



Interim Report

January - June 2018

Storytel AB (publ)



storytel

Highlights from q2 2018 report

- ❑ Subscriber base up 47% Y/Y to 621 200, on track to reach 800 000 in 2018
- ❑ Streaming sales up 43% Y/Y to 239 MSEK, on track to reach 1 000 MSEK in 2018
- ❑ International streaming sales now 47% of total, on track to surpass 50% in 2018
- ❑ Storytel launched in the UAE, Turkey and Italy
- ❑ E-book reading device (Storytel Reader) launched at the end of June
- ❑ Announced preparation to move to Nasdaq First North before end of 2018

Key numbers for Streaming and Print Publishing

Currency: thousand SEK	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Streaming Total						Forecast ¹
Revenue	167 008	197 881	209 225	222 133	239 139	275 500
Contribution Profit ²	27 847	27 784	30 277	24 079	25 045	
Contribution Margin	16,7%	14,0%	14,5%	10,8%	10,5%	
Paying Subscribers	423 200	503 900	533 400	577 900	621 200	725 000
ARPU ³ (SEK/Month)	132	131	131	128	128	127
Streaming Sweden						
Revenue	101 365	113 709	118 038	122 046	125 759	135 000
Contribution Profit	31 257	32 872	38 501	43 067	35 763	
Contribution Margin	30,8%	28,9%	32,6%	35,3%	28,4%	
Paying Subscribers	255 800	282 300	292 700	305 100	314 700	339 000
ARPU (SEK/Month)	132	134	134	133	133	133
Streaming International⁴						
Revenue	65 643	84 172	91 187	100 087	113 380	140 500
Contribution Profit	-3 410	-5 088	-8 224	-18 988	-10 718	
Contribution Margin	-5,2%	-6,0%	-9,0%	-19,0%	-9,5%	
Paying Subscribers	167 400	221 600	240 700	272 800	306 500	386 000
ARPU (SEK/Month)	131	127	126	122	123	121
Print Publishing⁵						
Revenue	111 969	132 619	173 832	106 312	115 898	
Contribution Profit ⁶	37 840	47 905	66 854	39 223	41 889	
Contribution Margin	33,8%	36,1%	38,5%	36,9%	36,1%	

1 Forecast is an approximation based on information available at time of reporting.

2 Contribution Profit is defined as streaming revenue minus costs for content (licensed content and in-house productions) and marketing. Storytel Reader is not included in Streaming.

3 ARPU = Average Revenue Per User (Subscriber) per month

4 Storytel Norway included in figures @ 100%. In the consolidated group accounts Norway is reported according to the principle of proportional consolidation.

5 Print Publishing refers to physical books. Internal transactions have been redacted. Barnens bokklubb not included in table.

6 Contribution Profit is defined as revenue minus cost per sold unit, distribution costs, and sales and marketing costs.



Comments from the CEO

What a summer! In most of our markets the heatwave has struck and caused many people to seek shelter in the shade. With one exception, Iceland, which had the coldest recorded summer in history. So, how does weather influence reading? Not clear, but many say that under extreme heat people may find it easier to listen to stories rather than reading them with their eyes. Regardless, before the summer heat arrived, Storytel closed yet another great quarter (Q2 2018) where a lot of exciting news came out.

We launched in Turkey, the UAE (United Arab Emirates) and Italy and ramped up our publishing activities even more in our novel markets such as Iceland, Russia, Spain and India. Some markets need a little more time to develop before entering the scaling-up phase, some need less. No matter the market, we can see that the audio book is loved by more and more people.



Global Presence

Profitable:

