

11-Aug-2020

Storytel AB (STORY.B.SE)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

Hello. Good morning. I'm here together with...

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

Jörgen Gullbrandson, Company CFO.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

I'm Ingrid Bojner, Chief Commercial Officer.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

Good. And I'm Jonas Tellander and we have to present the Q2 Report for Storytel AB. So, basically Q2 was very strong quarter, we could say that we had 42% annual subscriber growth and 43% revenue growth, which is of course, very, very strong. In some part, of course this revenue growth is boosted by the fact that a lot of the VAT rates in many of our markets have been reduced in the third quarter last year, and we will see on the second half of this year that the relative growth number will drop down significantly. But the underlying subscriber growth is very, very strong.

So, I'll hand over to Jörgen to walk us through the highlights of the report and also the numbers then.

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

Yes. So, could you please display the third slide highlighting the report? And just as Jonas said, streaming sales are up 43% comparing to the same quarter last year, which means SEK 459 million, the highest ever in the company history, subscriber base up as well 1.257 million users, up from short of 900,000 last year the same quarter.

Looking at the revenue line which includes everything in the group, we came in at SEK 554 million, up from SEK 402 million last year the same quarter, so significant growth also on the consolidated level.

Worth mentioning during the quarter as well is that we renegotiated our financing from Swedbank, so that we now have only a so called revolving credit facility of SEK 500 million, which means this is the credit line that we could draw anytime we like, but we don't need to pay full interest for it, or simply pay a small fee to have access to this credit line. As of today we used nothing of it.

We have during the period as well, in conjunction after the AGM, issued a stock option program for all employees, so that means that everyone employed by the company beginning of June are part of this free stock option program. The intention is of course to create loyalty and sharing the same targets with everyone in the staff. For the first time ever, we also introduced a warrant program for selected key employees and for some of our new directors in the company. This is a program where they need to buy the option when they strike north of SEK 300. Through this transaction, we pulled in SEK 11 million from our staff and board members, which I think is a great sign of strength and confidence in the company. So, about 50 persons were involved in this warrant program as well and the stock option program is like 500 in the company [indiscernible] (03:29).

Next slide, please, going over to the front page with all the numbers on it. So looking to the right is where you see the graphs of this total streaming revenue over the last five quarters. You can see that we come in at the highest revenue ever for the group and also the highest contribution margin.

Worth mentioning in this as well, you can see that we had a significant increase in contribution margin in Q1 2020. And that is when we changed our accounting principles, as you might remember we started activating cost for our development of our platform, but also developing and creating our audio books. So, both those two elements are now exhibited in the balance sheet. We're talking about SEK 57 million in Q2. So, that's the run off. But even that aside, we have the highest contribution margin in the group ever in history.

Looking at the different regions, Nordics and the non-Nordics, it's really fun to see that the non-Nordic region, we improved the contribution margin extremely well. We're up from almost 100% negative a year ago to minus 7% contribution margin in Q2 2010. So, significant increase which comes with increased volume, I would say, of the higher revenue of SEK 93 million in the non-Nordics in Q2, highest ever and more than 100% more than a year back. I mean, explains the higher contribution margin.

Also in the Nordics, it's extremely good, a bit lower than in Q1 this year, which is mainly explained by the fact that we have had heavy marketing campaigns in Q2. We usually have that in Q2 and that is to attract as many users as possible in the Nordic countries before they go on vacation in that period. I'll leave the forecast until later in the show. So, next slide, please.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

And as you have seen in some of our recent announcements, we made a couple of acquisitions in July. One was in the Icelandic publishing house Forlagið, which is now under competition authority scrutiny. So if that goes through, we have a very strong position in the book market in Iceland with our service that's attracting a lot of Icelandic people to listen to audiobooks. But it's also a very big embossed book market as a whole. This is a very interesting acquisition.

Then we acquired Kitab Sawti, a competitor in the MENA region, which helped us acquire a big catalog of Arabic-speaking audiobooks. So, we now have 4,000 type of strong catalog of Arabic audiobooks that we can distribute throughout the world. And also in July, we announced the acquisition of Earselect, a Nordic production company for audiobooks with a very advanced and progressive technology that helps to streamline the audiobook production process.

