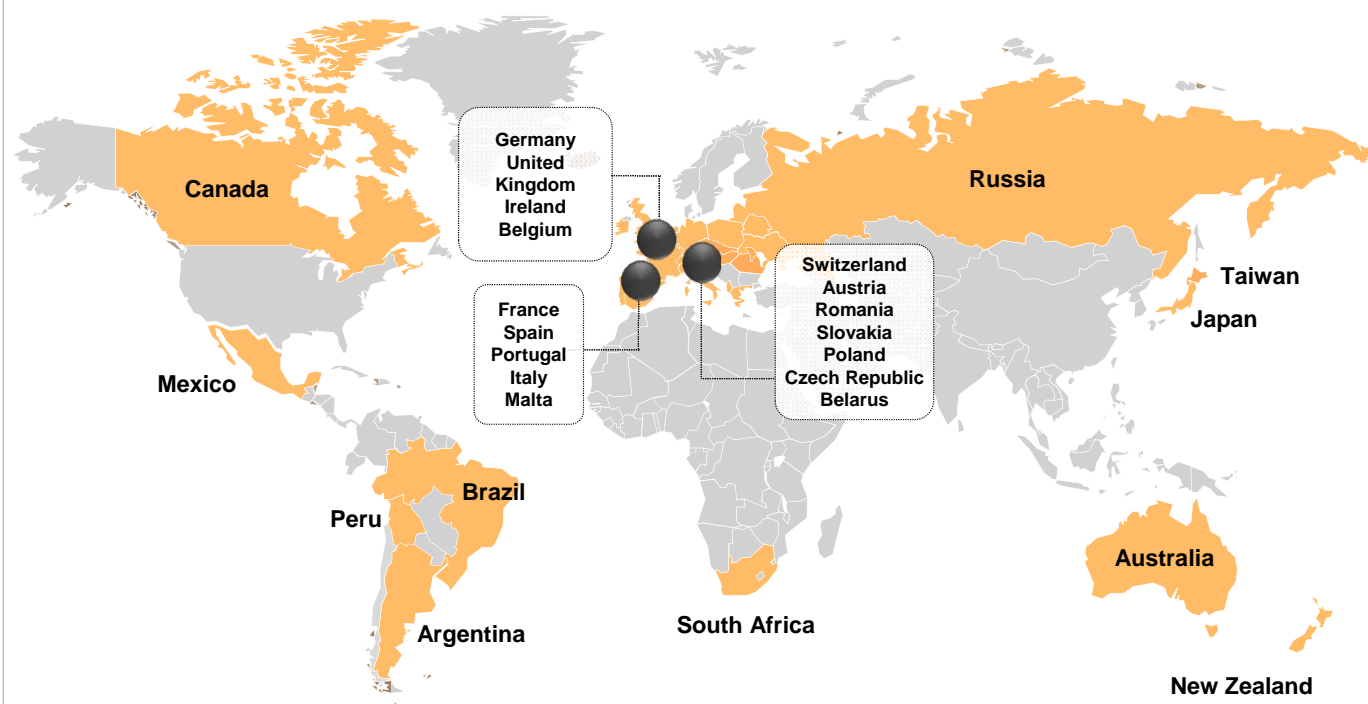
**12** languages

**164** employees

**67** launches

**182** active collections  
around the world

### Countries of presence





## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility

# HACHETTE LIVRE ORGANIZATION RELIES ON TALENTED INDIVIDUALS AND LEAN RESOURCE MANAGEMENT

## Hachette Livre's publishers: Pillars of our organization

- Appointment of a **new generation of publishers**



## Joining forces & sharing best practices

- **Adult, Children, Education Steering Groups**
- **COO board, CIO board**
- **CRM & shared digital strategies**

## Lean organization

- **UK: All departments** in a single office and **merger of sales forces**
- **US & France: New building** for corporate, divisional and many imprint functions
- **Staff downsizing**, when necessary
- **Distribution optimization**

# HACHETTE INNOVATION PROGRAM: A FAR-REACHING AND AMBITIOUS UNDERTAKING



- **Connected to regional ecosystems and to a wide network of startups**
- **Supported by influencers and key entrepreneurs**

## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility

## HACHETTE LIVRE HAS PROVEN ITS TAKEOVER EXPERTISE

Hachette Livre's after tax return on investment in acquisitions  
- 2016, % -



- Acquisition in **1996**
- Return on investment **15%**



- Acquisition in **2004**
- Return on investment **9%**



- Acquisition in **2006**
- Return on investment **9%**



- Acquisition in **2007**
- Return on investment **13%**



- Acquisition in **2008**
- Return on investment **14%**



- Acquisition in **2014**
- Return on investment **16%**



- Acquisition in **2014**
- Return on investment **14%**

## ACQUISITIONS GENERATE SIGNIFICANT SYNERGIES

### Key synergies generated by acquisitions



More volume for distribution and sales force,  
at marginal cost



Centralization of back office functions  
enabling optimization of office space



Optimization of production and shipping costs





## OVER THE PAST YEARS, HACHETTE LIVRE HAS DELIVERED AGAINST 7 KEY OBJECTIVES

- 1 Grow our business in Trade, in the midst of a digital revolution
- 2 Strengthen & diversify our presence in Education
- 3 Keep investing in our Distribution business
- 4 Develop Partworks
- 5 Nurture publishing talent and creativity, optimize current organization
- 6 Pursue a successful M&A strategy
- 7 Lead the industry in terms of social & environmental responsibility

## HACHETTE LIVRE IS A LEADING PLAYER OF INDUSTRY IN TERMS OF SOCIAL & ENVIRONMENTAL RESPONSIBILITY

### Key actions

- Social responsibility -



**Diversity** based on **gender, ethnicity and disability**



All vendors subject to **strict standards** and monitored by **independent watchdog**



Hachette Livre, a **founding member** of **PEN International's Publishers Circle**



**Non-profit organizations** subsidized through **employee "godfathering" system**

### Key actions

- Environmental responsibility -

**Scope 3 carbon footprint assessment** every 3 years (France)



**80% FSC or PEFC-sourced paper** worldwide



A company-wide comprehensive action **plan to cut carbon emissions** (-25% since 2008)



**Fiber testing program** going global





## AGENDA

- Introduction
- How does publishing live up to investors' expectations?
- Why us?
- What next ?
  - ⇒ ***Further strengthen innovation & digital reach***
  - ⇒ ***Consolidate the industry***

## HACHETTE LIVRE'S KEY ASSETS GOING FORWARD: A REMINDER

### Publishing market

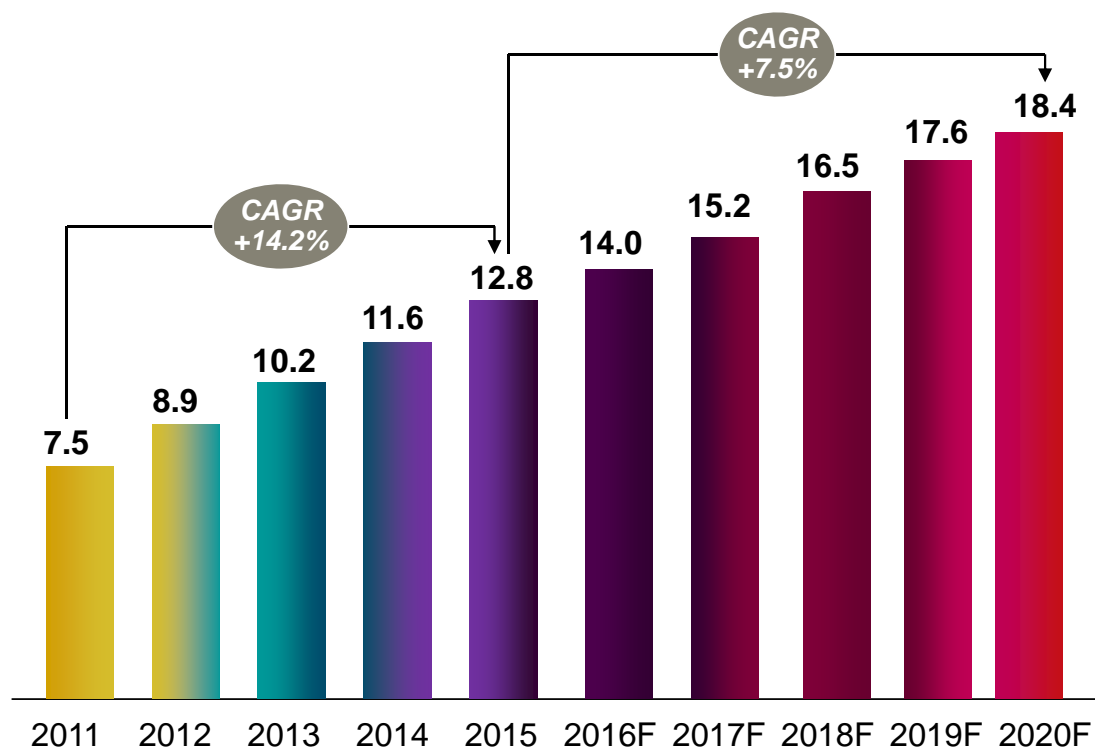
- **Large & sustainable** publishing market, with **ever-rising innovation expectations**
- **Critical size needed**
- **Stable and lower-risk** compared to other content-related industry
- **Cash generative**
- **Limited growth potential in mature markets**