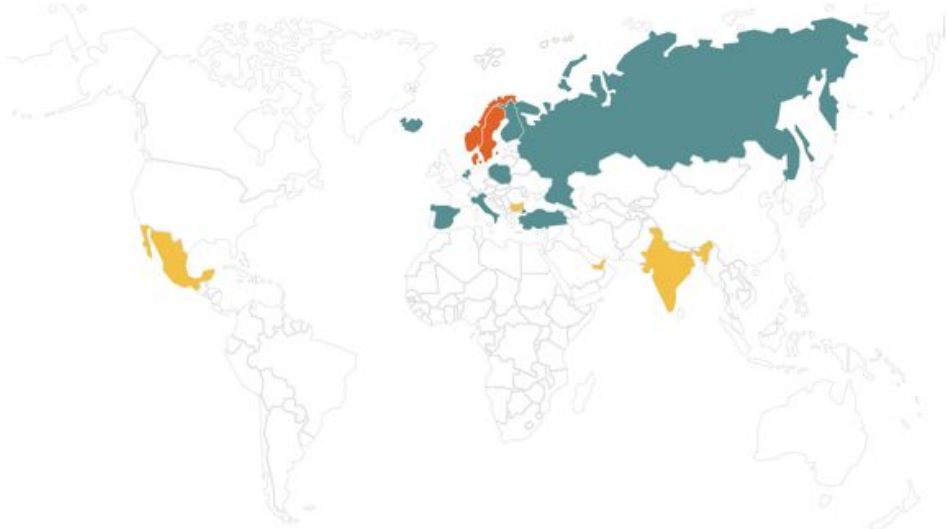
- Sweden
- Denmark
- Norway

Scaling up:

- Netherlands
- Poland
- Finland
- Russia
- Spain
- Iceland
- Turkey
- Italy

Preparation:

- India
- UAE
- Bulgaria
- Mexico



In Sweden, marketing spend relative to sales for the first six months averaged the same level as last year, but with a higher ratio in the second quarter. The same was true for production costs, which drove down the contribution margin in Q2. The average contribution margin for the first six months ended on a similar level as in 2017.

Consolidated EBITDA came in at –12,8% in Q2 (–11,9% in the first six months of 2018) which can be compared to the prior guidance of –10% for the full year 2018. Q3 is Storytel’s strongest quarter in terms of growth for the Streaming division, and Print Publishing generally has it’s strongest quarter in Q4, meaning there are some variations between the quarters. We have also been impacted by a weaker Swedish krona which has negatively affected our EBITDA, due to heavy marketing and content investments in novel markets. With current markets there are no indications that the profit guidance, adjusted for fx effects, will not be met for the full year.

We now have a more diversified portfolio of Storytel markets, which reduces the risk in our business and makes growth more predictable. Our focussed marketing efforts in June, renders higher Q3 growth, with almost 25 000 estimated net added Swedish subscribers in the coming quarter.

Furthermore, in our forecast for Q3 2018 we estimate that our international markets will make up the majority of our sales. In total we expect to grow by more than 100 000 subscribers between Q2 and Q3, on track to reach 800 000 subscribers and 1 000 MSEK in sales this year, indicating more than 40% annual streaming revenue growth.

Our arguably most exciting news during the quarter was the launch of the Storytel Reader, our e-ink device dedicated to reading books through the Storytel service. With close to 100 million sold e-ink devices sold on the US market (primarily Amazon Kindle) in the past decade, there should be substantial upside in developing and promoting e-book reading via Storytel Reader on our markets. Initial reviews are encouraging, the Reader delivers an enjoyable reading experience to early users.

As the Reader is Storytels first hardware-based product, we will put resources into continuously developing and improving the product, partially based on customer responses. Currently the Reader can be used for reading only, but we plan to add a listening function, via a software update, before the end of the year. For most customers, Storytel as a brand is intimately associated with audiobooks, but our belief is that what customers are really seeking is a hassle-free and accessible reading experience. The Storytel Reader delivers all of that. To provide some insights we’ve seen that our most loyal customers consume both audiobooks and e-books. Synchronization of both formats renders an enhanced Storytel experience and propels loyalty.

Finally, we completed an internal reorganization in May and transferred all print rights in B.Wahlströms from Storytel Publishing AB to Norstedts Förlagsgrupp AB. All print publishing activities in Sweden are now performed in one publishing house, which enables us to utilize the economies of scale that comes with being the second largest publishing house in Sweden.

Organizational Overview

Storytel consists of two divisions, Streaming and Print Publishing. The Streaming division offers a subscription service for audiobooks and e-books under the brand names Storytel and Mofibo in Sweden, Denmark, Norway, Finland, The Netherlands, Poland, Russia, Spain, India, Iceland, the UAE, Turkey and Italy. The Streaming division (in a sub-division named Digital Publishing) also publishes audiobooks mainly through the legal entity and imprint Storyside. Storyside produces and publishes titles under different imprints, such as Storytel Original (series-format), Storytel Dox (journalistic works) and Storytel Brief (summaries of non-fiction literature). The Print Publishing division is comprised of the publishers Norstedts, Massolit, Kontentan, Telegram and Danish People's Press (adult trade); as well as Rabén & Sjögren and B. Wahlströms Bokförlag (children's and young adult) and Norstedts Kartor (maps).

