

Global Publishing in 2015: A year of transformation

Findings and Insights from the Global Ranking of the Publishing Industry 2016

1. The approach

The Global Ranking of the Publishing Industry, which has been updated every year since 2007, currently represents 52 companies that each report revenues from publishing of over 150 m€ (or 200 m US\$), plus another 5 who either have not released current financial data due to being acquired, or having fallen below the threshold due to currency effects.

2 Companies have been listed by their 2014 results. Several others have already released results for fiscal 2016. No meaningful information at all could be collected for the publishing activities of Disney and of Panini, so similar to previous years, these groups are not included.

The overall number of listed companies has shown a fluctuation between slightly over 50 to up to 60. As a consequence, a few historic observations in the analysis here below refer only to the top 50 companies, to allow more relevant comparisons.

This ranking is based, for each company, on mostly 2015 revenue data, collected from the best information available, which comes predominantly either from official company reports, or has been directly provided by the companies for this report, or if neither was possible, information has been retrieved from official company data registries.

Since 2011, a specific research effort is directed at companies in Brazil, PR China, Korea and Russia, with meaningful logistical support from sources in these countries, and has resulted in widening the scope of this report by emphasizing the dynamic developments in emerging economies.

As far as possible, this ranking is based on break downs of revenues that derive from all forms of publishing (including books, digital material, and professional information), as well as book distribution. Revenues from newspaper and magazine publishing as well as news wire services and corporate publishing have been excluded, as far as the available information allowed for making such a differentiation. However, in several cases, traditional as well as new commercial activities, and the respective financial reporting, has made it challenging to apply this definition in the strictest sense,

as we would have wanted. These cases will be highlighted, and discussed in detail, in the overall analysis here below.

The Ranking has been established in Euros. Data reported in other currencies have been converted at exchange rates of December 30, 2015.

2. General observations

The Global Ranking 2016, which is based predominantly on 2015 revenue data, lists (or is describing) a total of 57 publishing groups, as in 2014 and 2015, with a combined revenue of m€ 63,739 (up 8 % from 2014, and a staggering 22 % over 2013).

Rank	Publishing Company	Country Publ. Company	Parent Corp./ Owner	2015 m€	2014 m€	2013 m€
1	Pearson	UK	Pearson PLC	6072	5809	5655
2	ThomsonReuters	US	The Woodbridge Company Ltd.	5291	4729	4015
3	RELX Group (Reed Elsevier)	UK/NL/US	Reed Elsevier PLC & Reed Elsevier NV	4774	4405	4417
4	Wolters Kluwer	NL	Wolters Kluwer	4208	3660	3565
5	Penguin Random House	Germany	Bertelsmann AG; Pearson PLC	3717	3324	2655
6	China South Publishing & Media Group Co., Ltd (ZhongNan)	China (PR)	China South	2576	2119	1621
7	Phoenix Publishing and Media Company	China (PR)	Phoenix Publishing and Media Company	2524	2333	2015
8	Hachette Livre	France	Lagardère	2206	2004	2066
9	McGraw-Hill Education	US	Apollo Global Management LLC	1681	1795	1434
10	Grupo Planeta	Spain	Grupo Planeta	1658	1596	1566

Table 01: The 10 largest publishing groups worldwide 2016 (data 2015).

After years of relative stability, the reported results for 2014 and now even more dramatically for 2015 show a clear strengthening at the top, with the 10 largest groups accumulating revenues of €34.2bn (up 8 % from 2014, and up 17 % from 2013), and accounting now for 54% of the 50 largest groups described in this ranking, in a continuing increase since 2013.