### Hachette Livre

- **Global leading position**, built upon the **talent and creativity** of editorial teams & **collection of prestigious brands**
- **Unique model, multi-local and diversified**
- Delivering **stable profits & strong ROCE**

## TIME AND SPENDING TAKEN OFF READING ARE NURTURING GROWTH IN OTHER CONTENT MARKETS SUCH AS GAMING

Mobile Gaming<sup>1</sup> market growth  
- 2011-2020f, worldwide, \$Bn -



### Gaming is now addressing the whole population:

#### Gamer in the 2000s

- Male, 18-34 y.o.
- Techy
- Averse to marketing & traditional media

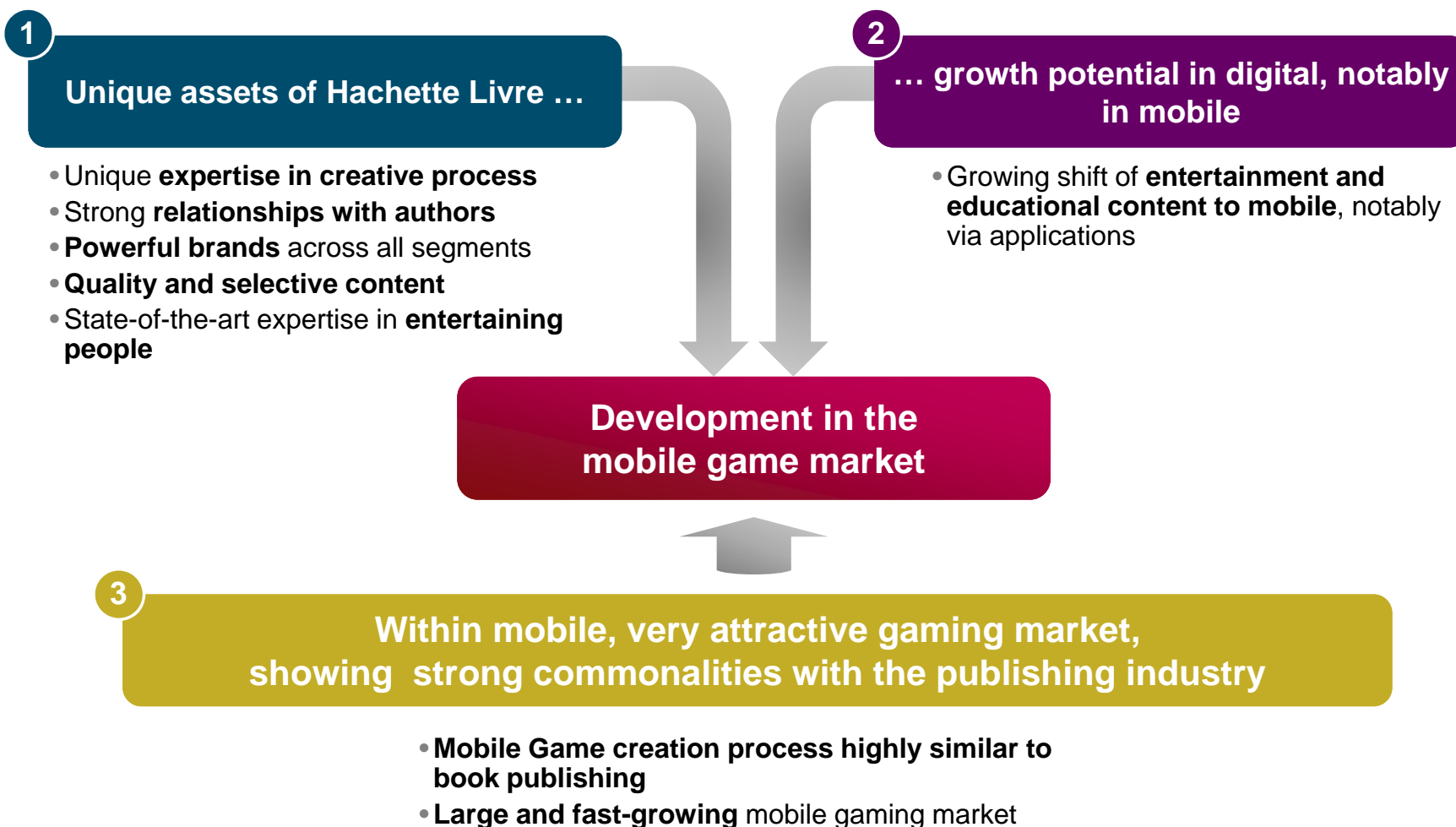
#### Gamer today

- Male and female, all ages, all social status
- Internet user, used to advertising, consumer of cultural products, both physical & digital

<sup>1</sup>. App-based social/casual gaming revenue includes consumer spending on and in app-based games on tablets and mobile phones. This includes revenue associated with the purchase of social and casual game apps, subscription services for social and casual games, and the purchase of virtual items within social and casual games.

Source: PWC

## DEVELOPMENT IN MOBILE GAMING WILL ALLOW HACHETTE LIVRE TO BENEFIT FROM DIGITAL GROWTH, LEVERAGING ITS UNIQUE ASSETS



# HACHETTE LIVRE NOW HAS A Foothold IN THE MOBILE GAME MARKET

## Hachette Livre's acquisitions and/or equity ownerships



- Founded in **2010, in the UK**
- **30+ mobile games**, including *Paper Glider*, *Flick Football* et *Panic Traffic London*
- **60M+ downloads**
- **20+ distinctions**, including the *Queens' award for innovation*



- Foundation of Brainbow (creator of Peak) in **2012, in the UK**
- Launch of **Peak** in **2014, 20M downloads**
