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The Global Ranking of the Publishing Industry 2015

Current shifts and transformations in the international book business.

Findings and Insights.

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The approach

The **Global Ranking of the Publishing Industry**, which has been updated every year since 2007, currently represents 57 companies that each report revenues from publishing of over 150 m€ (or 200 m US\$).

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 2014 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.

For a few groups, only 2013 revenue figures are available at this point. No meaningful information at all could be collected for the publishing activities of Disney and of Panini, so that these groups are not included.

Since 2011, a specific research effort is directed at companies in Brazil, PR China, Korea and Russia, with meaningful 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, 2014.

The **Global Ranking of the Publishing Industry** is an initiative of **Livres Hebdo** (www.livreshebdo.fr), France, co-published by **BookDao** (www.bookdao.com), China, **The Bookseller** (www.thebookseller.com), UK, **buchreport** (www.buchreport.de), Germany, **Publishers Weekly** (www.publishersweekly.com), USA, and **PublishNews Brazil** (www.publishnewsbrazil.com). It has been researched by **Rüdiger Wischenbart Content and Consulting** (www.wischenbart.com).

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General observations

The **Global Ranking 2015**, which is based predominantly on 2014 revenue data, lists 57 publishing groups, as in 2014, with a combined revenue of € 59,328 (up 11 % from the previous year).

After years of relative stability, the reported results for 2014 now show a clear strengthening at the top, with the 10 largest groups accumulating revenues of €31.8bn (up 12% from 2013), and accounting now for 54% of all industry revenue as recorded in this Ranking (up from 53% in both 2013 and 2012).

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 all territories and segments of the industry.