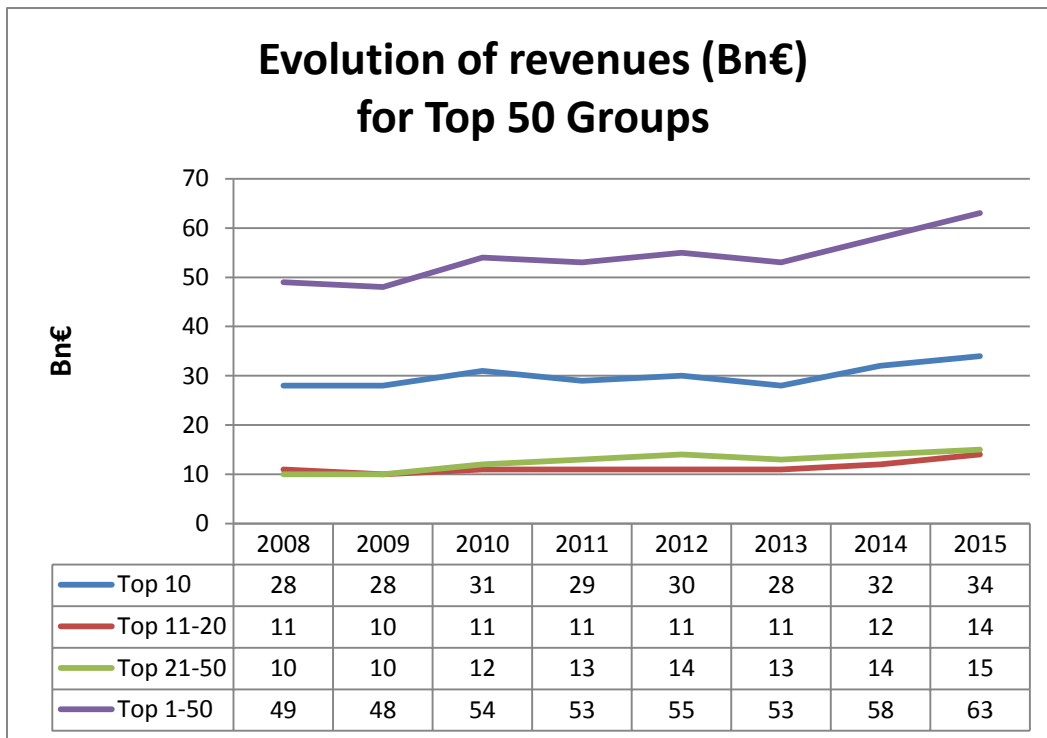


Chart 01: Evolution of revenues (in Bn€) of all Top 50 Groups, 2008 to 2015.

Over the years, the trend of the biggest growing ever bigger, becomes clear, and ever more so as all of the companies listed in this Ranking are already a selection of the market leaders in the respective territories and segments of the industry.

Top 10 Publishing Groups (revenue from publishing, 2013 to 2015, m€)