So, I mean, we over the years have made probably some 20 acquisitions. I mean, the most notable was Norstedts acquisition in 2016 and also our competitor Mofibo in Denmark in 2016. And I think that we said that this is part of our regular business when we want to acquire new technology, a catalog or a very strong market position, we always look of course to develop that ourselves. But sometimes that's not enough, and want to speed up things by making acquisition. And I think that's what you would see us doing also in future.

Next slide, please. I'll hand over to Ingrid who is going to walk us through content.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Yes. The content is key for us, of course, since that is how we reach our customers and what they engage with. So, we are exploring a lot of investments in the content area. I'm very happy to say that Storytel Original content catalog is growing and we have also released [indiscernible] (07:58) strongest titles from different countries into English and included that in our catalog across the globe. And we continue to see True Crime being very important for us, following the investment in [indiscernible] (08:14) in the Swedish market. We have done other follow-on titles in Iceland and other countries.

Virus, which is Storytel Original success, launched its seventh season this spring and has also been explored in other countries and we're doing remake over for specific other markets with this title. Children's catalog has been very important to us during Q2 and we have seen an increasing the readership across the board in children as a catalog. So, we've also included more and more titles and invested more in this type of content. And specifically for the Swedish market, we have invested in Sören Olsson and Anders Jakobsson's popular title with Bert, Sune, Håkan Bråkan. So, that's something that many of our customers are enjoying at the moment. Furthermore, all of our exclusive titles have also enjoyed some pull from external production companies who are in negotiations with some of it being explored also on to potentially improve [indiscernible] (09:39) Streaming service.

Next slide, please. So when we look at other highlights, we wanted to explore both people and of course also what's going on in the different markets. So when we talk about people, this is one of our [indiscernible] (10:01) drive. And we're very happy to say that we've onboarded our 500th employee. And this has also been done in a moment of fully digital situation where we can actually both employ and onboard people fully digital across the board in our 20 markets. And we can say that our employer branding score is increasing. And that's of course important for us to find the best talents out there to continue to invest in our tech platform and of course, all other commercial and content area.

In addition, we've strengthened the board during the spring with Stefan Blom and Malin Holmberg and thanking – Holmberg, sorry. And thanking our committed board members who have recently left us. And also joining us in the

management team, Helena Gustafsson, a long timer with Storytel and a great contributor to all things in terms of content and Publishing and knowing how to [ph] really, really (11:15) get to that Storytel spoken word. That's great to have her on board.

When it comes to market developments, in the Capital Markets Day during January, we said that we were going to start exploring other different type of models to reach a broader audience. And that's what we've done. We have launched two services in India during the summer, AudioBites and Storytel Select, which is a limited offer with only the Marathi language available. So, excluding the English content from the regular service that in premium service [ph] people have across (11:59). So, that's going to be interesting to see how that develops knowing that India is a vast market and very diverse.

In addition, we have had some VAT improvements both in Spain in April and recently in Bulgaria from 1st of July. And last but not least, we're continuing our expansion effort. The things we have talked about mostly lately, is the expansion in the APAC region. We're going to launch Thailand later this year and Indonesia in 2021. Next slide.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

So, looking at the subscriber revenue growth forecasts for Q3, this year we expect to grow our subscriber base to 1,345,000 subscribers, indicating a 33% year-on-year growth this Q3 2019. And looking at our revenue growth above Q3 2019, we expect to grow that by 21% to SEK 483.5 million in the third quarter.

So, I mean what we've seen, I think what we've seen is that some, some non-Nordic markets have slowed down in Q2. You could see very clearly in July that, that growth stopped for a while and it's now picking up again, I think, in August. But we want to be a little bit conservative and look at this as a forecast that we are pretty confident with under these unexpected circumstances of changing economics in the world and in particular, in these markets that really opened up. So, the full year forecast at least for revenues remains at 32% growth and SEK 1.9 billion just in the lower end of the range that we communicated in January of this year.

Next slide, launch timeline. So, what does it look like for coming, for launches and the markets we're on? Well, what we're very much focused on now and working diligently on is to bring new markets into profitability within five years. And this slide indicates that. We could see that at the beginning of this year, we have four markets at profitability, Sweden, Denmark, Norway and Iceland. And we quickly in Q1 added Netherlands to this group of profitable markets and now believe that we will add also Finland and hopefully Russia before the end of this year.

So, this is a very important metric for us. We're not profitable on a consolidated level for the full company. But bringing each market to profitability within five years is the key metrics for us to show that we on a local level have found the right product market fit and are able to grow revenues profitably into a breakeven situation.