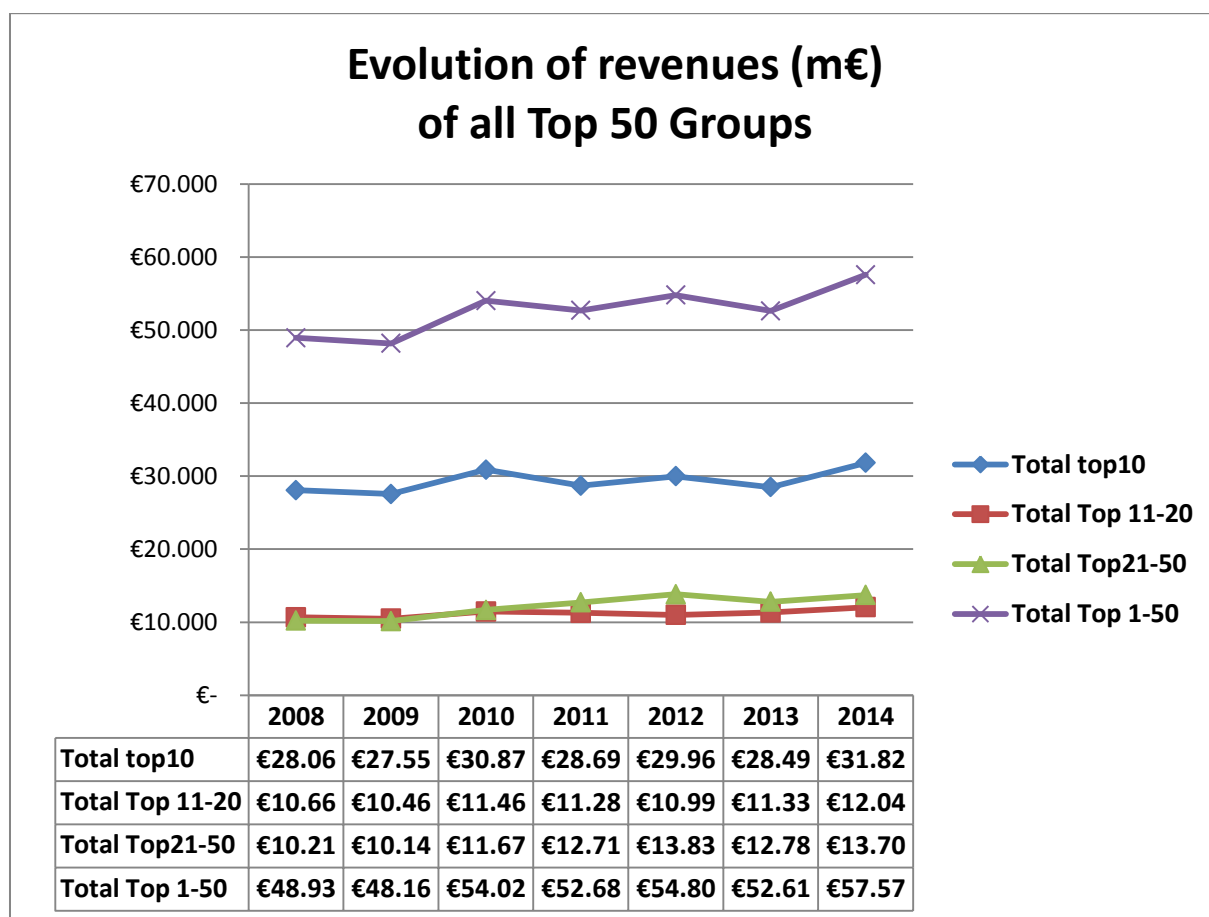


Chart 01: Evolution of revenues (in m€) of all Top 50 Groups, 2008 to 2014.

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

- As in previous years, the top is, and remains, clearly a domain of actors specialized in either educational (**Pearson**) or scientific and professional information (**ThomsonReuters**, **Reed Elsevier** - now rebranded as **RELX** -, or **Wolters Kluwer**);
- Significant growth is largely reserved to professional information services, with **ThomsonReuters** as their benchmark and role model, as they extend the scope of the industry, and have successfully shifted toward digital and renewable income (subscriptions);
- General trade publishing is shrinking in revenues, with **Penguin Random House** as the most visible exception, due to the merger between Random House (**Bertelsmann**) and Penguin (**Pearson**);
- The biggest news though comes from China, as we could gather sufficient data and company information to include two new entrants at the very top, with **Phoenix** and **China South** (see below for details).

	Rank 2015 (Data 2014)	Publishing Company (Group or Division)	Country Publ. Company	Mother Corporation or Owner	Country Parent Corp.	2014 m/Euro	2013m/Euro	2012 m/Euro
±	1	Pearson	UK	Pearson PLC	UK	5.809 €	5.655 €	6.913 €
+	2	ThomsonReuters	US	The Woodbridge Company Ltd.	Canada	4.729 €	4.015 €	4.080 €
-	3	RELX Group (Reed Elsevier)	UK/NL/US	Reed Elsevier PLC & Reed Elsevier NV	UK/NL/US	4.405 €	4.417 €	4.479 €
±	4	Wolters Kluwer	NL	Wolters Kluwer	NL	3.660 €	3.565 €	3.603 €
±	5	Penguin Random House	US	Bertelsmann AG	Germany	3.324 €	2.655 €	2.142 €
NEW	6	Phoenix Publishing and Media Company	China (PR)	Phoenix	China (PR)	2.333 €	2.015 €	
NEW	7	China South Publishing & Media Group (ZhongNan)	China (PR)	China South (ZhongNan)		2.119 €	1.621 €	1486
-	8	Hachette Livre	France	Lagardère	France	2.004 €	2.066 €	2.077 €
-	9	McGraw-Hill Education	US	Apollo Global Management LLC	US	(est.) 1795 €	1.434 €	(2011) 1763 €
-	10	Holtzbrinck	Germany	Verlagsgruppe Georg von Holtzbrinck	Germany	1.643 €	1.610 €	1.608 €

Table 01: The 10 largest publishing groups worldwide 2015 (data 2014)

Revenue development among the top 10 in the past five years does not show one clear pattern.

