

Dr. Rüdiger Wischenbart



Content and Consulting

Laudongasse 50/7
1080 Wien
Austria

+43 (0)650 6615 601
ruediger@wischenbart.com
www.wischenbart.com
UID / VAT: ATU 56611777

The Global Ranking of the Publishing Industry 2013

Treacherous calm at the surface, and deep change anticipated in trade and educational publishing.

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 54 companies with 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, some 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 2012 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 either was not possible, information has been retrieved from official company data registries.

No meaningful information could be collected for the publishing activities of Disney and of Panini, so that these groups are not included. For a few groups, only 2011 revenue figures are available at this point.

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

The Ranking has been established in Euros. Data reported in other currencies have been converted at exchange rates of December 29, 2012.

The Global Ranking of the Publishing Industry is an initiative of Livres Hebdo, France, co-published by The Bookseller, UK, buchreport, Germany, Publishers Weekly, USA, and PublishNews Brazil. It has been researched by Rüdiger Wischenbart Content and Consulting.

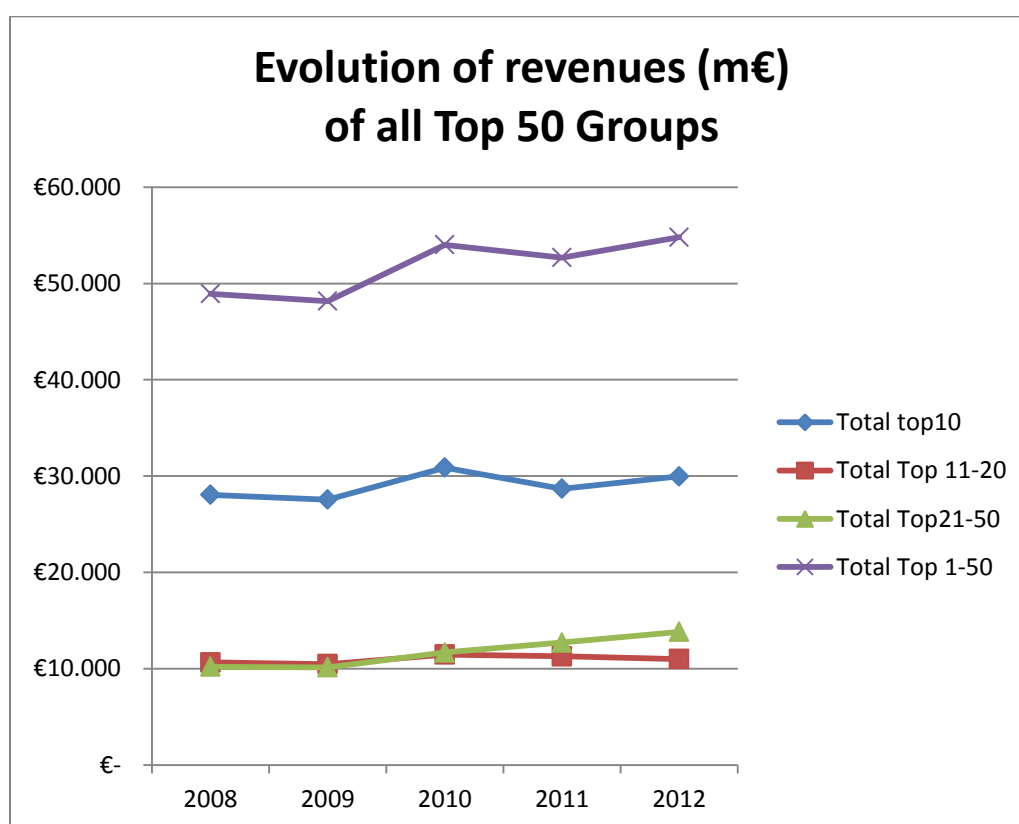
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General observations

The Global Ranking 2013, which is based predominantly on 2012 revenue data, lists 60 publishing groups, with a combined revenue of € 56,566 m (up from € 54,303 m for the 54 companies listed in the previous year).

But also a like-for-like comparison of the top 50 ranked companies reveals some remarkable dynamics in the globalizing publishing industry.

The 10 largest publishing groups worldwide account for over half of the revenues of the total 50 houses listed, yet with that share slightly decreasing from 57 % (in 2008, 2009 and 2010) to 55 % in 2012. At the same time, the share of the 30 companies listed between rank 21 and 50 rose from 21 % in 2008 and 2009 to 25 % in 2012.