So, I'll hand over to Jörgen to walk us through the financial targets.

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

Thank you. Next slide, please. Yeah, these are the financial targets that you have seen before. We have polished them slightly. Those of you that know these by heart can see that we have said that we still going to reach the 1.5 million paying subscribers at the end of this year. So, no change there. But we also say that we want to grow our Streaming revenues to SEK 1.9 billion. Previously, we said anything between SEK 1.9 billion and SEK 2 billion, now we conclude and say that we think we will hit the lower of this range, and there we want to be more specific.

That also means that our percentage growth is [indiscernible] (16:02) to 32% which is what it is and took out the 32% to 35% that we used to have.

The negative EBITDA margin, we maintained minus 1% to minus 5% over the year. This has changed last quarter, just following the change in accounting principle. But underlying, we see the same positive development in EBITDA.

[indiscernible] (16:28) said, as Jonas just mentioned that we think we should reach Streaming profitability on a local level in two to four markets, we have done one at least. So, we need to add at least one more to reach [ph] the third (16:38) and we think we can do it. And we're going to launch in one to three markets and that also corresponds with exactly what Ingrid told you before where she said we're opening up in [ph] Indian (16:50) market.

Looking at our longtime financial targets, maybe even more interesting, this is unchanged. We still believe we can grow the paying subs by 40% on a year-by-year basis, while our revenues will come in somewhere slower. And between these two, of course, the revenues is the important bit. Maybe depending on the price development and mix of countries where we grow, we might need to grow even more paying subscribers to hit the revenue target.

And we want to be clear that we will prioritize growth before profitability as long as we improve our customer lifetime value compared to the acquisition cost of business progress [indiscernible] (17:31). And as Jonas mentioned as well, we want to reach Streaming profitability on a local level within five years from launch, and it seems like we are able to do that. And launching the additional at least 20 markets over the coming two-year period, that's also in line with what Ingrid mentioned that we are on that and continue to do that.

So, I think then it's time for next page and Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our next – our first question is from Joachim Gunell from DNB Markets. The floor is yours.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Thank you. Good [indiscernible] (18:23). So when we think about your Q3 guidance, I mean there seem to be no clear seasonal boost in Q3 for your non-Nordic markets. You talked a bit about this but we have historically seen a Q3 boost even in these markets. Can you talk just a bit more about what drives these conservative [indiscernible] (18:42) other than say uncertain GDP outlook?

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

Yeah. Sorry. I mean, for the Nordics market, we have very strong Q2 and then also strong Q3 guidance now growing by almost 60,000 subscribers. So, I think that all [ph] augurs (19:02) well, that's where we've seen the seasonality historically more. I mean, Sweden and Denmark and Norway are very strong in countries where you have historically very, very strong people going on vacation at the same time in July. And we've seen that effect very, very strongly over the years with Storytel.

That effect is not as accentuated in the non-Nordic markets and it varies a lot but what we could see this year was that as you know that the corona quarantine situation brought incredible growth to Storytel in April. In particular, we could see that extend into May and then in some parts into June. We have lockdowns in many of our markets, most notably we saw Russia, Turkey, India and also countries like Italy and Spain, we saw some really good growth. But then, all of a sudden in July, we could see that this growth totally disappeared as we – basically July was the last month more or less where there was no growth in this market at all.

Now, we can see that it starts to pick up again, but it basically means that the growth for Q3 will be a lot lower for the non-Nordic markets as a whole. We see some examples of markets that are growing did well like the Netherlands but apart from that, it's much lower than we've gotten used to historically.

And then you can ask yourself is this a long-term trend? What's going on here? I mean fundamentally, personally, I believe that the strong need and interest in listening to good stories will continue to grow in these markets as we do better and better job at marketing Storytel and getting more and more people to know us. So – but here and now, this is what we can promise. So, this is what you can estimate that I want to communicate to you today.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

That's clear, Jonas. Having increased the credit facility, can you elaborate a bit on if you believe the organization is ready to pursue even more acquisitions in say by the end of 2020 or will the focus be entirely on consolidating [ph] the three (21:13) you've recently announced?