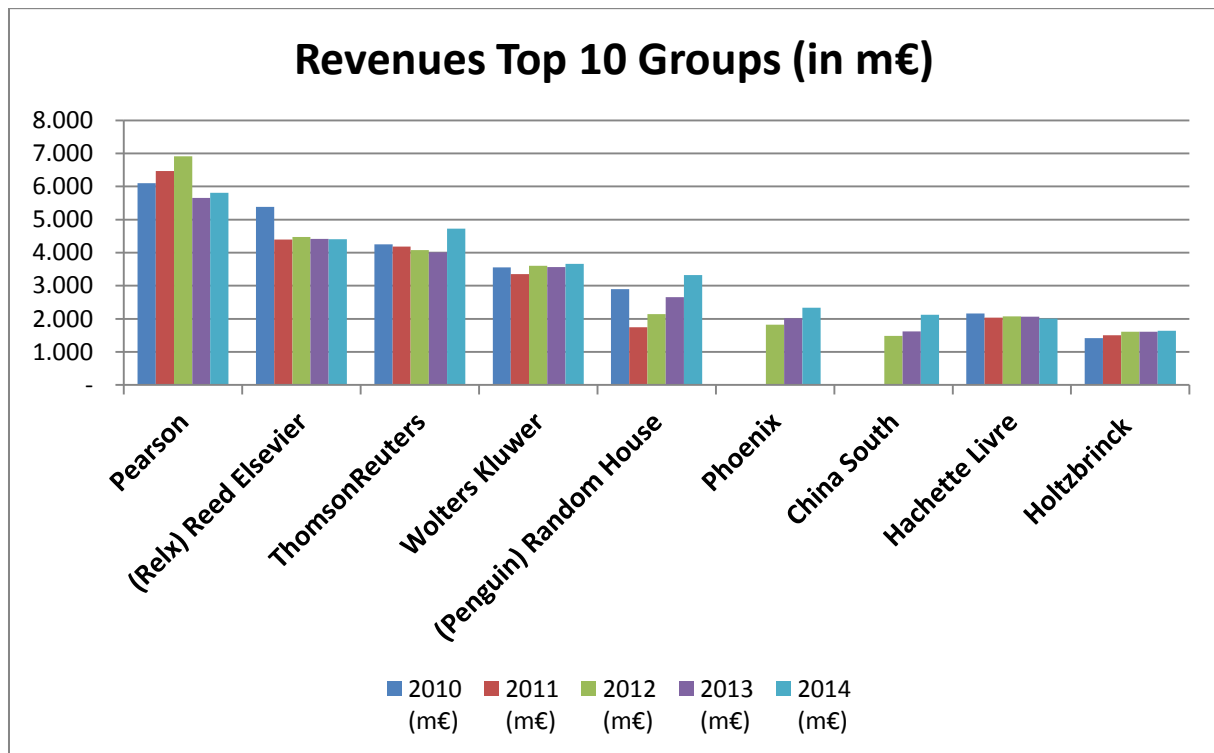


Chart 02: Revenue development in the top 10 publishing groups (in m€)

A comparison of the largest publishing groups reflects distinct trajectories according to segment and territory.

- Educational world leader **Pearson** has grown strongly, and then decided to even further enhance its focus on its core asset of educational, by spinning off its trade arm in the merger with **Bertelsmann's Random House**, and most recently even incorporating its newspaper centered operations (including notably the **Financial Times**, and a stake in **The Economist**) into the much broader "professional" division;
- In return, **Random House**, through the merger with **Penguin**, bets similarly on the benefits of consolidation around one core competence, that is general trade;
- **Hachette's** flat results have resulted in rumors anticipating a major acquisition any time soon (as **HarperCollins** has recently done, as #17, with the acquisition of Canadian romance specialist **Harlequin**, to bring a truly global distribution network and market know-how to the benefit of a formerly almost exclusively English language publisher);

- **Holtzbrinck** so far had opted for cautious, yet steady organic growth, notably in its trade division (now re-branded as **Macmillan Publishing**), but in its scientific and academic division (now **Macmillan Science and Education**), the acquisition of **Springer Science and Business Media** (#19) will propel the German group into an entirely different, global dimension in the science and professional sector, which should open the gates for a much broader geographic expansion, as well as subsequent growth;
- All four Chinese groups listed in this Ranking, **Phoenix, China South, China Publishing Group** and **China Education**, result from a strategy of bringing assets from one core segment (regional, educational, trade) each under one big roof, and develop organic growth from there, driven by the expanding overall market in China.

Strong regional shifts

China's entry into the world publishing arena

Over the past several years, this Ranking had well documented the entrance of publishing groups from emerging economies, notably the BRIC countries (Brazil, Russia, and China – with the exception of India which still is largely catered to by British and other international English language publishers).

The Ranking in 2015 reflects on the next level in this evolution, with 2 Chinese groups, **Phoenix Publishing and Media**, and **China South (ZhongNan)**, entering the top 10 segment with great momentum.

We already had listed two Chinese publishing groups, **China Publishing Group (CPG)**, and **China Media and Education Publishing (CMEP)**, for a number of years. Both are de facto holding organizations for a wide array of respective market leaders in general trade publishing (CPG), and in educational publishing (CMEP), and each resulting of the Chinese government's strategy and proclaimed mission to boost some of their strongest groups for the international competition. (The Chinese government controls directly, or through provincial governments, all ca. 580 state licensed publishing groups in China.)