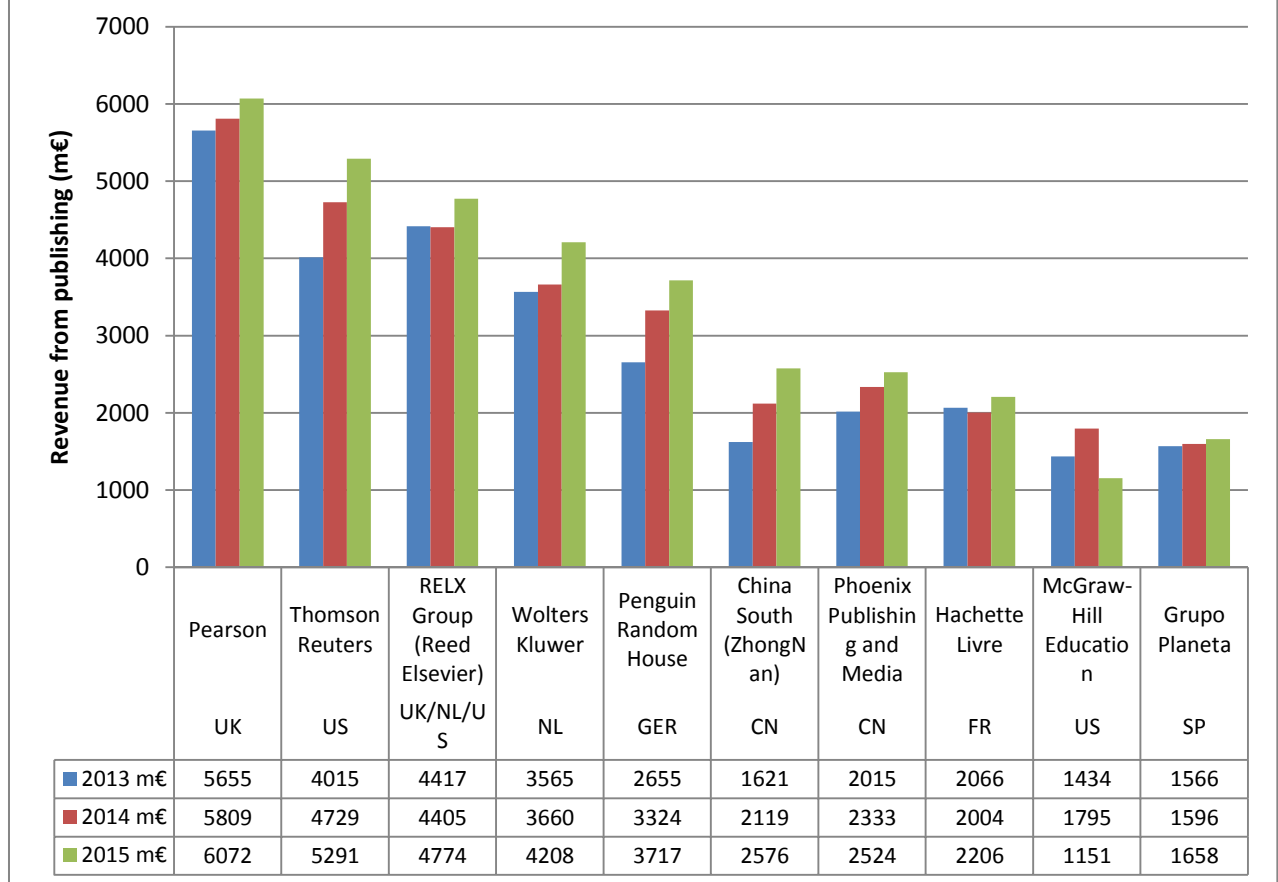


Chart 02: Development of revenue among the 10 largest publishing groups, 2013 to 2015.

The top segment of the 10 largest conglomerates in publishing highlights a number of developments:

- The top 5 have not changed for the past 3 years (with the small exception of Thomson Reuters and RELX changing positions in 2013 and 2014);
- All the top 10 have seen yearly increases in revenue for the past 3 years, with the exception of Hachette, as it had a slump in 2014 that however was fully compensated in 2015, and McGraw-Hill Education, as it currently undergoes a complete makeover from being acquired and re-positioned by private equity;
- As in previous years, the very top is, and remains, clearly a domain of actors specialized in either educational (Pearson) or scientific and professional information (Thomson Reuters, Reed Elsevier - now rebranded as RELX -, or Wolters Kluwer).
- Developments at the largest general trade publishers are more mixed, yet with several companies back in growth, from both increasing sales and through acquisitions.
- China's leading publishing groups continue mostly to expand.

- Brazil’s publishing industry has fallen behind, caught between the severe domestic economic crisis, and a loss of the Brazilian currency, driving down their representation in a ranking that is measuring in Euro (or US dollars).

The recent financial evolution in publishing shows all but a level playing field.

Zooming in on the main sectors of the industry allows identifying significant differences.

A close up on major international trade (or general consumer) publishers on the one hand portrays a strong sector which has seemingly overcome the strains of a few years ago, when the digital transformation had cast long shadows on consumer books, and how they would do in the digital age. Many of the largest houses clearly outperform flat, or even declining national markets. But at the same time, much of that growth derives from consolidation – and not necessarily from creating more value out of a company’s intellectual properties.

