

**Lagardère**  
PUBLISHING

 hachette  
LIVRE

**PRESENTATION**

INVESTOR DAY  
LAGARDERE

---

Paris - 28 May 2014

---



## AGENDA

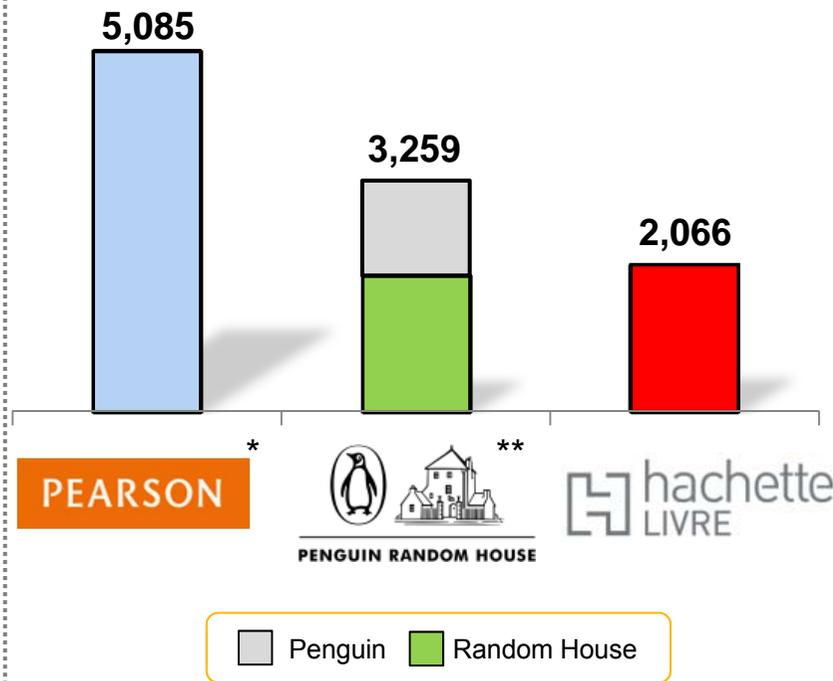
---

- **Hachette Livre since 2010**
  - **Hachette Livre today**
  - 2003-2013 highlights
  
- **Hachette Livre’s successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

# HACHETTE LIVRE IS THE WORLD'S #3 CONSUMER BOOK PUBLISHER, A LEADER IN CORE MARKETS

## Top 3 Consumer book publishers worldwide

Based on 2013 pro-forma turnover (€m)  
(Consumer: Trade & Education including Higher Education)



## Ranking in core markets

Based on 2013 market data and results

Worldwide #3

-  #1
-  #2
-  #3
-  #4
-  #2

\*Pearson excludes Penguin revenues

\*\*Internal estimate including 100% of Penguin revenues

Based on 2013 average exchange rates. Revenues from STM, professional markets and other activities than book publishing have been excluded when it could be isolated

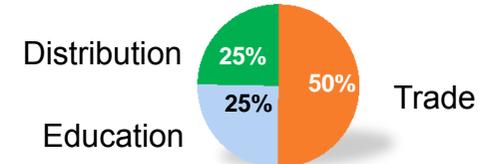
Sources: annual reports, internal estimates, Ipsos, Nielsen Bookscan

# IN FRANCE, ITS HOME TURF, HACHETTE LIVRE IS THE #1 PUBLISHING PLAYER

CONTRIBUTION TO 2013 GLOBAL SALES\*  
(€2,066m)



## SPLIT OF 2013 SALES BY BUSINESS



## Focus on France

3 BUSINESSES IN FRANCE	TRADE	EDUCATION	DISTRIBUTION
2013 ranking and market share in value	 <p>20.5%</p>  <p>#1</p>	 <p>45%</p>  <p>#1</p>	 <p>33%***</p>  <p>#1</p>
Main segments of presence and examples of imprints	<ul style="list-style-type: none"> <li>Fiction &amp; Non Fiction  </li> <li>   </li> <li>Illustrated &amp; Children •  •    </li> <li>Reference </li> </ul>	<ul style="list-style-type: none"> <li>Primary  </li> <li>Secondary  </li> <li>Academic &amp; Professional  </li> </ul>	 <ul style="list-style-type: none"> <li>Owned imprints</li> <li>Third-party clients (40%)</li> </ul>   
Key business factors	<ul style="list-style-type: none"> <li>High level of production</li> <li>From “boutique” to mass market</li> <li>Exceptional brands</li> <li>Outstanding performances in 2013 (Fiction bestsellers, new album of Asterix, Violetta)</li> </ul>	<ul style="list-style-type: none"> <li>75% backlist</li> <li>Dependant on curriculum change (none in 2013/2015)</li> <li>High margins associated with high market shares</li> </ul>	<ul style="list-style-type: none"> <li>Working capital negative</li> <li>Extremely resilient</li> </ul>

\*Sales by country of origin \*\* Including other French-speaking countries \*\*\*Distribution in Trade (internal estimates for print market)  
Sources: Ipsos (physical sales only), Education group of Syndicat National de l'Édition, internal estimates

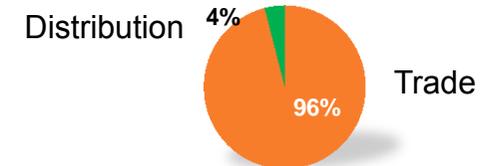
# HACHETTE BOOK GROUP IS THE #4 PLAYER IN THE US TRADE MARKET



CONTRIBUTION TO 2013 GLOBAL SALES\*  
(€2,066m)



## SPLIT OF 2013 SALES BY BUSINESS



2 BUSINESSES	TRADE	DISTRIBUTION
<p><b>2013 ranking and market share in volume</b></p>	 <p>5.8%**</p>  <p># 4</p>	 <p>~8%</p>
<p><b>Main segments of presence and examples of imprints</b></p>		<ul style="list-style-type: none"> <li>Owned imprints</li> <li>Third-party clients: ~40% of the activity</li> </ul>
<p><b>Key business factors</b></p>	<ul style="list-style-type: none"> <li>Brilliant Frontlist Publisher, # 1 in the market, experiencing good performance in 2013</li> <li>206 print and 84 ebook NYT bestsellers (52 titles in #1 positions)</li> <li>All authors have agents</li> <li>Stronger in Adult Fiction than in other segments</li> <li>Acquisition of Hyperion in 2013 to reinforce the Non Fiction list</li> </ul>	<ul style="list-style-type: none"> <li>Working capital negative</li> <li>Achieved digital transformation</li> <li>Aggressive growth strategy in 3<sup>rd</sup>-party business</li> </ul>

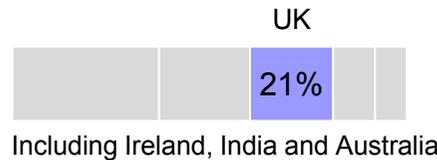
\*Sales by country of origin

\*\*Including sales of some distribution clients. Post-acquisition sales for Hyperion included. Physical sales only

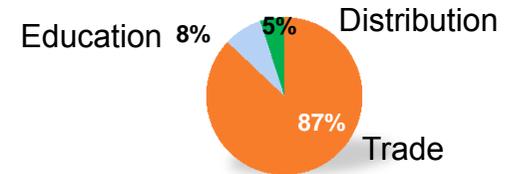
Sources: Nielsen Bookscan, internal estimates

# HACHETTE UK IS A LEADING PLAYER IN THE UK AND COMMONWEALTH COUNTRIES

CONTRIBUTION TO 2013 GLOBAL SALES\*  
(€2,066m)



## SPLIT OF 2013 SALES BY BUSINESS



## Focus on the UK

3 BUSINESSES IN THE UK	TRADE	EDUCATION	DISTRIBUTION
2013 ranking and market share in value	 <p>12.8%</p> <p># 2</p>	 <p># 4</p>	 <p>~23-24%</p> <p># 1</p>
Main segments of presence and examples of imprints	<ul style="list-style-type: none"> <li>Fiction &amp; Non Fiction</li> </ul>  <ul style="list-style-type: none"> <li>Illustrated</li> <li>Children</li> </ul> 	 <ul style="list-style-type: none"> <li>Secondary Schools Market: # 3 on this segment</li> </ul>	 <ul style="list-style-type: none"> <li>Owned imprints</li> <li>Third-party clients: 41% of activity</li> </ul>
Key business factors	<ul style="list-style-type: none"> <li>All authors have agents</li> <li>Most unregulated market</li> <li>High retail concentration</li> <li>Outstanding performances in 2013: 112 Times bestsellers</li> </ul>	<ul style="list-style-type: none"> <li>Need for size</li> <li>Extremely concentrated</li> <li>More digital than France but only ~10%</li> <li>Strong performance in 2013 (curriculum change in Scotland)</li> </ul>	<ul style="list-style-type: none"> <li>Working capital negative</li> <li>Less profitable than France and US</li> </ul>

\*Sales by country of origin

Sources: Nielsen Bookscan (physical sales only); Education group of Publisher's Association; The Publishers Association; internal estimates

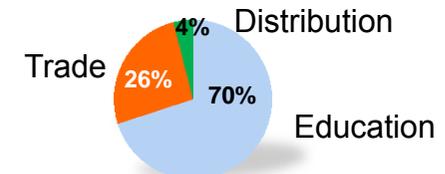
# HACHETTE LIVRE ESPAÑA IS A LEADING PLAYER IN SPAIN AND LATIN AMERICA



CONTRIBUTION TO 2013 GLOBAL SALES\*  
(€2,066m)