Remarkably, the new entrants, Phoenix and China South are not based in the metropolises of Beijing or Shanghai, but started off by bringing all regional publishing, with a string emphasis on educational, under one organizational umbrella. Phoenix has already developed its international ambitions for several years, notably in a joint venture with **Hachette**.

For this ranking, we have received detailed documentation and financial information directly from the companies, as well as through the help of our Chinese partner publication, **BookDao**. Such direct research contact and exchange had been established for CPG and CMEP for a number of years, and with Phoenix since 2013.

Steady Brazil

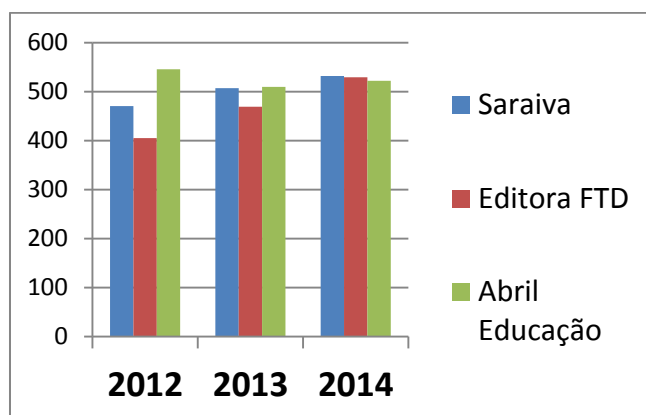


Chart 03: Top 3 publishers in Brazil, 2012 to 2014, in mR\$.

The representation of Brazilian publishers in the ranking has been strongly impacted in 2014 by exchange rate effects, which however have softened in the meantime, notably as seen from the perspective of a declining Euro. In local currency (million Brazilian Real), the past three years show a steady performance on average.

Russia’s complex ride

In Russia, the year 2012 had seen consolidation on a big scale, with **EKSMO** acquiring defaulting **AST** publishing, and Cyprus based **OLMA** (including notably the leading educational publisher **Prosveshchenie**) strengthening its muscle significantly, with support from the federal government.

In domestic currency, both market leaders, who by far are the defining forces now in the Russian book market, show growth which, when represented in foreign currency, mirrors the ups and downs of the Ruble.

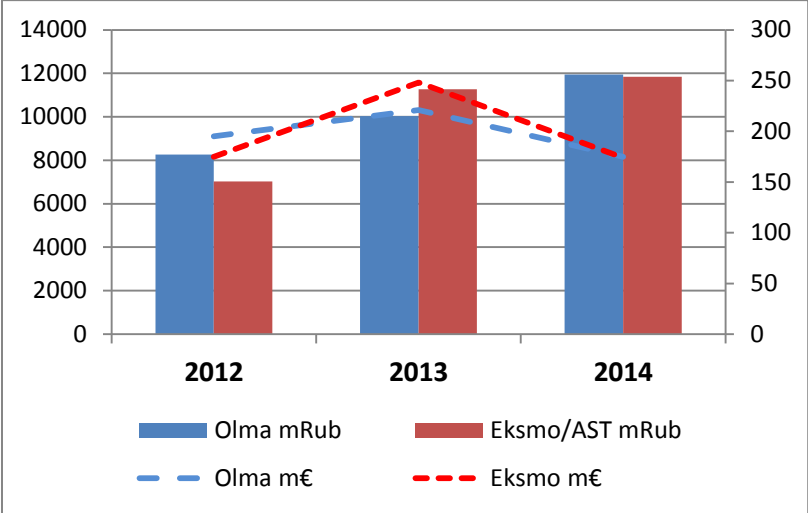


Chart 04: The 2 leading Russian publishers, in revenues 2012 to 2014, in both domestic Ruble, and in Euro.

Sectorial snapshots

A difficult context for general trade

Developments by revenue, in the general trade sector of the book business highlights the benefits of acquisitions, notably by **Random House** and the forming of **Penguin Random House**.

HarperCollins' development (which, in our figures, does not yet include the acquisition of **Harlequin**) reflects the restructuring after **NewsCorp's** split into a publishing, and a news media company. **Holtzbrinck trade** (now **Macmillan Publisher**) is the only firm showing steady organic growth in a wider, shrinking market environment.