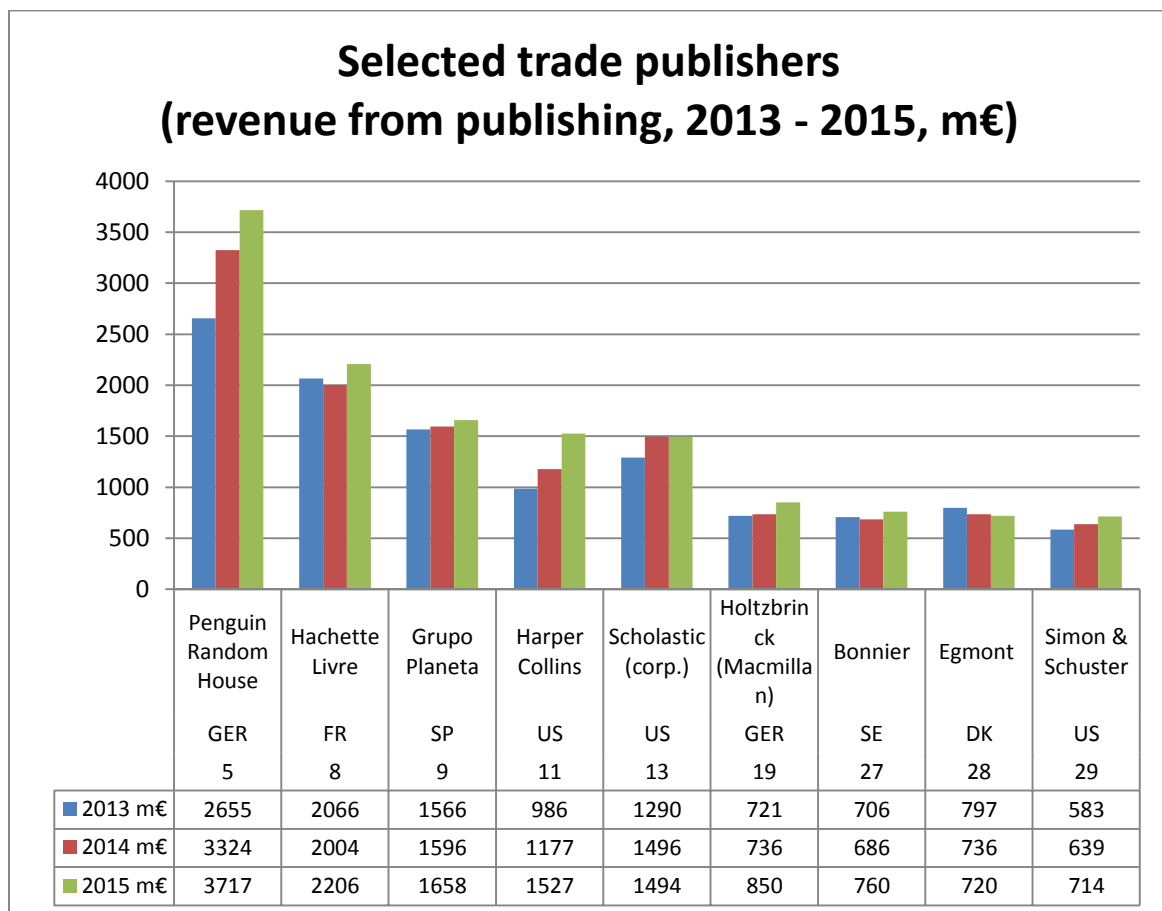


Chart 03: Overall revenue developments of selected major trade publishing groups, 2013 to 2015. (Note: Scholastic has already released financial data for fiscal 2016, showing a continuing sideways trend at 1499 m€).

Of course, revenue says little about the profitability in recent years, which is ever harder to assess, as only five in this selection (Penguin Random House, Hachette, HarperCollins, Scholastic and Simon & Schuster) report net income figures. The others, being privately held, by families, decline to reveal such information.

The following table looks at those five among the globally leading trade publishing groups that made detailed information on revenues and profits available, highlighting a fairly sound and largely consistent overall development for the past 3 years.