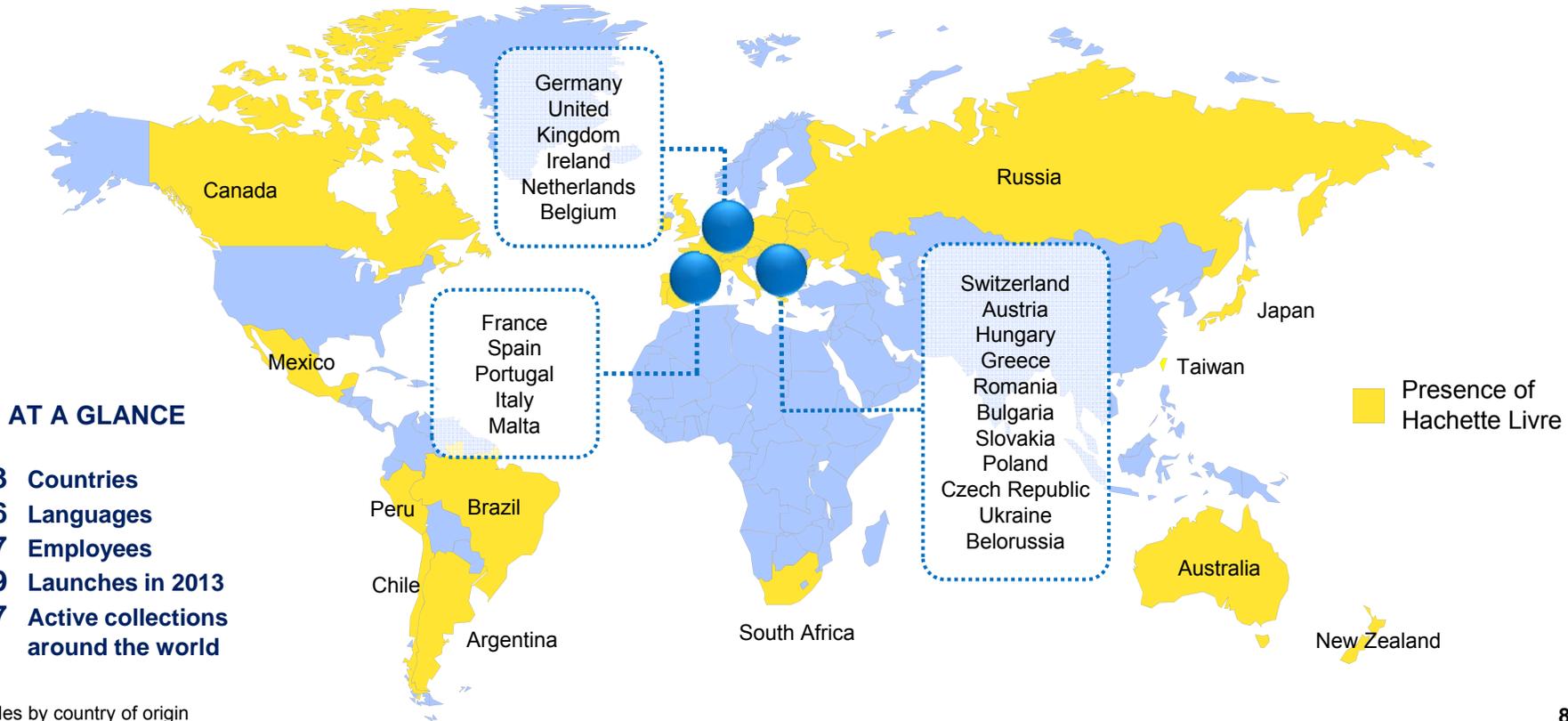
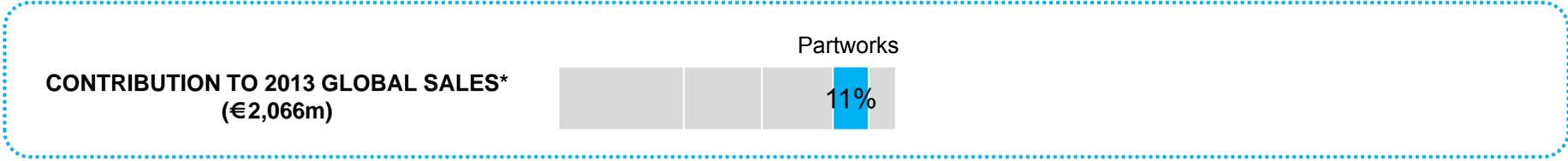
## SPLIT OF 2013 SALES BY BUSINESS



4 BUSINESSES	EDUCATION (SPAIN)	TRADE (SPAIN)	DISTRIBUTION (SPAIN)	LATIN AMERICA
<b>2013 ranking and market share</b>	 <p>20.3%</p>  <p># 1</p>	 <p># 4</p>	--	<ul style="list-style-type: none"> <li>• Mexico</li> <li>• Argentina</li> </ul>
<b>Main segments of presence and examples of imprints</b>		<ul style="list-style-type: none"> <li>• # 2 in Adult Non Fiction (market share of 7.1%)</li> <li>• # 5 in Adult Fiction (market share of 2.4%)</li> <li>• # 4 in Juvenile segment (8.5%)</li> </ul>	 <ul style="list-style-type: none"> <li>• Mainly for owned imprints</li> </ul>	<ul style="list-style-type: none"> <li>• Educational books</li> <li>  </li> <li>• Reference</li> </ul>
<b>Key business factors</b>	<ul style="list-style-type: none"> <li>• Several languages and curricula</li> <li>• Heavily funded by public</li> <li>• Reform in 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Very concentrated</li> <li>• Hurt by very difficult environment</li> <li>• Opportunities to come ?</li> </ul>	<ul style="list-style-type: none"> <li>• Not an established business in Spain</li> </ul>	

\*Sales by country of origin  
Sources: Internal estimates for education. Nielsen Bookscan for Trade market shares (print sales, in volume)

# HACHETTE LIVRE OPERATES A PARTWORKS BUSINESS WITH A STRONG PRESENCE WORLDWIDE



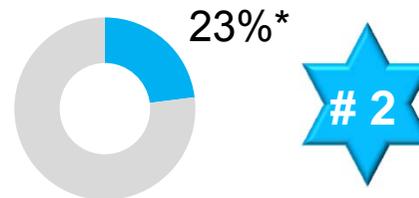
\*Sales by country of origin

# HACHETTE COLLECTIONS IS THE #2 GLOBAL PLAYER IN PARTWORKS



## BUSINESS OVERVIEW

2013 ranking and market share in value



Key business factors

- Partworks activity has been extending its international network year after year: compared to 2009, new countries became the main contributors of sales in 2013

**2009**   \*\*  **▶ 61% of sales & 57% of EBIT**

**2013**     **▶ 51% of sales & 69% of EBIT**

- Successes on all markets excluding Spain in 2013
- High R&D, marketing and promotional expenses
- Need for very professional testing processes
- Need for tight operational management

\* Internal estimates based on sales in newsstands

\*\* Spain, Portugal, and Latin America excluding Brazil

# HACHETTE LIVRE EXTENDED ITS REACH THROUGH BUSINESSES IN DEVELOPING COUNTRIES



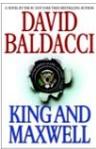
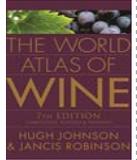
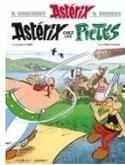
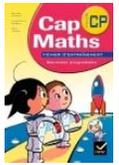
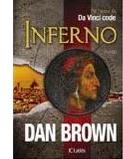
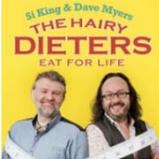
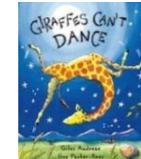
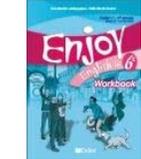
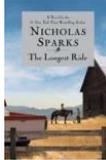
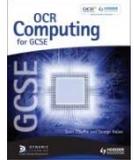
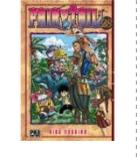
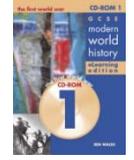
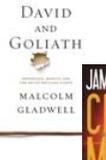
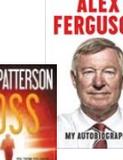
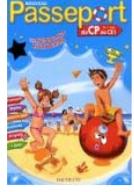
	 * 	 * 	 * 	 * 
<b>Overview</b>	<ul style="list-style-type: none"> <li>Joint venture with Phoenix Publishing Media Group</li> <li><b>17 people</b></li> </ul>	<ul style="list-style-type: none"> <li>Joint venture with Librairie Antoine established at the end of 2009</li> <li><b>21 people</b></li> </ul>	<ul style="list-style-type: none"> <li>Participation in Azbooka-Atticus Publishing Group since 2011</li> <li><b>407 people</b></li> </ul> <p><b># 2</b> in the Trade market</p>	<ul style="list-style-type: none"> <li>Launched in 2008</li> <li>English language consumer book subsidiary</li> </ul> <p><b># 3</b> in the Trade market</p>
<b>Segments</b>	<ul style="list-style-type: none"> <li>International Fiction, Non Fiction / Practical, Children</li> </ul>	<ul style="list-style-type: none"> <li>Trade: local and international Fiction &amp; Non Fiction, Children, Practical, Reference</li> <li>Education</li> </ul>	<ul style="list-style-type: none"> <li>Local and international Fiction, Children, Non Fiction / Practical</li> </ul>	<ul style="list-style-type: none"> <li>Marketing and distributing books for HUK and HBG</li> <li>Fiction, Children's and Reference books as well as Non Fiction</li> </ul>
<b>Key trends</b>	<ul style="list-style-type: none"> <li><b>91 titles</b> in 2013</li> <li>Fiction: D. Kennedy, J-C Grangé, D. Baldacci, acquisition of G. Musso</li> <li>Non Fiction: <i>I Am Malala</i>, David Beckham illustrated biography, self-help, soft business, biographies</li> <li>Strong Children line, with « Disney Learning » license and other Edutainment titles, and Children Fiction</li> </ul>	<ul style="list-style-type: none"> <li><b>227 titles</b> in 2013</li> <li>Growth of 2013 sales: <b>+10%</b></li> <li>Fiction: Arab classics as well as very contemporary bestsellers (both Arab like Ahlam Mosteghanemi, and Western like J.K. Rowling, Harlan Coben)</li> <li>Disney license, Mr. Men &amp; Little Miss license</li> <li>Practical titles (<i>Méthode Dukan</i>, cook books)</li> </ul>	<ul style="list-style-type: none"> <li><b>1,229 new titles</b> in 2013</li> <li>Growth of 2013 sales: <b>+10%</b></li> <li>Fiction: development of foreign authors (JK Rowling, Jojo Moyes, Jo Nesbø), strong line of classics</li> <li>Children: strong authors (Enid Blyton, Astrid Lindgren), new <i>Harry Potter</i> edition for 2014</li> <li>Development in new segments such as business books, coffee-table books</li> </ul>	<ul style="list-style-type: none"> <li><b>~35 adult</b> books and <b>15 children's</b> books published per year</li> </ul>