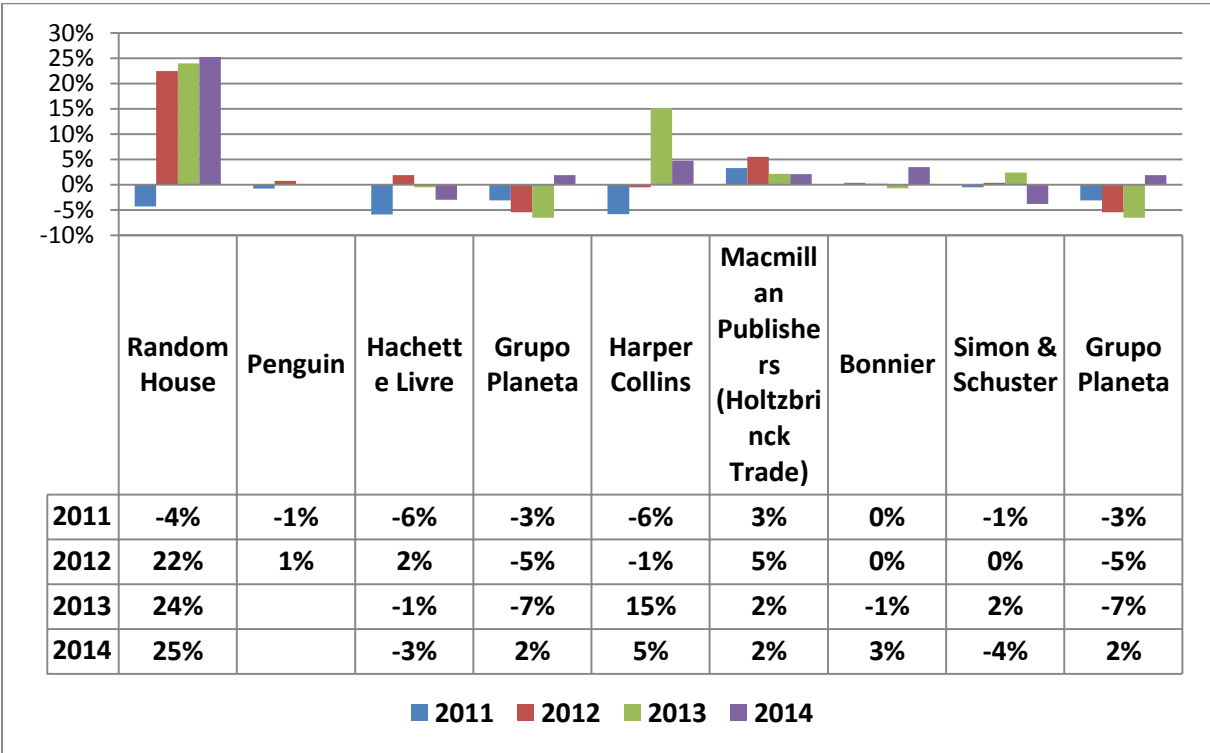


Chart 05: Selected general trade publishers 2011 to 2014, revenue in %, in reported currency

The complexities of the education markets

Educational publishing has seen turbulent times recently, both on a global scale, and in leading markets, notably the US, but also in Germany.

By far not all companies have been able to steer a fairly steady course in the complicated tides, as many markets (and their government’s educational spending) have declined, while investments and ambitions for a digital and more global future are requiring hefty investments now.

The actors with a robust performance include notably **Pearson**, as the global market leader, and several of the strongest academic houses (**Wiley, Holtzbrinck’s Macmillan Education and Science, OUP, CUP**), as well as German’s textbook publisher **Klett**.

The market forces have seen several casualties who, after costly takeovers, have been obliged to file for bankruptcy protection under Chapter11 (notably three companies who already have been able to come out of those rough waters recently, namely **Houghton Mifflin Harcourt, McGrawHill, and Cengage**).