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

A

Well, Joachim, as you know, we cannot comment on any future acquisitions if we're doing or not doing. But as Jonas mentioned before, when we talked about the [ph] ones (21:26) that we've done, this is part of our ordinary business of the company. And we of course need to look at these opportunities in all the markets we're in. We just recently hired M&A manager that will join the company in a couple of months' time. Maybe that gives you an indication.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Thank you, Jörgen. And just a final question, I mean, now that you have a relatively say new setup with your first pure technology acquisition in Earselect, are there any say growth plans or strategy that's may be out of the ordinary that you're thinking about? I mean, in what way do you believe Storytel will be different over, let's say, five years than it has been in the [ph] past time (22:08)?

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

In terms of what? In terms of technology build up or?

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Exactly. And more from a strategy point of view as you complemented, let's say the traditional Publishing based acquisitions now with more technology-oriented ones.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

I think it's difficult to tell. But I would say that of course, data mining and data processing is more and more important for us in order to service our customers best and also our publisher partners. So, data is very important and on that, of course, comes artificial intelligence, so there, of course, a lot of different areas in terms of technology that we're exploring.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Thank you.

Operator: Our next question is from Derek Laliberte, ABG. The floor is yours.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Thank you. Yeah. So, outstanding growth in Q2 and also a strong guidance there for Q3, although it is clearly lower and you're slightly lowering your full year guidance. Clearly, you are talking about this higher churn in some markets. But how much of this is currency or FX-related and how much is subscriber growth because you're keeping your end of year subscriber target of 1.5 million while only lowering the revenue target. Thank you.

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

A

Yeah. I mean, as you see in the current market for once, the Swedish kroner has strengthened against more or less all other currencies. So, there is definitely a negative effect that hits us in both in Q2 and in Q3. However, I

cannot honestly say that this is the explanation. The main explanation to the somewhat softer Q3 is that we actually attract less people to the service. So, the currency definitely has a negative effect but it's also driven by less people, so both parts of the equation playing.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Yes?

Q

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

Yeah. I mean, if I need to rate them, I don't have a specific number, but I would say that fewer people on the service following the very weak July is main driver to that more than 50% of this.

A

Derek Laliberte

Analyst, ABG Sundal Collier AB

Okay, it's very clear. And I know you mentioned a couple there but are there any specific markets to highlight in terms of this higher churn?

Q

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

Yes. I think we said before we see this in Russia and Turkey. Those that grew really, really strong there Russia, Turkey, India. Ingrid, do you have other markets to add there.

A

Ingrid Bojner

Chief Commercial Officer, Storytel AB

No. But I think you have to go back to the behavior last cycle [ph] over the past (25:21). It takes some time to understand how and when and where we want to use the app. And I think some of these markets are in [ph] quite turmoil (25:31) in terms of how people live their lives. So first, you have been in a very tough quarantine situation, then [indiscernible] (25:40) and that's a different type, and you want to meet with your friends and family again. So, I think it will stabilize over time. But I would look at countries who have been in [indiscernible] (25:51) which is at – where we – we're a little bit more [ph] outside of the current situation (25:55).

A

Derek Laliberte

Analyst, ABG Sundal Collier AB

Got you. Thank you. And then on the back of the Kitab Sawti acquisition, I was wondering if you could elaborate a bit on your expectations for the Middle East market now that you have this great content [indiscernible] (26:16) and a strong team to drive it locally? What's kind of the status in this market in terms of adoption to audiobooks and Streaming services? And then what's your focus now? Will you really start to ramp-up marketing spend, et cetera?

Q

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

Yeah. I mean, I thought that we always appreciate the value of a strong local team. And also in particular, picked up a strong local lever that can really drive the local markets entrepreneurially and understand what to focus on and when. And I think that, that's one part that we think that we acquired with this acquisition of Kitab Sawti, to have a very strong local team that also have much better adapted app to the Arabic market. Actually, it's

A

[indiscernible] (27:13). And with this consolidated catalog of 4,500 titles in total, I think that we are in a very strong position to be able to seriously start to invest in the Arabic market which we haven't really done historically, to be frank.

So, it's a good setup, but it will take time. And every single country there is – in the region has its own challenges. So, we hope to be able to see strong growth in this market in coming years, but it's coming from very low levels, so, before that makes a meaningful contribution to the overall growth. But Storytel, I think it will take two to three years, to be frank.