\*Not consolidated

# HACHETTE LIVRE PUBLISHED 16,452 NEW TITLES IN 2013



Examples of 2013 bestsellers

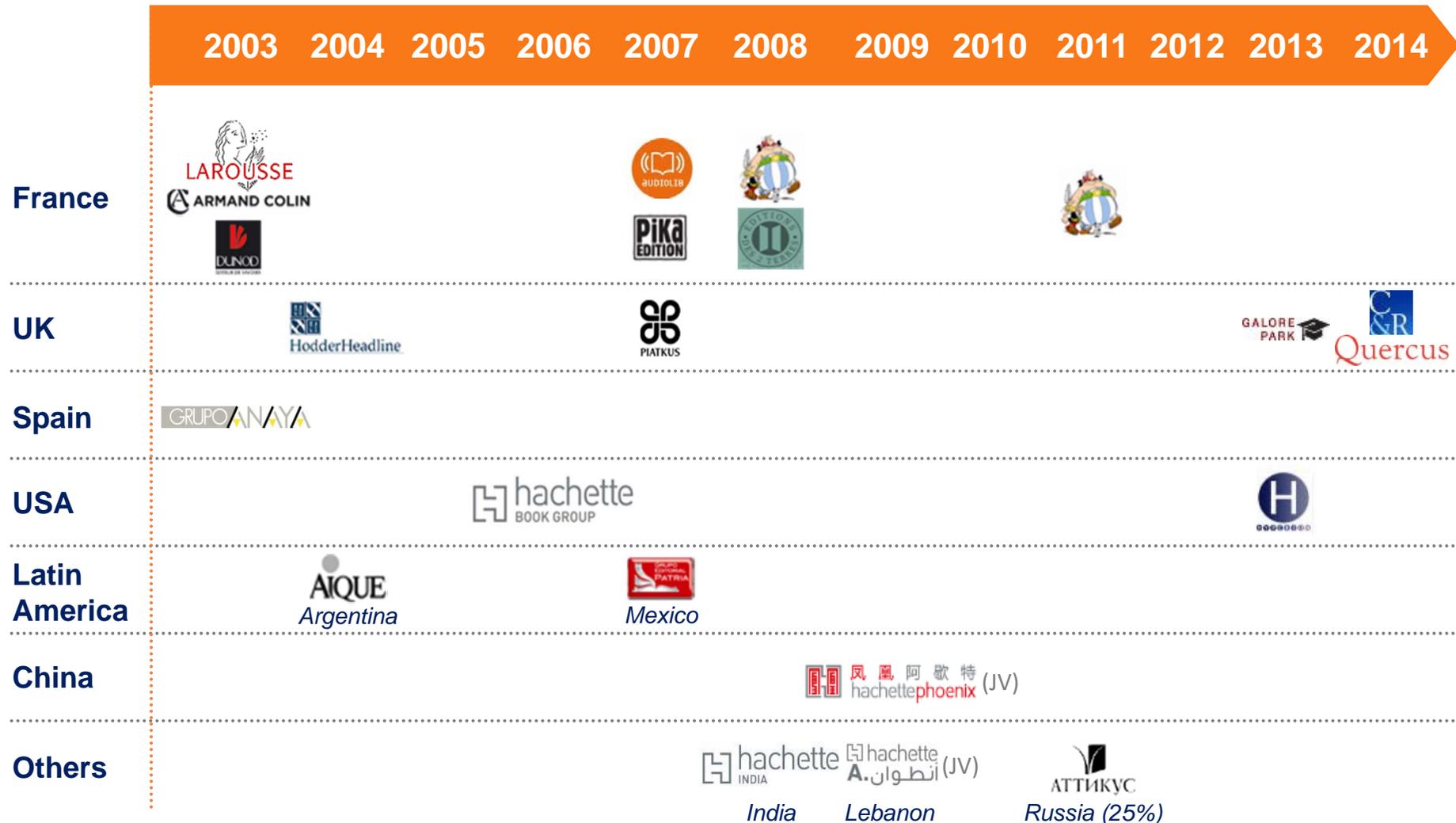
Trade			Education and References	Partworks
Literature	Illustrated	Children		
  	 	 	  	 
 	 	 	 	<p>Germany</p>  
 	 	 	 	<p>France</p>  
 	 	 	 	<p>Japan</p>  
 	 	 	 	<p>Russia</p>  
				<p>France</p>  

## AGENDA

---

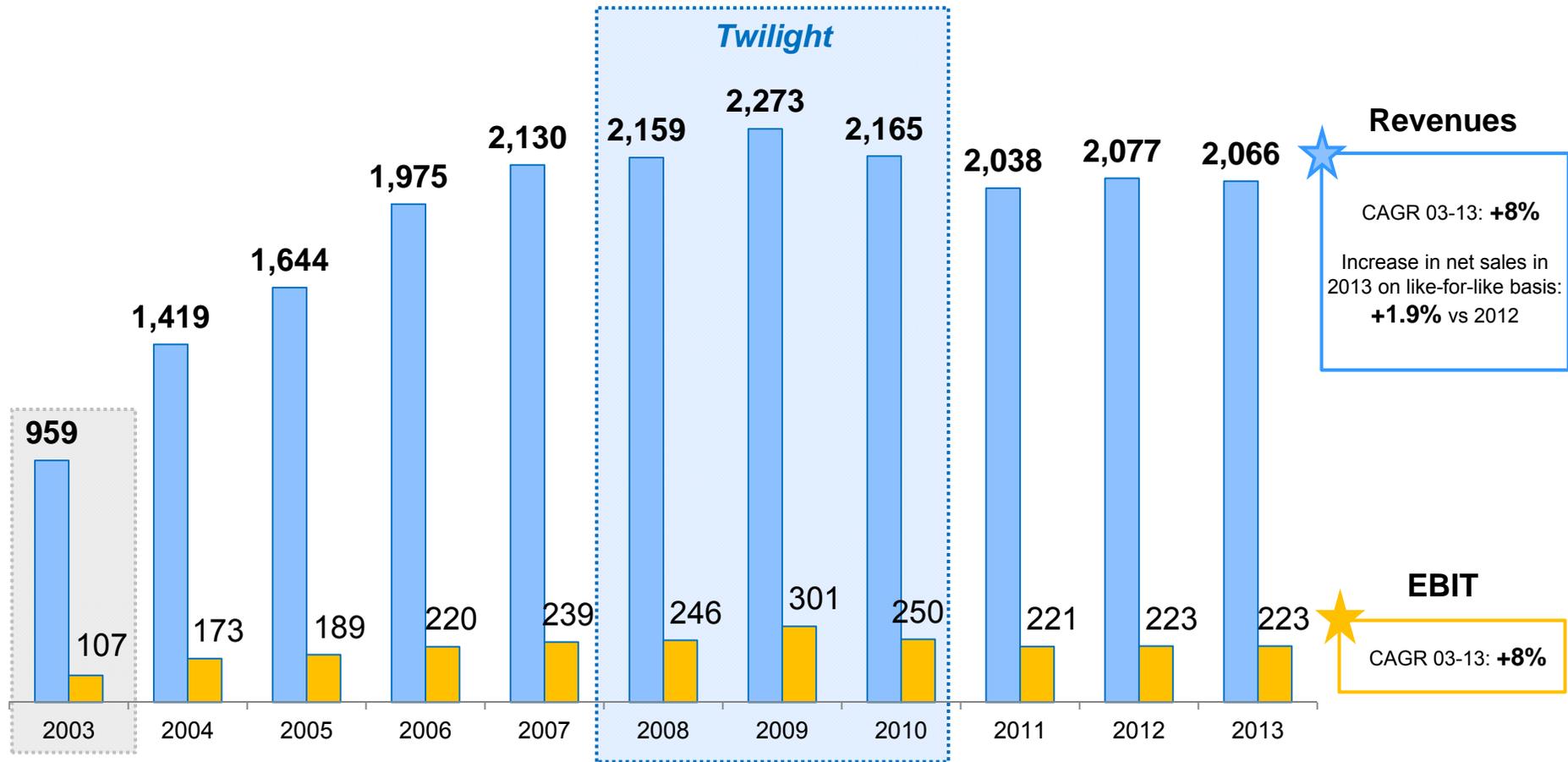
- **Hachette Livre since 2010**
  - Hachette Livre today
  - **2003-2013 highlights**
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

# THE GROWTH OF THE GROUP WAS FUELLED BY ACQUISITIONS AND INTERNATIONAL DEVELOPMENT



# HACHETTE LIVRE HAS POSTED STRONG GROWTH OVER THE PAST TEN YEARS

Hachette Livre results 2003-2013 (in €m)