Storytel AB (publ) is the group's parent company, and the only publicly traded company in the Swedish book industry.

Financial information

Accounting principles

Storytel Group and its parent company comply with the Swedish law regarding yearly statements of accounts, as well as BFNAR 2012:1 (Swedish Accounting Standards Board standard 2012:1) concerning annual statements of accounts and group accounts at the K3 tier.

The registered parent company is Storytel AB (publicly traded). Storytel A.S. (Norway) is 50% owned by Cappelen Damm and is reported here according to the principle of proportional consolidation. Wholly owned subsidiaries are included in the yearly statement of accounts from their time of registration or acquisition.

This report has not been audited by the company's auditors.

	April - June Group		Jan - June Group		April - June Parent Company		Jan - June Parent Company	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating Revenue								
Net Turnover	337 926	265 899	650 089	497 028	-	-	-	-
Change in inventory during production	-1 034	4 655	1 364	1 288	-	-	-	-
Sum of profits/losses from associated companies	-	-569	-	-1 241	-	-	-	-
Other revenue	6 636	9 666	12 477	13 384	822	628	1 589	1 370
Total Group revenue	343 528	279 651	663 930	510 459	822	628	1 589	1 370
Operating expenses								
Unit-sale costs	-196 639	-161 073	-386 841	-295 052	-	-	-	-
Other external costs	-116 915	-73 090	-220 948	-128 817	-1 240	-875	-1 859	-1 305
Staffing costs	-74 041	-53 501	-135 027	-96 648	-1 200	-742	-2 229	-1 421
Earnings before depreciation	-44 067	-8 013	-78 886	-10 058	-1 618	-989	-2 499	-1 356
Depreciation	-16 049	-14 104	-31 500	-25 013	-	-	-	-
Earnings before financial items	-60 116	-22 117	-110 386	-35 071	-1 618	-989	-2 499	-1 356
Profits from associated companies	-26	31	-14	3 808	-	-	-	-
Profits from group companies	-	-	-	-	-	9 500	-	9 500
Net financial items	-4 253	-4 495	-7 885	-7 552	-142	-1 305	-645	-1 955
Earnings before taxes	-64 395	-26 581	-118 285	-38 815	-1 760	7 206	-3 144	6 189
Deferred taxes	161	1 035	2 964	1 822	-	-	-	-
Taxes on year's profits	-123	-1 104	-434	-1 357	-	-	-	-
Earnings/losses for period	-64 357	-26 650	-115 755	-38 350	-1 760	7 206	-3 144	6 189

Balance Sheet (TSEK)

	Group		Parent Company	
	30 June 2018	31 dec 2017	30 June 2018	31 dec 2017
Assets				
Intangible assets	290 940	304 393	-	-
Tangible assets	4 669	3 588	-	-
Non-current financial assets	23 268	23 948	918 619	868 619
Inventory	74 572	65 631	-	-
Current receivables	297 657	300 887	119 839	95 974
Liquid assets and short-term investments	276 552	250 974	124 266	111 169
Total assets	967 658	949 421	1 162 724	1 075 762
Equity and liabilities				
Share-capital	25 759	25 759	25 759	25 759
Other Equity, including current year's profits/losses	213 474	317 814	944 875	948 019
Provisions	52 746	61 892	-	-
Long-term liabilities	200 424	127 962	161 000	101 000
Short-term liabilities	475 255	415 994	31 090	984
Total Equity and liabilities	967 658	949 421	1 162 724	1 075 762

Cash-Flow statement (TSEK), Group

	2018-06-30	2018-03-31
Net earning/losses after financial items	-64 395	-53 891
Adjustments for items not included in cash-flow	12 642	12 006
Taxes, paid	-1 884	-2 382
Cash-flow from operations, before changes in working capital	-53 637	-44 267
Cash-flow from changes in working capital	31 324	16 680
Cash-flow from operating business	-22 313	-27 587
Cash-flow from investment activities	-2 120	-2 019
Cash-flow from financial operations	91 234	-11 615
Cash-flow, current period	66 801	-41 221
Available funds, beginning of period	209 300	249 130
Translation differences in available funds	451	1 391
Available funds, end of period	276 552	209 300

Revenue and profits for the period (compared to Q2 2017)

Net turnover for the group in Q2, 2018 totalled 337 926 (265 899) TSEK. Total revenue for the group in Q2, 2018 ended at 343 528 (279 651) TSEK. Within the Streaming division, Sweden accounted for approximately 52.6% (60.7%) and markets outside of Sweden for approximately 47.4% (39.3%). Storytel A.S in Norway is a Joint Venture together with Cappelen Damm and is reported according to the principle of proportional consolidation. The table on page two includes all subscribers and revenue in Norway, listed under Streaming, other markets; hence Streaming revenues listed in the table on page two are higher than in the consolidated statement of accounts, in order to provide a more accurate Average revenue per

subscriber. Streaming revenue was up 43% compared to Q2, 2017 and on a total Group level revenues are up 22.8% compared to Q2, 2017.