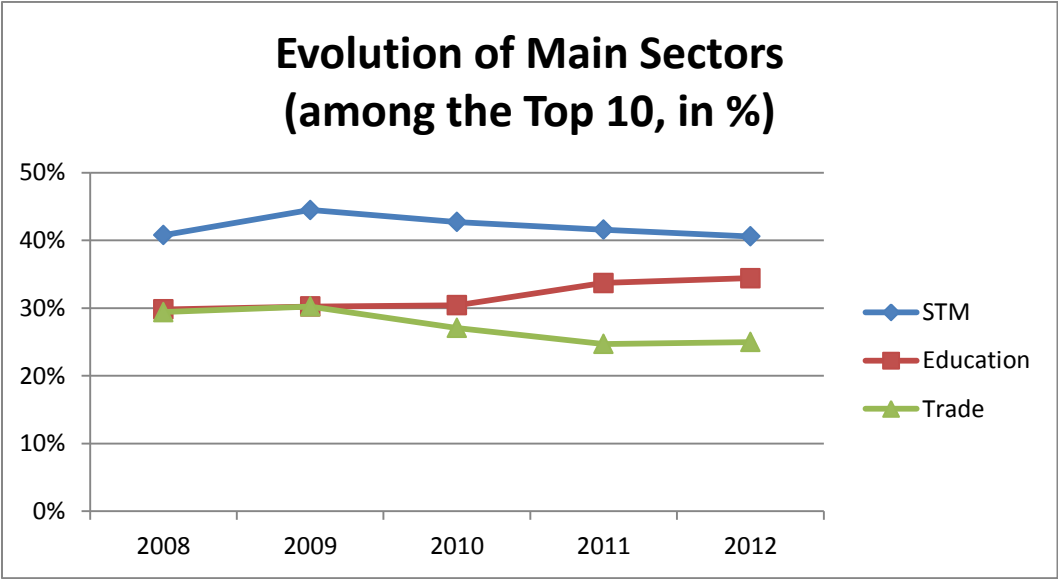
| | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------|----------|----------|----------|----------|----------|
| Total top10 | 28.062 € | 27.553 € | 30.876 € | 28.690 € | 29.968 € |
| Total Top 11-20 | 10.661 € | 10.469 € | 11.469 € | 11.280 € | 10.996 € |
| Total Top 21-50 | 10.212 € | 10.146 € | 11.678 € | 12.711 € | 13.835 € |
| Total Top 1-50 | 48.935 € | 48.167 € | 54.022 € | 52.680 € | 54.800 € |

Chart and table 01: Evolution of revenues within the Top 50 listed publishing companies (in m€). (Base: Top 50 company revenues from publishing)

This evolution mirrors well how new companies, notably from emerging markets, enter the global arena and claim a role of their own.

Also, the three main sectors of the publishing industry – professional information & Science-Technical-Medical (STM) publishing –, educational and trade publishing evolve fairly differently.

The STM segment accounts for 41 % of the reported revenues, while educational publishing represents over a third, or 34 %, and trade (or general literature) is down to only 25 % of the total value that has been created by the leading actors in international publishing. Notably the gap between the share of educational and trade publishing is opening ever wider, highlighting that “educational” is currently the perhaps most competitive sector of the industry.



| | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------|------|------|------|------|------|
| STM | 41% | 45% | 43% | 42% | 41% |
| Education | 30% | 30% | 30% | 34% | 34% |
| Trade | 29% | 30% | 27% | 25% | 25% |

Chart and table 02: Evolution and comparison of STM, educational and trade publishing. (Base: Top 50 company revenues from publishing)

At a first glance, the top segment of the global publishing industry seems to reflect a surprising stability and continuity, as not only the top 4 have remained in perfectly the same order for the past three years. Even more, the entire top 10 list has not opened up to a new entrant in that period, despite the impact of the economic crisis, and regardless of digital change and globalization. But taking such continuity as proof for stability in the sector would utterly misread those tidal shifts that characterize this industry underneath the surface. In fact, the total ecosystem of books and reading, and with this, the industry catering to it, are being re-invented, and this ranking is well reflecting that process.