Share of International sales\*

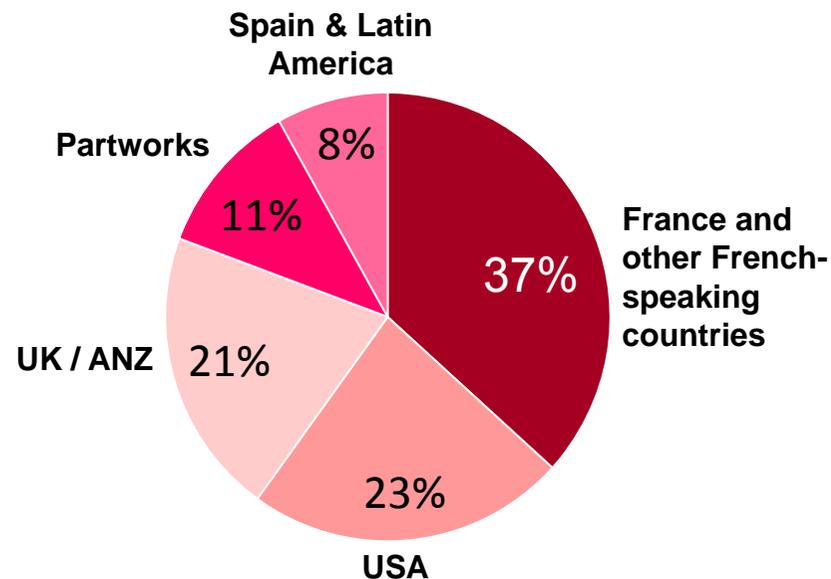
35%    45%    52%    62%    65%    67%    69%    68%    67%    67%    68%

\*Sales by country of destination

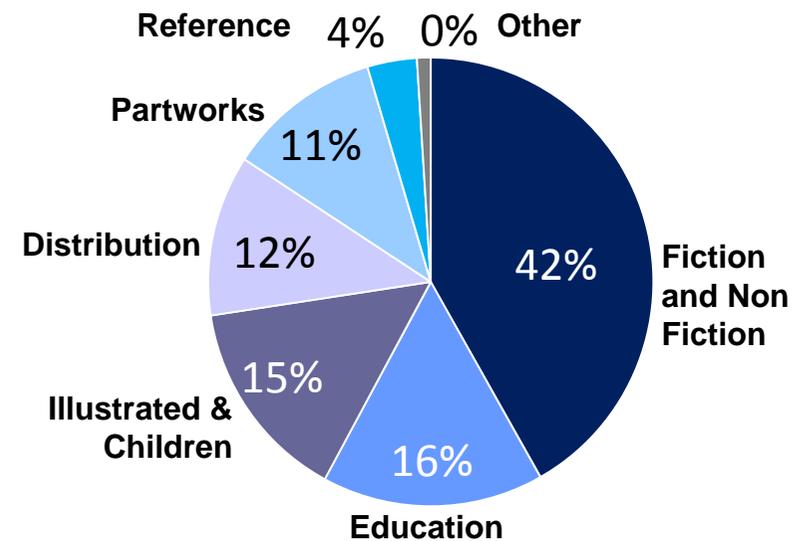
# HACHETTE LIVRE HAS SUCCESSFULLY ASSEMBLED A PORTFOLIO OF BUSINESSES ACROSS 3 MAJOR LANGUAGES AND ALL MARKET SEGMENTS

2013 revenues: €2,066m

## Sales by geographic area\*



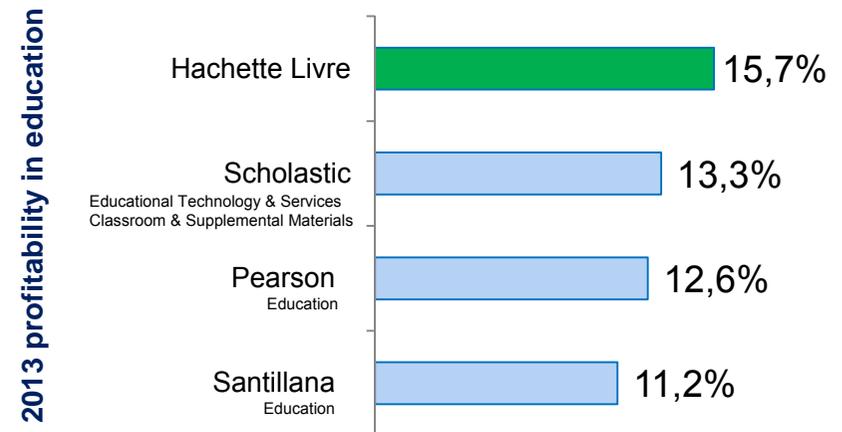
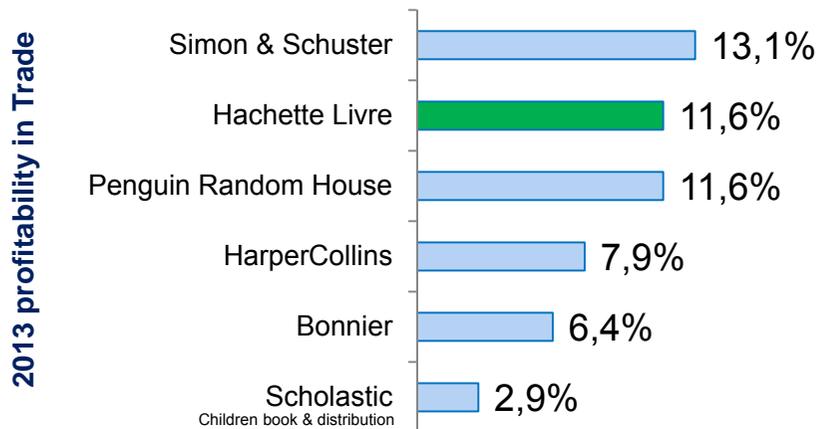
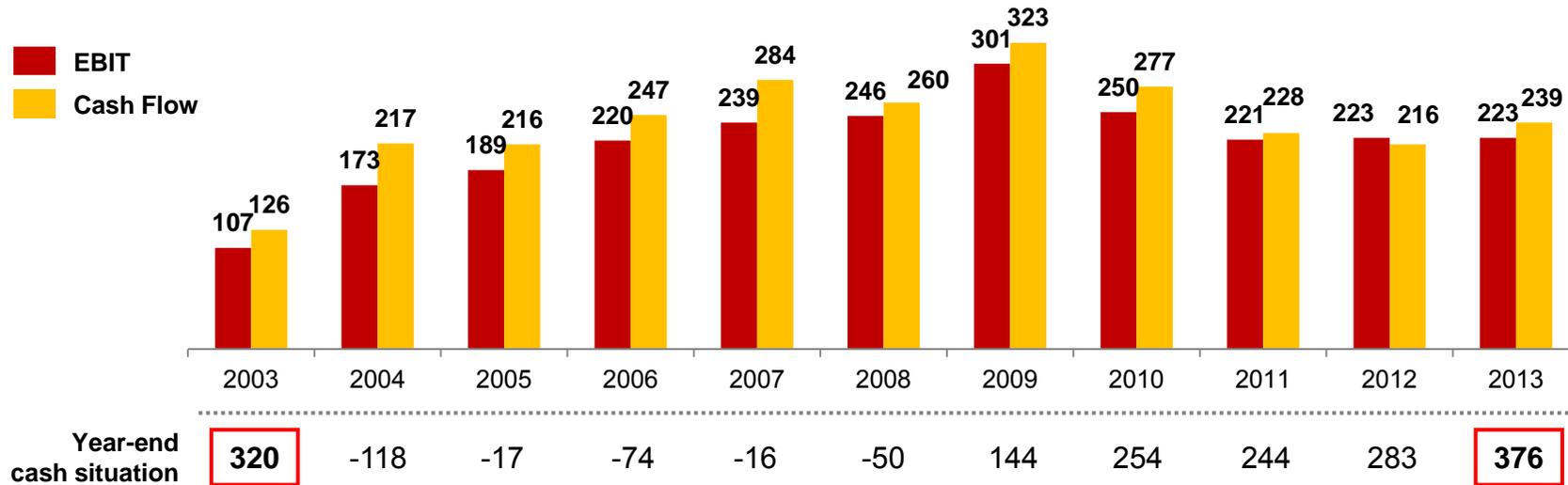
## Sales by activity



\*Sales by country of origin

# HACHETTE LIVRE IS A BEST-IN-CLASS, VERY PROFITABLE AND CASH GENERATIVE GROUP

Hachette Livre financing 2003-2013 (€m)



Sources: Hachette Livre data; annual reports

## AGENDA

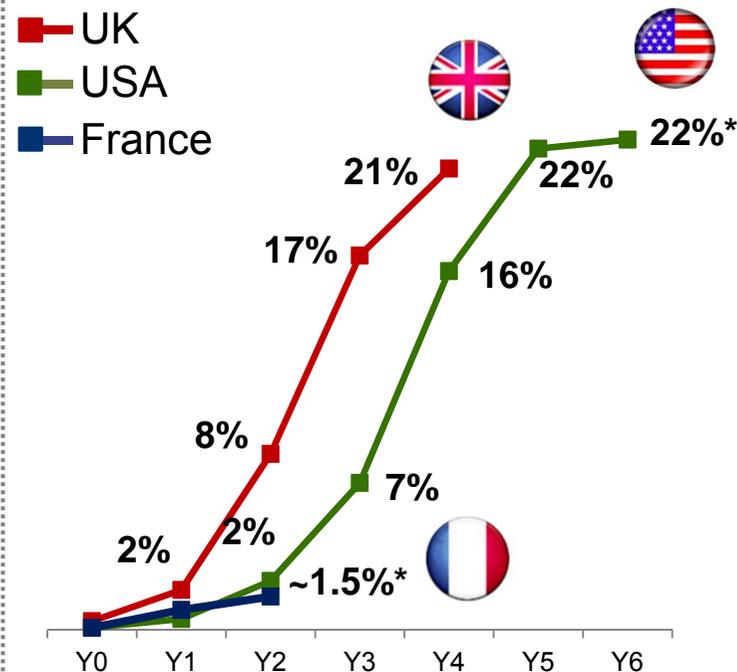
---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - **Market environment: a new deal**
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