	2013	2014	2015
Penguin Random House	m€	m€	m€
Revenue	2654	3324	3717
EBITDA	309	452	557
EBITDA in % of turnover	12%	14%	15%
Development income y-o-y		46%	23%
Hachette Livre	m€	m€	m€
Revenue	2066	2004	2206
EBIT	223	197	198
EBIT in % of turnover	11%	10%	9%
Development income y-o-y		-12%	1%
HarperCollins	m\$	m\$	m\$
Revenue	1369	1434	1667
EBITDA	142	197	221
EBITDA in % of turnover	10%	14%	13%
Development income y-o-y		39%	12%
Scholastic	m\$	m\$	m\$
Revenue	1550	1562	1636
Operating income	129	131	155
Operating income in % of turnover	8%	8%	9%
Development income y-o-y		2%	18%
Simon & Schuster	m\$	m\$	m\$
Revenue	809	778	780
Operating income	106	101	114
Operating income in % of turnover	13%	13%	15%
Development income y-o-y		-5%	13%

Table 2: Key financial indicators for 5 selected major publishing groups (with a significant presence in English language markets, in respective reported currencies, 2013 to 2015). I must be emphasized that profitability is difficult to compare between companies due to different reporting methodologies.

Consolidation keeps being a key trend in trade publishing. But while in the years before, mergers and acquisitions have re-shaped the portfolio of the largest entities, 2015 saw mostly subsequent movements, as national market leaders have been aiming to expand by buying competitors. This was the case in Italy, as the country's largest publishing group, Mondadori, has picked up the trade division of RCS Media. In a way, the acquisition of Perseus' publishing arm by Hachette US also fits into this pattern. In educational publishing, Russian EKSMO AST has acquired Drofa and Ventana Graf Publishers. And in Brazil, Somos Educação (formerly Abril Educação) has become the new owner of Saraiva's publishing division.

The biggest merger of the year 2015 was about reshaping the STM – or Scientific, Technical and Medical – sector, as Holtzbrinck merged its science publishing division with Springerin a 53 to 47 %

deal. For the moment though, the newly branded SpringerNature group has not been consolidated into Holtzbrinck, and is therefore dealt with as a separate entity in this report.

Overall, in educational publishing, recent developments are far more complex, not the least in view of deep changes in several of the organizations' ownership and legal status, with changes including a few groups having filed for bankruptcy protection under American law ('Chapter 11'), and others being acquired, and now re-positioned, by private investors.