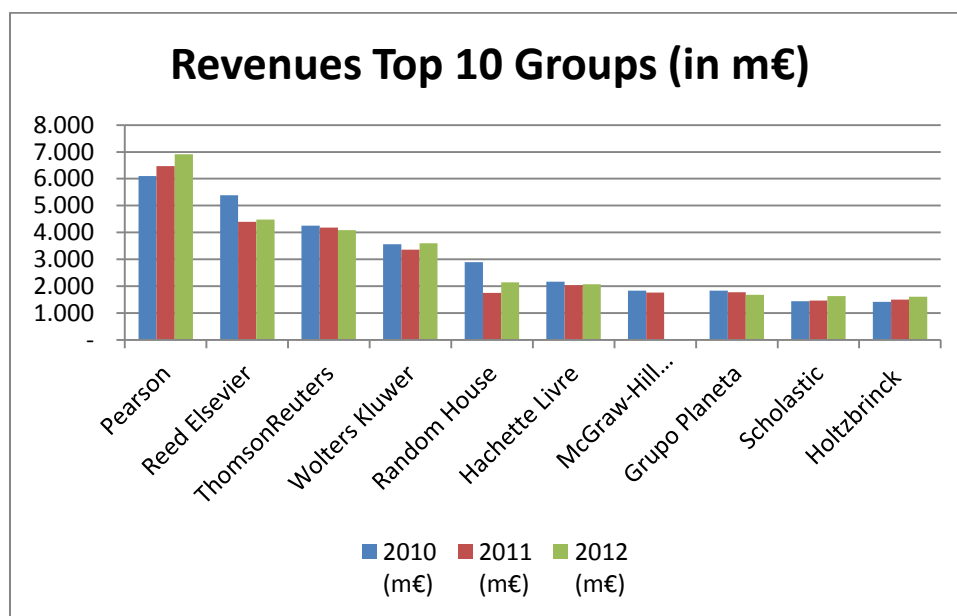
What used to be a sector governed by just a few large conglomerates based in Western Europe, in New York and, in largely insular ways, in Japan, sees now publishing groups in PR China, in Russia or in Brazil becoming relevant on the global stage. They are not just heavy weights in their respective domestic markets, but also

ready either to partner internationally, or, in the case of China, to even reach out in the ambition to become international players in their own right.

On the other hand, entirely new actors, coming either from the retail side (like Amazon), or from other, more or less related media industries (e.g. Apple through its iTunes and iBookstore) enter the field and subsequently assume roles in the value chain that used to be strictly separate, and reserved for publishers. This aspect is not dealt with in the realm of this study, but must serve as a significant context, relevant for the evolution of internationally leading publishers.

The global Top 10 publishing groups

As in previous years, three out of the top 10 groups are focusing almost exclusively on STM. One group has a similar focus on educational (McGraw-Hill), while both the #1, Pearson, as well as #10, Holtzbrinck, report revenues from educational that exceed those from trade.



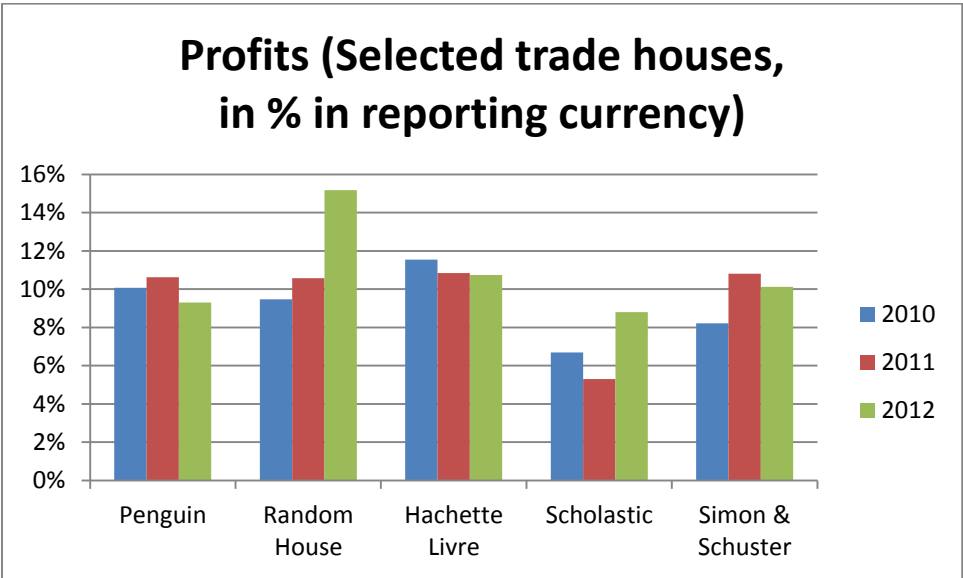
| Rank 2012 | Rank 2011 | Company (Group or Division) | 2010 (m€) | 2011 (m€) | 2012 (m€) |
|-----------|-----------|-----------------------------|-----------|-----------|-----------|
| 1 | 1 | Pearson | 6.102 € | 6.470 € | 6.913 € |
| 2 | 2 | Reed Elsevier | 5.387 € | 4.395 € | 4.479 € |
| 3 | 3 | ThomsonReuters | 4.248 € | 4.181 € | 4.080 € |
| 4 | 4 | Wolters Kluwer | 3.556 € | 3.354 € | 3.603 € |
| 5 | 8 | Random House | 2.897 € | 1.749 € | 2.142 € |
| 6 | 5 | Hachette Livre | 2.165 € | 2.038 € | 2.077 € |
| 7 | 7 | McGraw-Hill Education | 1.835 € | 1.763 € | n.a. |
| 8 | 6 | Grupo Planeta | 1.829 € | 1.772 € | 1.675 € |
| 9 | 10 | Scholastic | 1.443 € | 1.466 € | 1.627 € |
| 10 | 9 | Holtzbrinck | 1.413 € | 1.501 € | 1.608 € |