## THE DIGITAL TRADE MARKET GROWTH RATES DIFFER BY COUNTRY

- Hachette Livre has been instrumental in the transformation of the industry in the USA

**eBook market development per country**  
(in % of Trade sales in value – publisher price)



US 2007  
UK 2009  
FR 2011 } Year 0 for eBook market

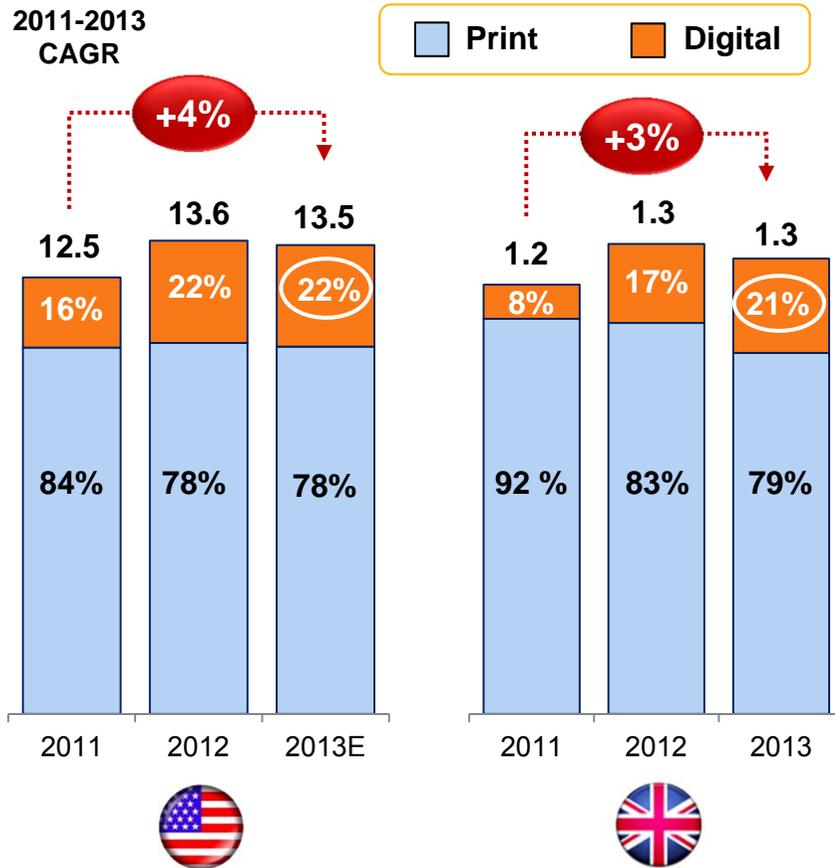
- Entry of Amazon in 2007 with a high-discount policy on ebook prices
- Business model converted to agency contract in 2009 after Apple's entry
- Very rapid growth in the USA in 2009-2013 fueled by retailer competition, installed basis of devices and depth of catalogs
- Even stronger growth in the UK which reached in 3 years the same penetration rate as the USA in 4 years
- France: digital market taking-off slowly
- US reaching a « plateau » and UK experiencing less important growth than in previous years as stated by initial 2013 market estimates
- Hachette Livre was the N° 2 Digital Publisher in the US market in 2013

\* Estimates  
Sources: GfK, SNE, Bookstats, The Publishers Association, Hachette analysis

# THE PENETRATION OF DIGITAL ON PUBLISHING MARKETS IN THE USA AND THE UK HAS POSITIVE IMPACT

## Trade market evolution 2011-2013

(net publisher revenues, in \$bn for the USA and £bn for the UK)



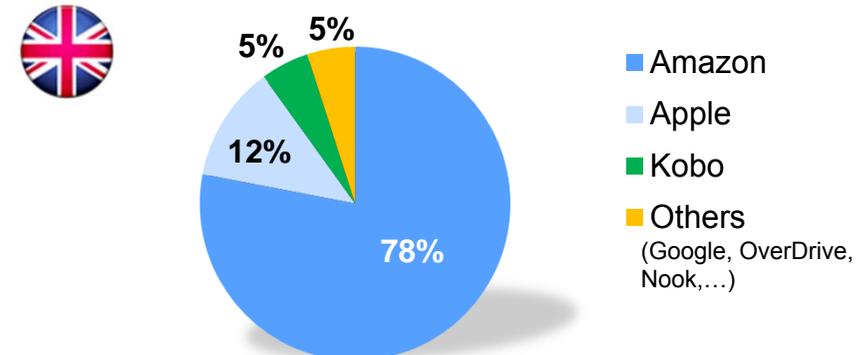
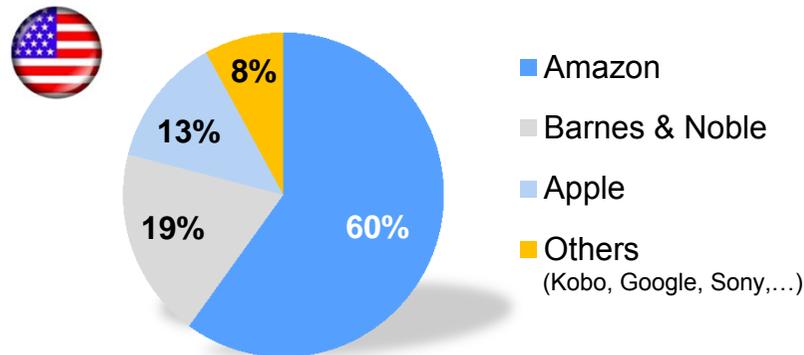
## Financial impacts

- Once the investment phase is over, digital modifies the cost structure of a publisher (example: decrease of print volumes)
- The across all formats slightly better incremental profitability of ebooks offsets the loss of contribution to fixed costs (distribution, sales forces) resulting from decline of print volumes
- Cash flow improvement, lower upfront investments in working capital and shorter payment terms

## PUBLISHERS ARE NOW DEALING WITH GIANT TECHNOLOGY PLAYERS WHO ENJOY CONSIDERABLE BARGAINING POWER

- E-retailers on the digital market are highly concentrated, with Amazon dominant

Breakdown of Hachette Livre digital sales by e-retailers in 2013



- A new kind of player, US-based or international technology and e-commerce companies, have entered the publishing arena with a different economic rationale from traditional retailers



*Digitization of contents*

**2004**



*Kindle's success thanks to ebooks pricing at 9.99\$*

**2009**



*Launch of the Ipad*

**2010**



*Launch of Samsung Galaxy*

**2012**

- By leveraging its size, Hachette was able to implement balanced solutions with Google, Amazon, Apple: the agency model allowed new entrants without impacting the market dynamics

## IN ALL BOOK MARKETS, TRADITIONAL RETAIL UNDERGOES FURTHER CONCENTRATION

- In most book markets, bookshops and traditional retail experience difficulties or bankruptcies

### Examples













- These difficulties mostly result from financial failures in a changing environment (digital development, economic crisis)
- These phenomena are gradual: the liability in terms of value is therefore limited by:
  - market adjustments with the transfer of volumes to other bookstores & channels
  - anticipation and monitoring of credit loss in publishers' accounts

# THE DIGITAL TRANSFORMATION HAS INCREASED COMPETITION

## Before

- Established competing publishers



- ... or new entrants in Literature (Actes Sud, Le Dilettante...)
- Retailers (but at low level)

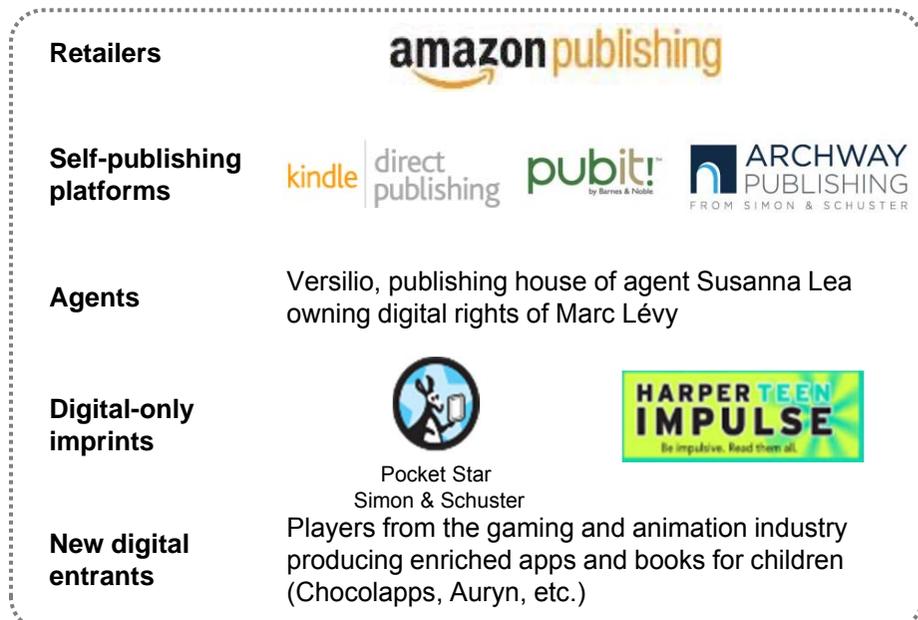


## After

- Competing publishers



- New competitors



## IN REACTION TO THIS CHANGING LANDSCAPE, GLOBAL PUBLISHERS HAVE INITIATED A NEW CONSOLIDATION PHASE



### – Acquisition of Flammarion by Gallimard

- Transaction closed in September 2012
- Consolidated market share on the French print market of ~13% in value and ~14% in volume



### – Penguin – Random house merger

- Announced in October 2012
- Completion of transaction expected in July 2013
- Consolidated market share of ~28% in the US



### – Acquisition of Santillana Ediciones Generales by Penguin Random House

- Reinforcement of Penguin Random House on the Spanish-language market and on the Portuguese-language market
  - Imprints such as Aguilar, Alfaguara, Punta de Lectura, Suma de Letras, Taurus in Spain and Latin America
  - Editora Objetiva in Brazil



### – Acquisition of Harlequin by News Corp (HarperCollins)



Hachette Livre had anticipated this market consolidation as early as in 2003-2006

## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - **Actions put in place and results today**
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

## SINCE 2007, PROACTIVE ACTIONS HAVE BEEN TAKEN TO SUCCEED IN THE DIGITAL TRANSITION AND PRESERVE MARKET VALUE (1/2)

### Development of a legal digital offer

- Securing of rights through systematic acquisition of print and digital rights
- Digitization of backlists and systematic release of front list titles in both print and digital formats
- Ensuring availability of ebooks on all platforms and formats
- Implementation of innovative R&D policy regarding products to anticipate evolutions especially on the Children and Educational segments

### Human resources and expertise

- Training teams to use new tools (production of ebooks...)
- Recruitment and development of new skills (webmarketing, websites, community management, CRM...)