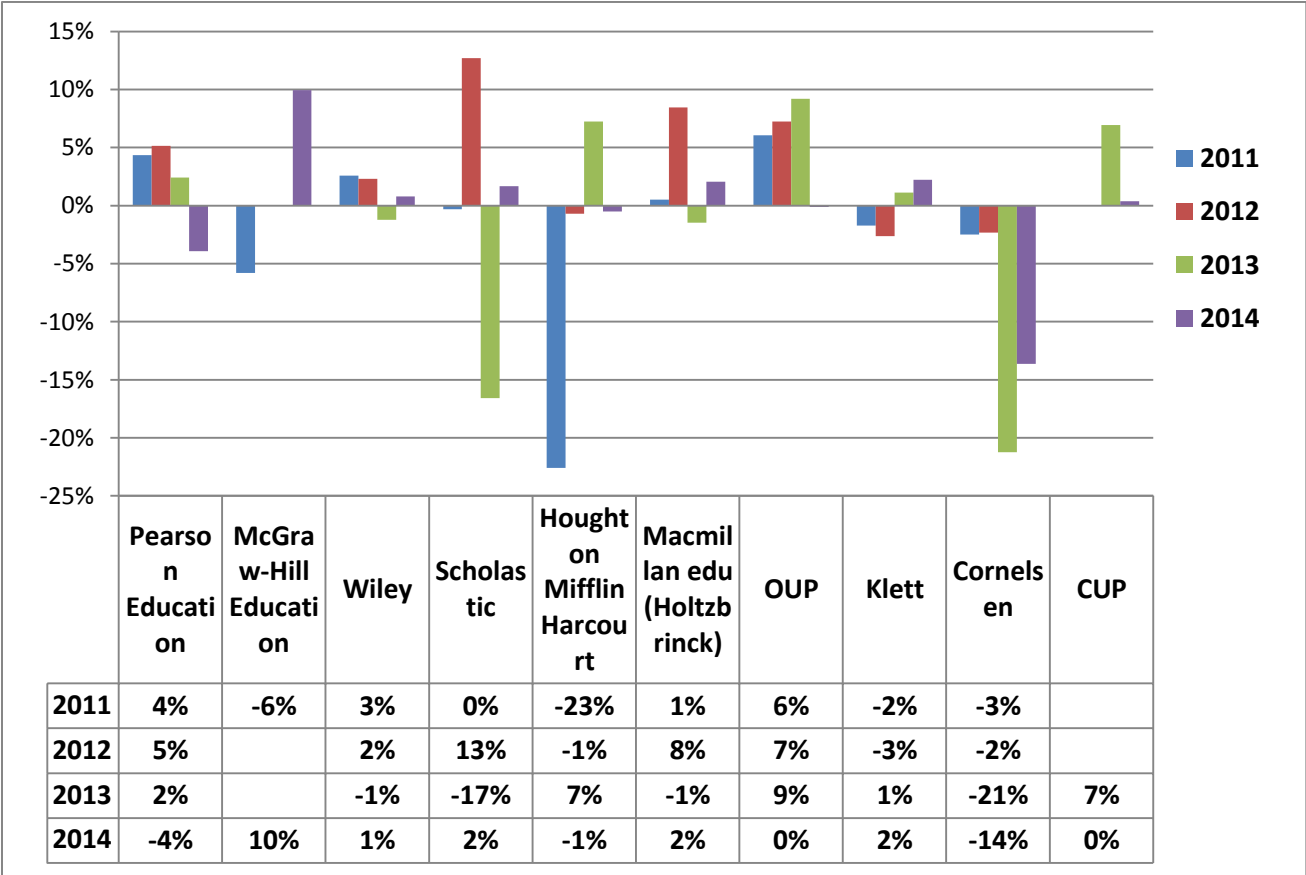


Chart 06: Selected educational publishers 2011 to 2014, by revenue in reported currency, in %

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.

Examples for complexities in the Global Ranking of the Publishing Industry 2015:

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.

The most prominent examples for the impact of this decision include:

- ✘ With a middle course applied for 2014, **RELX (Reed Elsevier)** would be ranked second, not third, while **ThomsonReuters** would fall back to rank three;
- ✘ With a middle course applied between Euro and Chinese Yuan (RMB), **Hachette** would be listed at rank 7, ahead of **China South (ZhongNan)**, which is now the number 7;
- ✘ **Simon & Schuster** would gain from a middle course against companies earning and reporting in Euro.

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

a) 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.

b) 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. **Messagerie**, 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, formerly the French arm for the **Bertelsmann** book club, is again successfully taking up an old model by acquiring licenses for bestselling titles, and re-publishing these works in a different format, and distributing those directly to consumers, who are their members.

But also all large general trade publishing groups are experimenting, with various models, and at different scales, with direct-to-consumer platforms and channels.

c) 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.

- d) 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:

- i) 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,
- ii) 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, we will make such complexities as transparent as we can.

Vienna, June 12, 2015