Chart and table 3: Revenues of the Top 10 publishing groups, 2010 to 2012. (in m€)

This overview and comparison however also shows that the evolution of revenues has been uneven among the companies, and across the segments of the group's main fields of activities.

Only Pearson (with revenues from Pearson Education and Penguin included for this ranking) has seen continuous expansion. For some, like Random House, an up and down has been reported, yet with a remarkable rise in profitability reported for 2012 (see chart 4, here below, yet it is unclear if the reported results are on a strict like-for-like basis, after significant restructuring in the Bertelsmann group over the past 2 years).

The available data allow only a very limited assessment of profits however, as notably many of the largest trade publishers are privately held, and would not reveal any detailed insights into their earnings. Among the top 10, this applies particularly to Grupo Planeta and to Holtzbrinck. So an analysis especially of profits for selected trade publishers is incomplete, but the available information shows a highly diverse field.



| Company (Group or Division) | 2010 | 2011 | 2012 |
|--------------------------------|------|------|------|
| Penguin | 10% | 11% | 9% |
| Random House | 9% | 11% | 15% |
| Hachette Livre | 12% | 11% | 11% |
| Scholastic | 7% | 5% | 9% |
| Simon & Schuster | 8% | 11% | 10% |

Chart and table 4: Profitability of selected trade publishers, in %, in their respective reported currency, to avoid currency effects.

After the turbulences deriving from digital change in the US and the UK, the two defining markets in this regard, both have been recovering in 2012, and it will be highly interesting to see, once more detailed data will allow to also track developments in at least the first half of 2013, if this evolution also impacts positively on the trade houses' profits.

The 2012 data on which this ranking is based, do not reflect some imminent changes in ownership in the segment, though respective announcements of first mergers and acquisitions preclude that pressure for more consolidation will result in a major re-shuffling in trade publishing, effective by the end of 2012 and thereafter.

With the announcement of a merger between Random House and Penguin in late 2012, it was understood by many observers that a new round towards consolidation in this industry is emerging. At this point, no further restructuring among the largest actors has been announced. But among local and regional publishing groups, some new perspectives and aspirations cannot be overlooked. Already a few years ago, in Scandinavia, Swedish Bonnier and Finnish Sonoma had swapped their respective trade and educational divisions. In 2012, when Italian RCS put its French division, Groupe Flammarion, on the block, Madrigall, the holding of Gallimard, considered this as an opportunity to double its size and become the clear number 3 in France. The country's second largest publishing group, Editis, had already been taken over by Spanish Grupo Planeta earlier, but their prospects for further expansion were severely hit by the economic crisis that brought down the entire Spanish book market in 2012 by some 10 %.

Interestingly, the baseline of this re-structuring of the markets seems to be for each actor to increasingly leverage their core competencies. And not, as was the idea behind the 'book empire building' strategies around the year 2000, to grow conglomerates across all media and channels. While back then, Bertelsmann's acquisition of Random House, or thereafter the failed adventure of French Vivendi to create an integrated universe for all media, and all content, under one roof and ownership, the opposite doctrine is reigning today.

With Random House Penguin, with Penguin's mother company Pearson rumored of considering the sale of their newspaper division (holding the Financial Times), but also by spinning of McGraw-Hill Education from the wider McGraw-Hill group, or HarperCollins gaining again a sharper profile within NewsCorp, publishing corporations want to have one clear focus, which is either put on STM, or on educational, or on trade publishing. And specifically educational publishing promises high suspense, and dynamic for change, in the months, and probably years, to come.