### Development of digital infrastructures and adaptation of traditional structures

- Investments in internal digital infrastructures (Digital Asset Delivery, metadata management system, CRM...)
- Adaptation of traditional structures (distribution, sales forces...)

## SINCE 2007, PROACTIVE ACTIONS HAVE BEEN TAKEN TO SUCCEED IN THE DIGITAL TRANSITION AND PRESERVE MARKET VALUE (2/2)

### Fostering competition among e-retail partners

- Supporting competition among e-retailers to avoid dominant position in the value chain: development of a large network of clients composed of both international and local clients (Amazon, Apple, Kobo as well as Cultura, Fnac, independent French bookstores through Numilog partnership...)

### Control over business models

- Agreement with Google for out-of-print books
- Agreement with authors on a “new publishing contract” in France
- Agency model implemented with e-retailers thanks to Hachette Livre’s size and Anglo-Saxon presence in order to retain control over ebook pricing
- Cautious approach towards new business models

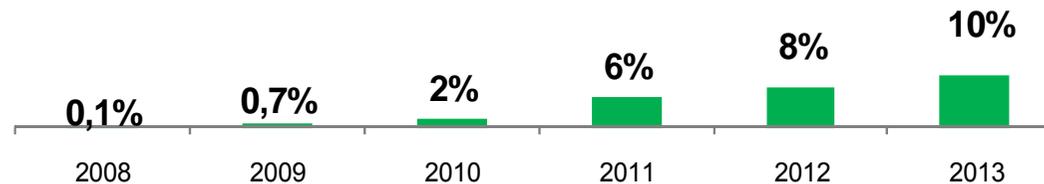
### Adequate protection mechanisms

- Use of adequate protection mechanisms (DRM) with interoperable formats (Epub) which are user-friendly
- Active search of illegal contents through anti-piracy tools limiting the proliferation of illegal copies
- Publishing benefits from consumer awareness regarding fraudulent nature of file sharing and the existing legal frameworks against piracy
- Participation of Hachette Livre in development on interoperability and standard norms (IPDF, W3C)

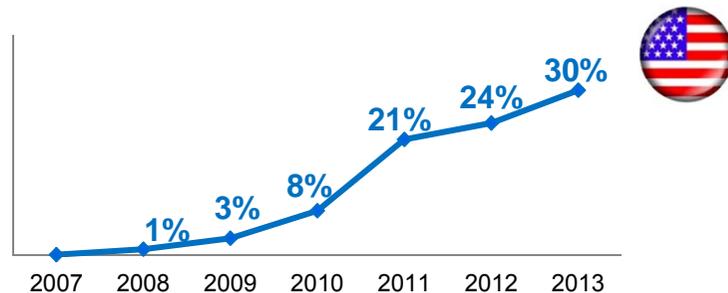
## DIGITAL IN TRADE IS NOW A REALITY FOR HACHETTE LIVRE, WITH THE USA AND THE UK FAR AHEAD

- Hachette Livre digital revenues increased strongly since 2010 and now account for ~10% of total revenues, driven by strong growth of Trade digital sales from Hachette Book Group and Hachette UK

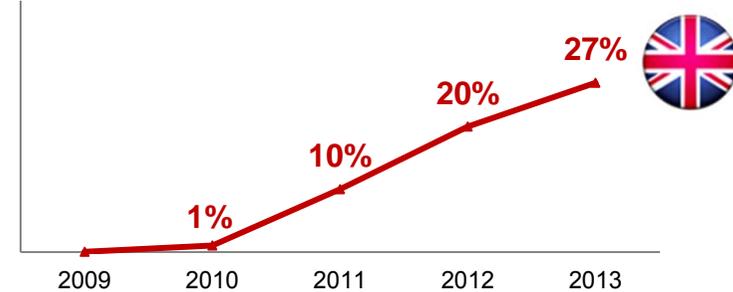
Share of digital in Hachette Livre revenues 2008-2013



Ebooks as of Trade sales in the USA



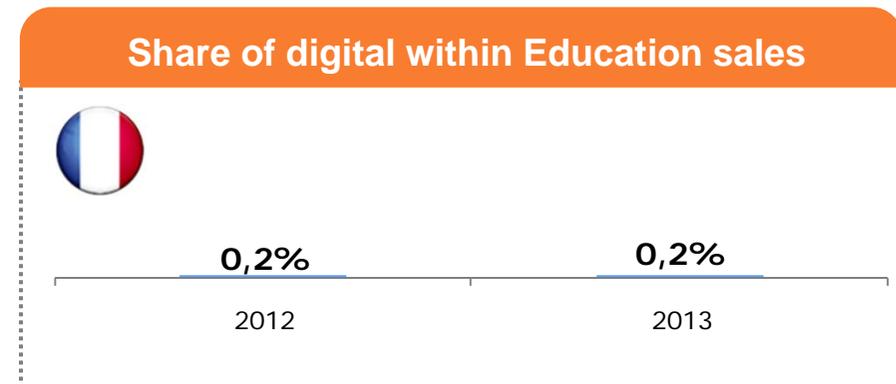
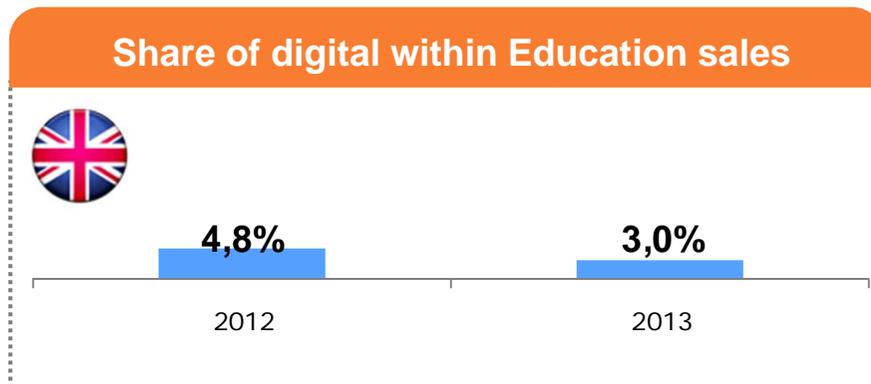
Ebooks as of Trade adult sales in the UK



- Book publishing is the first media industry to successfully enter the digital arena: no market decrease, limited piracy, flat profits

## DIGITAL REMAINS MARGINAL IN EDUCATION TO DATE

- Hachette Livre has successfully concentrated its investment and strategic focus on organic development when other players (Vivendi,...) did proceed to very expensive build up of digital acquisitions
- In European countries, the pace of penetration of digital depends on:
  - The funding of equipment in classes and broadband infrastructure in schools
  - The training and use of technology by teachers: today’s teaching methodologies are based on print content
  - ... in a context of tight budget availability and high conservatism
- Therefore, the weight of digital within education activities remains marginal in the countries in which Hachette Livre operates (UK, France and Spain observing similar trends as France)



Note: UK figures include revenues from Dynamic Learning and ebook sales ; figures for France includes educational ebooks and apps  
 Source: Hachette Livre data

## HACHETTE LIVRE IS PROACTIVELY IMPLEMENTING INNOVATIVE ACTIONS REGARDING DIGITAL EDUCATIONAL PUBLISHING

- Several initiatives have been implemented by Hachette in order to be ahead in digital and ready when the market takes off
- Examples in France:
  - Development and production of eSchoolbooks by educational publishers, available on all devices and sold through the KNE (own distribution platform)
  - Development of websites for students, parents, teachers presenting collections and digital applications
  - Production of mobile applications
- Examples in Spain:
  - 2014 reform including budget dedicated to digital
  - Anaya implemented a new platform to produce digital schoolbooks
- Example in the UK: development of Dynamic Learning by Hodder Education, allowing teachers and students to access on all devices a content rich e-learning platform



## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - **Opportunities**
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

## **PUBLISHER'S ROLE REMAINS CENTRAL IN THE CREATION, PRODUCTION AND SALE OF BOOKS**

### **Consumers**

- Advice and recommendations for cultural products needed



A publisher is a sifter: culling of contents, focusing on superior works among a high number of projects submitted

### **Authors**

- Traditional publishers remain more attractive
  - Bestselling authors need exclusive services (advances, editorial expertise, marketing and sales clout...) not offered by new publishing structures
  - Rare self-published authors proving to be successful subsequently looked for a traditional publisher in order to increase their sales



Publisher's mission is to finance, work with the author, format, promote, market, distribute the work

**With a forecasted digital penetration of the market of <40%, publishing will still be driven by print book sales: the complexity of the business will remain and won't be acquired by new players**

## DIGITAL IN TRADE CREATES ADDITIONAL MARKET OPPORTUNITIES

---

- Hachette Livre aims at reaching new readers by selling its ebooks worldwide:
  - The digital sales network of the group is being extended to new territories
  - Worldwide ebook distribution can allow the group to meet demand of new pools of readers (for example : expatriates, French-speaking readers abroad...)
  