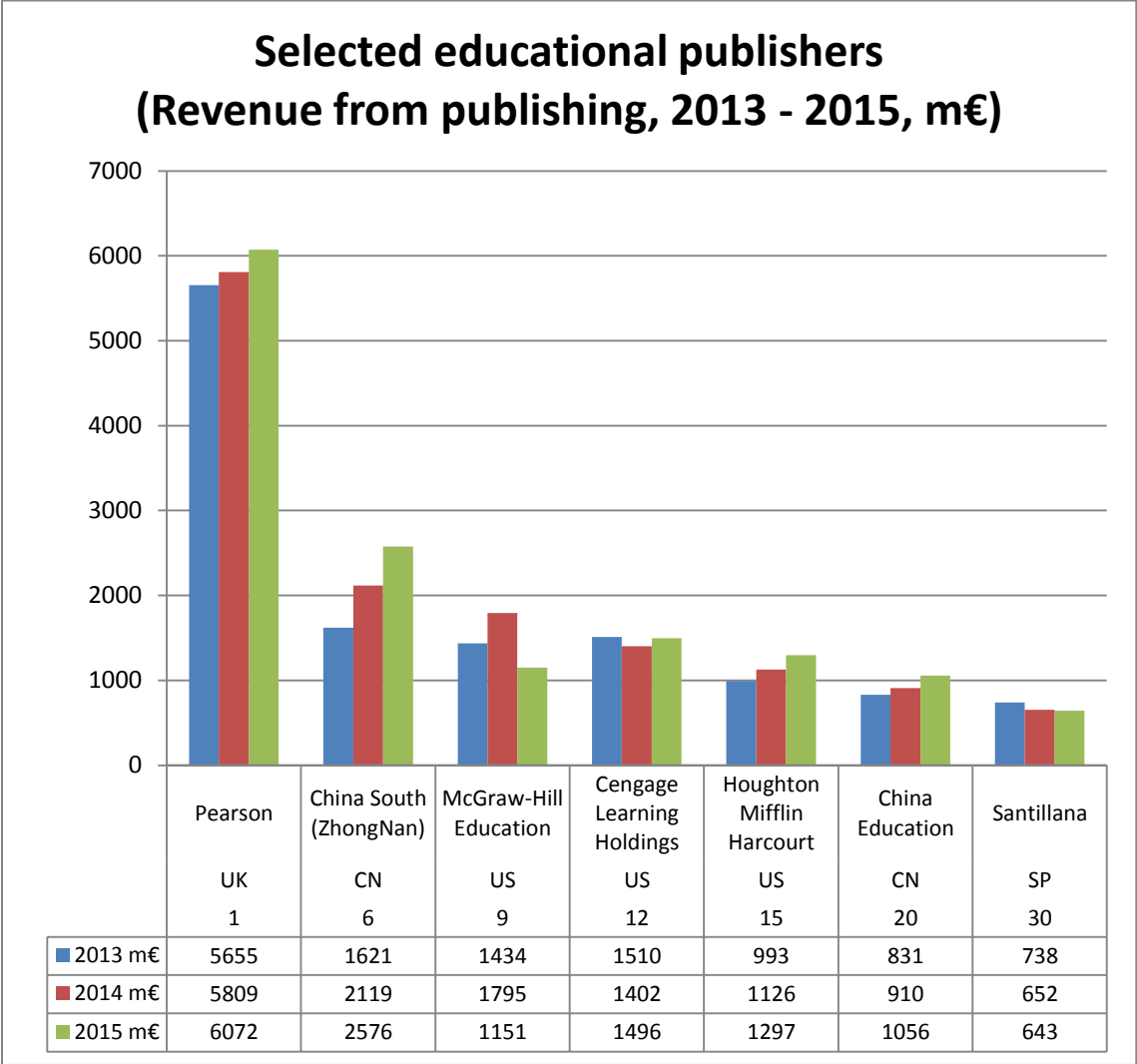


Chart 04: Revenue development at selected educational publishers, in m€, 2013 to 2015.

One group, Pearson, remarkably stands out by its size among those organizations that lead both the globalization and the digitization in learning. Another, McGraw-Hill, had been taken out from a mixed group that included major stakes in the finance industry, to be privatized and now preparing for a new IPO as an educational only publishing group. Also, it must be said that the reach across geographies shows huge differences, with probably only Pearson and Cengage acting truly across the globe. Both portrayed Chinese groups are focusing on their domestic market (with China Education being an active player in SouthEast Asia though for many years now). Houghton Mifflin and McGraw-Hill have a similar strong basis in their domestic North American market, and reaching beyond these

borders. Santillana has become a defining force in much of Latin American educational publishing for very long.

The above mentioned structural transformations of several of these entities – both Chinese and all three American notably) make comparisons on profitability an elusive exercise.

3. New (and old) challenges that this Global Ranking must confront

Over the years, the Global Ranking of the Publishing Industry could highlight critical developments, and driving forces, in the international book business, including notably its transformation through digital, globalization and consolidation.

These insights come at a price. When we started with that Ranking, back in 2007, we created a definition of what we want to include (book publishing, both physical and digital, scientific and professional publishing, plus distribution – understood as B2B), and what must be excluded from the revenues governing that ranking (notably revenues from retail, or B2C, newspapers, magazines, wire services and related pure business information services, as well as other media such as radio, TV, games or music).

But drawing a clear line becomes increasingly a challenge when the scope, and the value chain, of this industry are deeply changing, and its reach, business models and strategies expand in both ambitions and complexity.

While our research, for most companies in the form of direct communication with the companies, aims at the best clarity and transparency, we also must identify a significant number of examples where we confront some limits in our effort, which we want to highlight in the following.