- **Nomination** of Peak
  - **Apple Best of 2014**
  - **Google Best of 2015**



- Founded in **2001, in France**
- Specialized in **competitive gaming** and in **casual gaming**
- **5 mobile games** including *IsCool*, *Belote Multijoueur*, *Wordox* and *Bazoo*.
- **~40 people**

## SCALE IS AN INCREASINGLY CRITICAL ASSET

### Main advantages of scale

#### Make up for flat market

- **Generation of growth** in a context of stable / slightly declining markets

#### Attract authors / licenses

- **Financial capacity and flexibility**, particularly important for **bestselling authors / acquiring valuable licenses** (children, illustrated, partworks)
- **Large range of imprints**, ensuring a variety of publishing and marketing styles for new authors

#### Secure margin and create value for shareholders

- **Economies of scale**, notably in infrastructure (distribution, warehousing, manufacturing, back-office)
- 2003-2014 history of Hachette Livre has demonstrated the potential of **value creation for Lagardère**

#### Improve leverage vs. retailers

- **Increased bargaining power** with retailers, which is even more key in a **context of downstream concentration**

English language territories and the US are the key growth geographies for Hachette Livre

## IN A NUTSHELL....

### The industry

- **Content creation, a lasting growth industry**
- **The most attractive financial profile among content industries**

### Our DNA

- **The most balanced, diversified and resilient publishing group**
- **A clear strategy and a strong track record of delivery**

### Our ambition

- **Further strengthen innovation & digital reach**
- **Consolidate the industry**