- Enriched contents, which are progressing, attract a new kind of readers won over by interactivity
  - Boundaries between enriched books/applications and other media (gaming, animation...) are increasingly blurred: digital books therefore compete with these multimedia activities
  - Young readers, who are not core readers but have increasing digital habits, will be attracted by these contents
  
- Device penetration will continue to increase and develop the digital market:
  - Digital will continue to grow in Hachette Livre's core markets
  - Emerging countries (Asia, Africa...) experiencing strong device penetration will offer new market opportunities in the mid-term
  
- Therefore, digital increases the Trade book market size and Hachette Livre is fully prepared to take advantage of these new market opportunities

## DIGITAL EDUCATION MARKET, STILL MARGINAL IN EUROPE, IS EXPECTED TO REPRESENT AN OPPORTUNITY BY 2025

- In the countries where Hachette Livre operates, digital market for Education is still marginal:
  - The more advanced digital education market is the UK: ~10% of the publishing market
  - Digital education remains embryonic in France (~1% of the market) and in Spain
- The transition of Education to digital will occur by 2025 in France and Spain
  - In France: shift towards Digital-only Education at the latest by 2025
  - Very similar scenario in Spain with even more complexity imposed by decentralization and local curriculum/language
  - Educational publishing will move from print to print and digital content and services
- The educational digital market is already quite developed in the USA and is a reality for US educational publishers:
  - 33.5% of US college students enrolled took at least one online course in 2012
  - High share of Digital in revenues of Education publishers
    - Pearson: 60% of total revenues derive from digital products and services
    - Houghton Mifflin Harcourt: 28% of revenues\*
- Without running ahead of market, Hachette Livre is in the process of building all the necessary skills. Its brands, market share and market knowledge will also represent a considerable advantage to benefit from this paradigm shift

\* As of June 2013. Sources: Press; The Publishers Association; Babson annual online learning survey; Hachette Livre data, annual reports

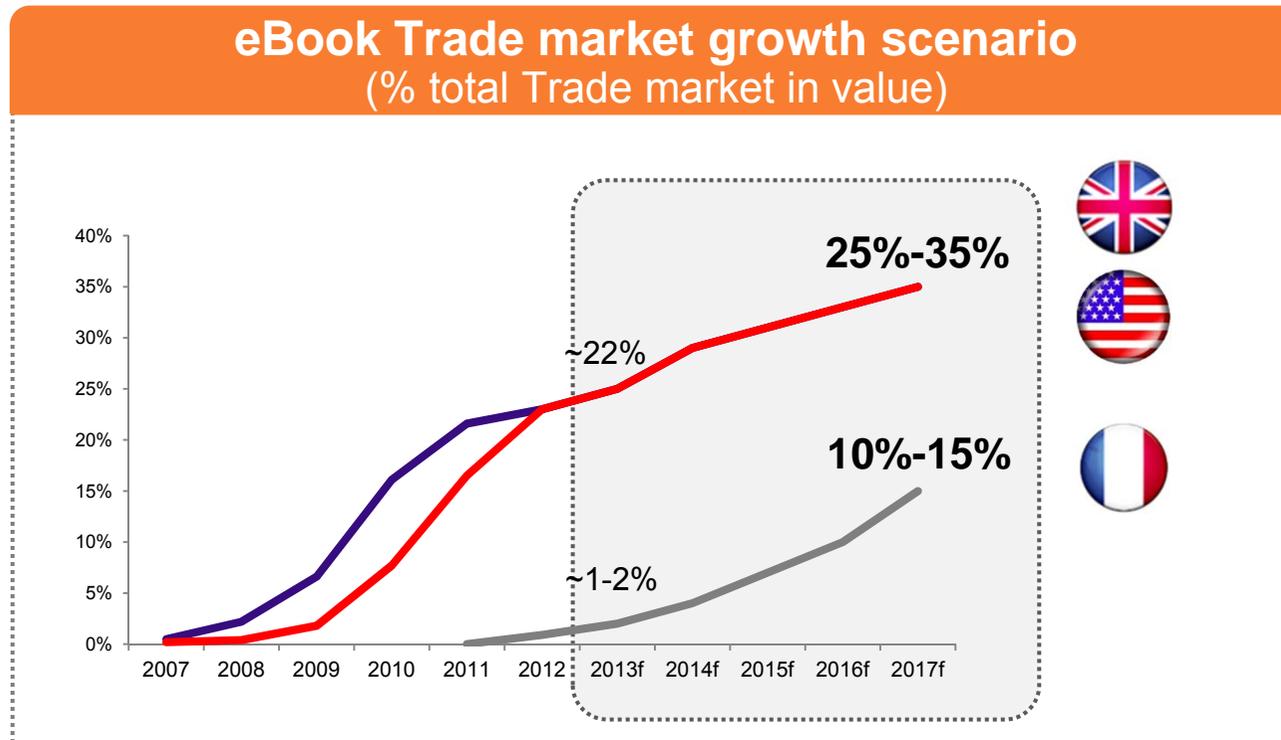
## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - **Pursue digital transformation**
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

## CONTEXT: TRADE EBOOK PENETRATION IS ABOUT TO STABILIZE AT 25%-35% IN THE USA AND LIKELY TO REACH 35% IN THE UK

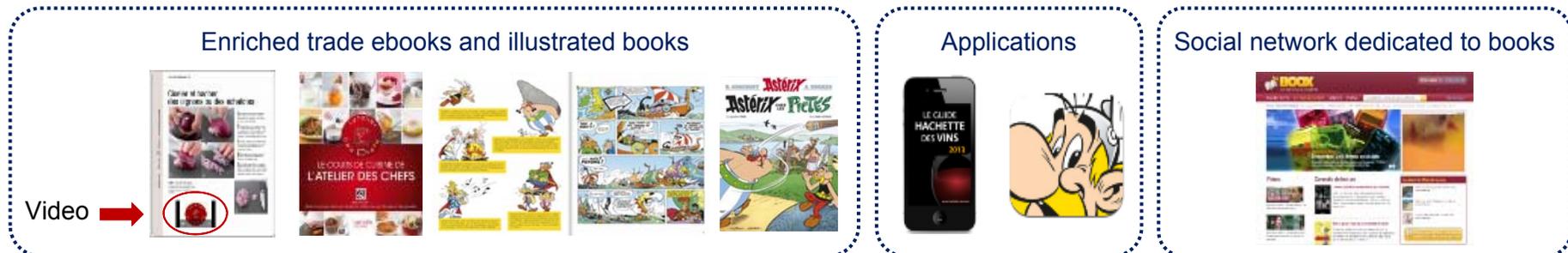
- Ebooks share of total sales in the USA should continue to increase but at a lower pace to stabilize between 25-35% by 2017
- UK market will follow the US market trend with ebook share reaching ~35% of 2017 total market
- In France, despite a protracted take-off, ebooks will account for 10-15% of Trade market with Hachette Livre leading



Sources: The Publishers Association; Bookstats; SNE; Hachette Livre estimates

## STRATEGIC PRIORITIES (1/3): STRENGTHEN SUCCESSFUL BUSINESS MODEL

- Stand by our economic business model in which value is preserved:
  - Promote interoperability through unique format & DRM
  - Retain control over ebook pricing
  - Support sales in bookstores
- Be vigilant on intellectual property and protect author rights
- Complete the construction of digital infrastructures: Digital Asset Delivery, Sales Scan,...
- Pursue innovation policy (services to authors, R&D) in order to maintain leadership in digital landscape



- Gain scale to successfully ensure a profitable digital transition:
  - Keep pace on digital development: economies of scale in R&D and infrastructure costs will represent a tangible competitive advantage
  - Maintain bargaining power in commercial negotiations with retailers

## STRATEGIC PRIORITIES (2/3): DEVELOP DIGITAL SALES NETWORK IN ORDER TO REACH WORLDWIDE PRESENCE

- Achieve worldwide ebook distribution for the group by end 2014
- Distribution agreement between Hachette Book Group and Hachette UK to expand presence in English language markets worldwide (~190 countries)
  - Sales in the UK, Europe, Australia, India and Africa through Hachette UK
  - Sales in South America, the Caribbean and Asia through HBG

HBG/HUK  
Distribution  
Partnership



HBG distribution  
Territories

HUK Distribution  
Territories

HBG/HUK Shared  
Territory

- Distribution of French ebooks in 30 territories to date, with US and all other key territories planned in the coming months

## **STRATEGIC PRIORITIES (3/3): DEVELOP CRM IN ORDER TO GAIN DIRECT ACCESS TO READERS**

- Information pertaining to the final client belongs to retailers
- Today Big data allows more players of the value chain to gain access to consumer knowledge and contacts: Consumer Insight / CRM
- CRM for Hachette means building a relationship between publishers, editors, authors and readers/consumers in order to:
  - Create a direct access to consumers
  - Allow publishers to promote their books directly to targeted readers
  - Support commercial operations and cross-selling activities
  - Fight against piracy
  - Optimize marketing costs

## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - **Consolidate market position**
  - Invest in emerging markets
  
- **Conclusion**

## **HACHETTE LIVRE WILL HAVE TO FOLLOW THE INDUSTRY CONSOLIDATION THAT HAS BEEN INITIATED BY LARGE ANGLO-SAXON PLAYERS**

- Joint venture between Penguin and Random House announced in October 2012 and completed in July 2013, creating a giant competitor especially in the US and the UK:
  - Combined sales of ~€3bn
  - ~28% market share in the USA and ~24% in the UK
  - 15K publications per year, 250 imprints, 70 Nobel prizes as authors
- News Corp (HarperCollins) announced in May 2014 the acquisition of Harlequin
- Consolidation provides:
  - Back-office synergies
  - Higher attractiveness for valuable licenses
  - Digital development synergies
  - Improved market share and reinforcement of the bargaining power with respect to e-retailers seeking to force publishers to adjust commercial strategy for ebooks
- Publishers need size and muscle in order to keep control over relations with authors, over pricing and distribution