Unit-sale costs for the group in Q2, 2018 totalled 196 639 TSEK (161 073) TSEK. Unit-sale costs include costs for producing audiobooks, cost of goods sold for physical books, warehouse and distribution costs, as well as royalty payments to other publishers and rights owners. Gross Margin ended at 42.8%, stable against Q2, 2017 (42.4%).

Other external costs for the group in Q2, 2018 totalled 116 915 TSEK (73 090) TSEK. Marketing costs were the largest driver of the increase, in line with our aggressive roll-out strategy, with heavy content and marketing investments on our newly launched markets. By Q2, 2018 Storytel had launched its service in thirteen markets (as compared to seven markets during Q2, 2017) which requires greater investments in marketing. Other significant cost items included office leases, IT-related services and costs, and consultants.

Staffing costs for the group in Q2, 2018 totalled 74 041 (53 501) TSEK. Staffing costs within the Print Publishing division were at a stable level, while Streaming has experienced increased costs in order to meet the needs of the pace of expansion.

Earnings before depreciation (EBITDA) in the group in Q2, 2018 totalled –44 067 TSEK (–8 013) TSEK. The contribution margin for Sweden was lower in Q2, 2018 than in Q2, 2017 due to more marketing spend in Q2 than in Q1, which was directed towards end of June where the results can be seen in the forecast for Q3, 2018. For the first six months of this year, contribution margin in Sweden was according to forecast. Contribution margin for markets outside Sweden followed expected trend, driven by marketing and content costs incurred in connection with the 14 countries Storytel now operates in outside of Sweden. Print Publishing showed a modest profit during Q2, 2018 and performed according to plan on a total level for Sweden and Denmark, where we have print publishing houses.

Depreciation primarily includes depreciation attributable to goodwill and other excess value identified in connection with acquisitions. The largest asset items are connected to the acquisitions of Norstedts Förlagsgrupp, Mofibo and People's Press. All goodwill and excess values are depreciated according to linear depreciation. Other depreciation primarily concerns the purchasing and development of IT-systems from external parties. All tech costs related to developing Storytel's technical platform are expensed as staff costs when they occur.

Financial items included both interest income and interest expenses, as well as realized and unrealized exchange differences. Interest costs from bank loans totaled app. 2 000 TSEK for Q2, 2018.

Earnings per share, after taxes, in Q2, 2018 totalled –1,25 SEK, calculated as earnings for the period after taxes, divided by the average number of shares during the period.

Group: Financial position and cash flow as of June 30th, 2018 (compared to Dec. 31st, 2017)

At the end of the period, the group had 276 552 (250 974) TSEK in liquid assets. A new bank loan amounting to 100 000 TSEK was issued by Swedbank in June, to support Storytel's growth strategy.

Solvency was 24.7% (36.2%). Equity totaled 239 233 (343 573) TSEK. The movement from Q4, 2017 is explained by current period's earnings/losses and translation gains or losses on consolidation.

Non-current liabilities to loaning institutions totaled 200 424 (127 962) TSEK. The portion that will be amortized during the next twelve months is considered short-term liabilities and totals app. 53 534 TSEK. The new bank loan amounting to 100 000 TSEK, that has been issued by Swedbank in June will be amortized by 10 000 TSEK per year.

Number of shares and share capital (as of June 30 2018)

There were 51 517 307 registered shares in issuance at the end of the period, divided between 635 A-shares and 51 516 672 B-shares. Share-capital totaled 25 758 653,5 SEK as of June 30, 2018.

Post-period activity

No material events have occurred after end of quarter.

Date of next report

The interim report for January - September will be released on November 15, 2018

Stockholm Aug 15th, 2018

Rustan Panday
Chairman of the Board

Jonas Tellander
Board member and CEO

Jonas Sjögren
Board member

Nils Janse
Board member

Morten Strunge
Board member

Eva Swartz Grimaldi
Board member

Karin Alexandersson
Board member, employee representative

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