Close up on educational publishing

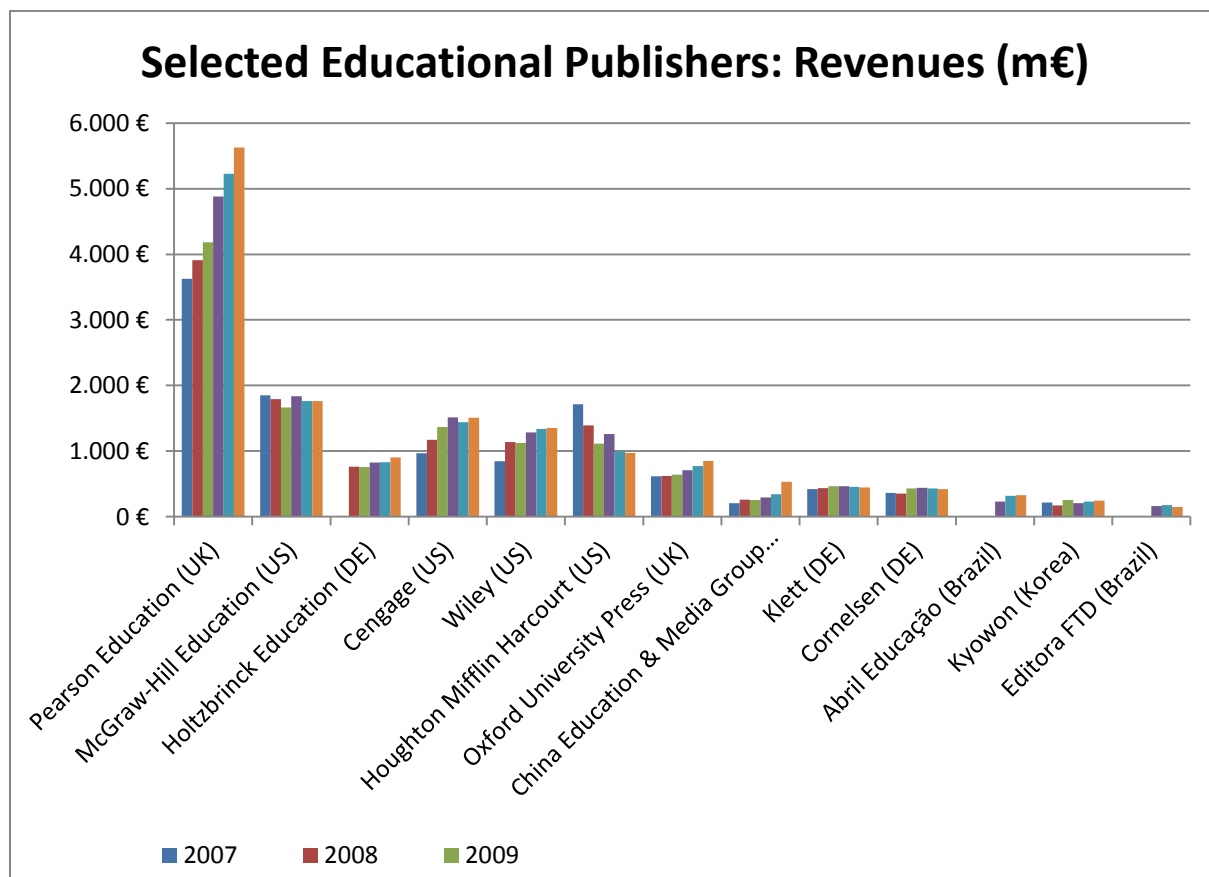
Educational publishing is a highly complex sector, not only as a result of the transition from printed textbooks to digital learning services and materials, but also because several of the largest global publishing entities push their content and integrated services into markets across the globe.

At the same time, education is highly political, and many countries – in the 'old world' just as much as in 'emerging economies' - want to have a word to say in that sector, and one or several strong domestic players often are considered to be of national importance in order to maintain this ambition of governments.

Also, educational publishing is feeding heavily on public – government – spending on education. And here, notably in the US, spending went down considerably in recent years, resulting in declining sales for the providers of educational materials. At the

same time, huge new markets in all the emerging economies – not just in the BRIC states (Brazil, Russia, India, China), but beyond, with heavily populated countries with emerging middle classes, such as in Mexico, Turkey, Indonesia and the ASEAN as well as the Gulf region, promise huge potential for expansion. And replacing old fashioned text books with fancy digital national programs comes as the icing on the swelling cake.