**Large US players share Hachette Livre strategic analysis that size is and will remain key**

## HACHETTE LIVRE IS PURSUING SIX STRATEGIC PRIORITIES TO CONSOLIDATE ITS MARKET POSITION



- International development in Partworks
- Development of the distribution activity for third-party clients
- Development of catalogs in the USA mainly
- Source more key authors and licenses
  
- Rebalance USA/UK
- Be a premier league competitor in the US Trade market (key in digital development)

1

## HACHETTE LIVRE WILL PURSUE ITS INTERNATIONAL DEVELOPMENT IN PARTWORKS

- Partworks activity of Hachette Collections experienced growth in 2013 except in Spain
- Hachette Collections maintains its strategy of expansion by:
  - Paying strong attention to investment costs in European countries
    - France, UK, Spain, Italy, Germany
    - United Kingdom
    - Germany
    - Italy
  - Re-using all products in secondary markets:
    - ANZ
    - Canada
    - Poland
    - Eastern Europe
  - Pursuing its international development strategy in countries experiencing growth and market size:
    - Japan
    - Russia
    - Brazil
  - Testing new markets: China, India, South East of Asia

## 1 HACHETTE LIVRE INTENDS TO ADD NEW DISTRIBUTION CLIENTS

---

- Hachette Livre's distribution strategy is customized in each country with the objective to implement the most powerful organization:
  - Internalizing the distribution capacity in core markets (US, UK, France, Spain and ANZ)
  - Looking for the best partners in other markets (Canada, Switzerland)
  - Share of best practices across markets
  
- Hachette Livre benefits from best-in-class distribution assets in its core markets providing the group with platforms offering very profitable services to smaller publishers
  
- In these markets, the Group aims at gaining significant third-party business in the years to come when small distributors will disappear:
  - Three new third-party clients joining in 2014 in France
  - Permanent flow of new contracts in the UK
  - Expansion of HBG's facility in Indiana to add distribution clients

# 1 HACHETTE LIVRE IS BUSY GROWING ITS CATALOGS...

## Development of catalogs

- As an example, Hachette Book Group is executing strategy to expand its Non Fiction presence through:
  - the acquisition of the assets of Hyperion Books in 2013;
  - the creation of Hachette Books, a new imprint focused on Non Fiction;
  - as well as organic growth initiatives through existing imprints
  
- The group is also strengthening its position through the recruitment of experienced and talented publishing teams, who will enhance the diversity of the book portfolio over many segments (UK, France...)

## Implementation of author-friendly policies

- Hachette Livre intends to reinforce links between publishers and authors through proximity and tailor-made services:
  - Traditional services in print
  - Digital services such as:
    - Marketing and promotion on the internet
    - Monitoring of reputation on social networks

### Example of Michael Connelly

Mobile App



Website



Twitter account



1

## ... IN ORDER TO SOURCE MORE KEY AUTHORS AND LICENSES

- Editorial leadership is necessary to attract new talents: Hachette Livre endeavors to reach the best authors, thanks to its reputation and brand recognition, as well as a privileged access to agents
- Hachette Livre is actively looking for international bestsellers with worldwide rights: international bestsellers generate strong sales and can be strong contributors to profits if well-managed
- These talents are mainly sourced in the US:
  - 40% of the worldwide book market is composed of English-language books
  - International bestsellers come mostly from the US market



Examples of US bestsellers published by Hachette Livre in France

- Hachette Livre is focusing on the US market to identify, acquire and develop top authors, titles, licenses to maintain its leading position in all markets
  - As an example, acquisition of Donna Tartt, author of the *Goldfinch*, who won the Pulitzer Prize for Fiction

2

## THE US BOOK MARKET IS ESSENTIAL FOR THE EDITORIAL LEADERSHIP OF THE GROUP

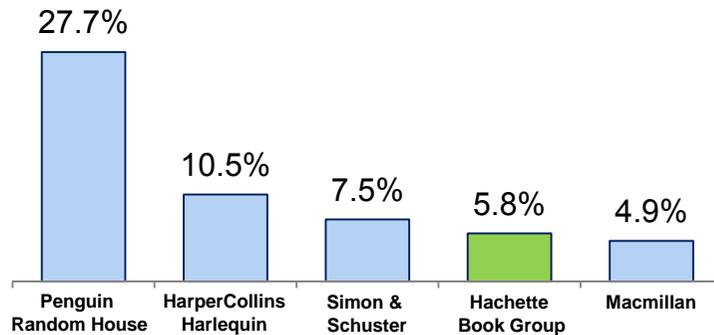
- The US book market is larger than the UK market in terms of:
  - Readership
  - Number of new titles published
- It is necessary to be a bigger player in the USA than in the UK in order to secure enough primary rights
- Historical establishment of Hachette in the UK first:
  - Portfolio of activities between the USA and the UK is skewed
  - British publishers of the group are insufficiently provided with US titles by Hachette Book Group
  - Hachette UK publishes bestselling authors that are not published by Hachette Book Group but rather by competitors in the USA: Stephen King, Harlan Coben...

**Rebalance the weight of the US vs the UK subsidiary**

**2 HACHETTE INTENDS TO BE A PREMIER LEAGUE COMPETITOR IN THE US TRADE MARKET AS SIZE IS, AND WILL CONTINUE TO BE, A CRITICAL ASSET IN THE FORTHCOMING YEARS IN THIS MARKET**

**The US market is dominated by a few players**

**2013 top 5 pro-forma market shares on the US Trade print market (in volume)**



- Penguin-Random House controlling ~28% of the print market
- US-based technology and e-commerce companies such as Amazon dominating the US digital market

**Hachette Livre strategy and rationale**

- In this new environment, scale is important:
  - To attract authors (particularly for bestselling authors), acquire valuable licenses and control more worldwide rights
  - To maintain bargaining power in a context of increasing downstream concentration of retailers: sales and profits expected to be preserved for publishers, even improved, as long as tight control is kept on business models
  - To benefit from synergies
- Hachette Book Group market share is only ~6%
- Objective to secure HBG’s position on this market by reviewing external growth opportunities, be it through creative JVs, synergy-driven small acquisitions

## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - **Invest in emerging markets**
  
- **Conclusion**

## **HACHETTE LIVRE IS MONITORING BOOK MARKETS WORLDWIDE WITH A VIEW TO EXPAND INTERNATIONALLY**

- Hachette Livre constantly monitors book markets worldwide.
- After opening for business in China, India, Russia and Middle East (Lebanon), Hachette Livre intends to pursue its international expansion in emerging markets:
  - Focus on countries with high-profile economic and demographic growth potential such as Brazil, Turkey, Asia...
- Hachette Livre relies on key principles when a decision to invest in a new international market is made:
  - Target a market with growth potential
  - Enter a new market through a partnership
  - Look for a partner with complementary strengths

## THANKS TO ESTABLISHED PRESENCE IN FRENCH-SPEAKING AFRICAN COUNTRIES, HACHETTE LIVRE ENSURES A LONG TERM LEADING POSITION IN THESE MARKETS

- Strong economic and demographic growth in French-speaking countries in Africa
- Progression of French language: ~500m of French-speaking people in this area by 2050 (85% of total French-speaking community)
- Increase of Education favoring:
  - The progression of French language
  - Literacy among population
- Presence in Africa through Hachette Livre International:
  - Publication of textbooks, supplemental books, children and practical books
- Well-positioned to benefit from the expected growth of book markets in this area

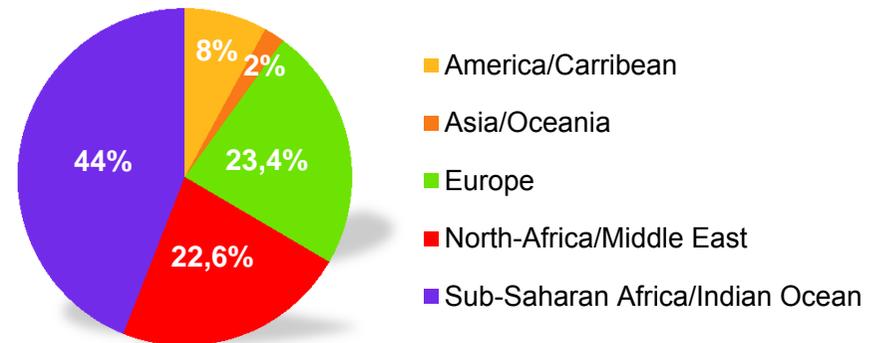
### Presence of Hachette Livre International in Africa

#### Main markets in 2013

Congo  
Morocco  
Algeria  
Togo  
Cameroun  
Reunion



#### Learners of and in French language worldwide – 2010



## AGENDA

---

- **Hachette Livre since 2010**
  - Hachette Livre today
  - 2003-2013 highlights
  
- **Hachette Livre's successful digital transformation**
  - Market environment: a new deal
  - Actions put in place and results today
  - Opportunities
  
- **Three year outlook**
  - Pursue digital transformation
  - Consolidate market position
  - Invest in emerging markets
  
- **Conclusion**

## CONCLUSION

---

- Hachette Livre is the world's #3 consumer book publisher with a strong presence worldwide
- The group delivers solid and predictable results thanks to a balanced portfolio
- Digital modifies the market environment of publishing but represents an opportunity for publishers, whose role remains central
- Hachette Livre is proactively transforming to ensure successful digital transition
- Hachette Livre will continue to deliver growth by focusing on the following strategic priorities:
  - Pursue digital transition and gain scale
  - Grow by acquisitions through cash or JV (depending on size) with a focus on the USA
  - Expand internationally