Overall though, we strongly believe that these grey zones do not in any way flaw the portrait of the global (book) publishing business that we provide as a map and orientation for those interested in the sector.

4. Examples for complexities in the Global Ranking 2016

1. Companies not listed (not at all):

- Publishing activities of **Disney Inc.**, and **Panini**, due to complete lack of reliable data.
- **Readers' Digest**, which has been listed until 2014, underwent serial restructuring and changes of ownership, has abandoned largely the publication of books, shifting towards the magazine business, and not releasing any financial data required for this report.

2. Exchange rate effects:

Since 2014, volatility in currency markets has largely increased, impacting significantly on most currencies relevant for this report. After checking on several alternative methods (notably exchange rates at a certain date of the year vs. middle courses for each year), we opted to maintain our policy of applying the year and exchange rate for each year and each currency, to maintain consistency with previous years.

In 2015, one country has been struck particularly hard by the depreciation of its local currency, Brazil. Despite a fairly robust development, in Real, in the three companies listed in this report, their turnover converted into Euros fell below the threshold of 150 m€ / 200 m\$ applied as the minimum size to be included. In view of maintaining the long term perspective both in terms of companies and markets, we opted to keep Brazil within this ranking

3. Complexities with regard to the definition of “Publishing” applied

- Format issues (notably books vs. magazines): In a number of markets, the format of a “book” is hard to confine from that of reader’s magazines. This applies notably to Mangas and related graphic novels in all Asian markets (Japan, Korea, also China). Overall, we included these publications.
- Sales channel issues (notably B2B distribution vs. retail or B2C activities): In the three big Southern European markets, in France, Spain and Italy, almost all leading publishing groups traditionally own their B2B distribution which, in a number of cases, has significantly grown and diversified in recent years (e.g. with partworks distribution through kiosks, e.g. at **RCS** in Italy), or online retail (e.g. **Messaggerie**, in Italy).
- Publishing groups in many cases also own bookshops. While we could exclude respective revenues for some (e.g. **Grupo Planeta** or **Bonnier**), this was not always possible (E.g. **China Publishing Group**, **China South**, but also, in a more limited way, **Klett**). **France Loisir**, another disputable case in this regard, was excluded from the 2016 edition of this ranking due to lacking updated information on its performance in 2015.
- Cross media activities (notably video and games production, and also apps): A growing number of publishers see content production in other (notably electronic) media than books as a natural opportunity to extend their value chain around the copyright which they control.

This includes e.g. Japanese **Kadokawa**. But also in educational publishing, such cross media strategies are rapidly gaining in scope and importance.

- Engaging in activities connected to publishing, yet going well beyond its traditional scope (notably in educational publishing): Most leading educational (publishing, but not only) companies have chosen to reaching out beyond just selling their content to both individual customers (students, teachers, parents), and institutions (e.g. schools, governments). Instead, many work directly with often large groups of teachers (e.g. in Korea), operate their own training and educational institutions (e.g. in Korea, but also in Germany), or work closely with governments, benefiting from substantial financial grants or other forms of support (Brazil, Russia).

For all these examples, after reasonably scrutinizing each case, we opted to keeping those activities, and the attached revenues, within the scope of this Ranking. We did so for two reasons:

- In many cases, it would not have been possible, technically, to extract those revenues from the respective company reports or other information; but more importantly,
- We understand publishing to be subject to a complex transition, which is, and will continue to be, requiring a radically new assessment of not only the existing value chain, but all of the economics and the culture around publishing, reading and learning.

However, as emphasized already in earlier editions of this report, we will make such complexities as transparent as we can.

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Abbreviations used in this report

AR	-	Annual Report
BB	-	Börsenblatt
BR	-	buchreport
BS	-	The Bookseller
LH	-	Livres Hebdo
NYT	-	New York Times
PL	-	Publishers Lunch
PM	-	Publishers Marketplace
PP	-	Publishing Perspectives
PR	-	Press Release
PW	-	Publishers Weekly