Such a complex setting has it, that there is ample room for both winners, as well as for struggling contenders, on the educational turf, as an overview on recent developments among selected educational groups well illustrates.



| Rank 2013 (data 2012) | Rank 2012 (data 2011) | Publishing Company (Group or Division) | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------|--------------------------|---|---------|---------|---------|---------|---------|
| (Group: 1) | (Group: 1) | Pearson Education (UK) | 3.910 € | 4.181 € | 4.881 € | 5.226 € | 5.629 € |
| 7 | 7 | McGraw-Hill Education (US) | 1.794 € | 1.666 € | 1.835 € | 1.763 € | 1.763 € |
| (Group: 10) | (Group: 9) | Holtzbrinck Education (DE) | 763 € | 759 € | 828 € | 832 € | 902 € |
| 11 | 11 | Cengage (US) | 1.172 € | 1.366 € | 1.514 € | 1.443 € | 1.510 € |
| 12 | 12 | Wiley (US) | 1.139 € | 1.124 € | 1.282 € | 1.341 € | 1.351 € |
| 19 | 18 | Houghton Mifflin Harcourt (US) | 1.393 € | 1.116 € | 1.260 € | 996 € | 974 € |
| 25 | 23 | Oxford University Press (UK) | 619 € | 640 € | 710 € | 773 € | 849 € |
| 31 | 37 | China Education & Media Group (form. Higher Education Press; China) | 258 € | 257 € | 296 € | 343 € | 531 € |

| | | | | | | | |
|----|----|-------------------------|-------|-------|-------|-------|-------|
| 34 | 31 | Klett (DE) | 434 € | 466 € | 465 € | 457 € | 445 € |
| 35 | 32 | Cornelsen (DE) | 354 € | 431 € | 440 € | 429 € | 419 € |
| 42 | 40 | Abril Educação (Brazil) | | | 232 € | 319 € | 327 € |
| 48 | 48 | Kyowon (Korea) | 171 € | 255 € | 206 € | 229 € | 243 € |
| 58 | 52 | Editora FTD (Brazil) | | | 162 € | 175 € | 150 € |

Chart and table 05: Evolution of selected educational publishers by revenue (m€)

It is worth to look at these data and developments in detail. First, the immense range of scope and magnitude between a few globally leading entities, and even strong players in emerging markets becomes clear. But even among the big actors, not every unit is growing. Those focusing just on their traditional domestic market feel the direct dependency from declining public spending.

Also, revenue development and profitability are not necessarily in line, as difficulties at a recently spun off entity like Cengage illustrate (Cengage filed for bankruptcy in 2012, as it was held down by a load of debt, despite its growth in earnings).

Some emerging actors (like China Education, or Abril Educacao in Brazil), despite their modest size in the global context, are strong, and dynamically growing, in their respective domestic context, and these are at the same time preferred partners for the global leaders.

In the case of China, nothing less than the government itself is orchestrating the process, by initiating the formation of larger, and in the international context more competitive entities. “China Education and Media” group (which includes among others, “Higher Education Press”, present in this ranking already for some time) is one example. For the update 2013, two more Chinese groups could be described and listed (China Publishing Group Corporate, and Phoenix Publishing and Media Company), and a fourth Chinese publishing group might be eligible for this ranking (China South Publishing, www.zncmj.com, listed at the Shanghai stock exchange), with group revenues of 9360 mRMB, yet no breakdown available for the size of their book business, aside from newspapers, and printing).

Preliminary conclusions

The “Global Ranking” 2013 introduces a moment of perhaps surprising calm in the turbulences of the publishing world, which may turn out to be treacherous, though. Mergers and new partnerships, competition from outside of the traditional book trade, and an emerging multi-lateral global landscape, in which the big leaders and self-confident local and regional contenders must come to terms with each other. This fluid status quo hosts tremendous potential for opposing winners, challenged contenders, and struggling survivors as well.

Obviously, this is a strong time for strategists, to anticipate how to navigate their companies in exciting times.

Annex: The Top 10 Global Publishing Groups

| Ranking 2013 | Ranking 2012 | Company (Group or Division) | 2010 (m€) | 2011 (m€) | 2012 (m€) |
|--------------|--------------|-----------------------------|-----------|-----------|-----------|
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