But big hopes for that and also big hopes that the strong Arabic [indiscernible] (28:03) will be of great value for us in the Nordic area where we already have a lot of customers that will be willing to pay for this content. It's super exciting, and we're looking forward to this. And it's going to be fun to follow and to also get to 20-plus Kitab Sawti employees to integrate into the Storytel company.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Exciting. That's very clear. Thanks. And just finally, I was wondering if you give some sort of update on the Finnish market here. Sounds very positive with what's being close to profitability. Has anything changed on the market, thinking about an improvement – improved position versus your main competitor? And how are things going there? Thank you.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

Yeah, I think that's what we can comment on [ph] it that (00:28:59) subscriber base is growing, and we have good pricing level. Gross margins are coming up, and all this is leading to a situation where we're breakeven so – and we'll be profitable. I mean, that's what we can say here now.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

Yeah.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

It's – you have anything to add there, Ingrid?

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

No. I think you asked before about when does the market become profitable? And of course, it's [ph] penetration (29:28) of both the gross margin, but also of course, the volume of customers in the market. So, I think we are coming to a pretty good situation in Finland with the stable growth and a stable customer base.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

And penetration of audiobooks is very similar now in Sweden, Norway, Denmark, Finland, Iceland even higher. It's very high penetration in all the Nordic markets. And what we're placing our bets on is really to see this penetration grow as much in non-Nordic markets. And that takes some time for us to really figure this out but

hopefully market by market [indiscernible] (30:11) be able to deliver very strong growth as we expect in the coming 10 years.

Derek Laliberte*Analyst, ABG Sundal Collier AB*

Q

Thank you. That's very clear and that's all from me.

Per Jonas Tellander*Chief Executive Officer, Director & Founder, Storytel AB*

A

Thank you, Derek.

Operator: Next question is from Oscar Erixon, Carnegie. The floor is yours.

Oscar Erixon*Analyst, Carnegie Investment Bank AB*

Q

Thank you. Good morning, guys. Few questions for me. First of all regarding the Q3 guidance on subscribers and revenue, is that on the conservative side, i.e., is the improved trend in August as well as to keep [indiscernible] (30:50) acquisition fully factored in?

Per Jonas Tellander*Chief Executive Officer, Director & Founder, Storytel AB*

A

I think historically our forecast – we did an analysis of our forecasting accuracy and looked – since we started with the forecast four years ago and then compared it to Netflix actually, we could see that our forecasting accuracy was actually twice as good or half as bad as theirs. So on average, I think, we missed the net add growth by 8% and we intend of course to keep that [indiscernible] (31:23) accuracy, we want to provide a reasonable picture. But what's different now is that the – we're not really sure what's going on, on some of these markets. I think that's all really we can tell and this is our best guess right now to be frank. But Jörgen, you have some other thoughts there?

Jörgen Gullbrandson*Interim Chief Financial Officer, Storytel AB*

A

No, I agree. I mean, it's not like we're trying to downplay it and really, I mean, we really try to hit this as I think and Jonas mentioned historically, we've been very successful with that. So, we're going to keep that, but the – as we said last quarter as well, when we gave the indication, the uncertainty in the marketplace following what's happening with corona and the rest of the world. It's still there, we don't know what the comeback will be or what happen with the GDP development in these countries, et cetera, et cetera. So, the uncertainty, I would say, is greater than ever in this forecast. You asked specifically about Kitab Sawti and Jonas mentioned that we will not rock the boat, it's not the big numbers coming from that region in Q3, so that you should not expect.

Oscar Erixon*Analyst, Carnegie Investment Bank AB*

Q

Got it, very clear. And perhaps, a question for Ingrid actually, what effects have you seen from Penguin Random House, [indiscernible] (32:43) Spanish and English language content earlier this year? Any markets that stand out that effects the cost to gross margin effect, but first like, [indiscernible] (32:53)?

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

I think, we – the thing we're doing in that particular Spanish markets which are the ones that you're referring to, investing heavily in contents and also talking to other partners to be able to offer a great catalog with different types of categories, of course, to our customers. In terms of other figures, I haven't really seen any strong signals in any of the ways. I think, we – yeah. So, I think that's pretty much.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

Yeah. And if you say the English content, I think we said that multiple times, but on each single market, the English content consumption by our subscribers makes up less than...

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

Yeah.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

...10% typically of total consumption. So, having one, we still have an English audiobook catalog that's a couple of hundred thousand titles and very strong. So that doesn't make such a huge difference to us.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Understood. And on the topic of English content here, obviously Amazon are now also entering into Sweden earlier this week, or actually last week, do you expect any change in strategy for Audible and risk, of course for them gaining market share? And also, if you could discuss sort of the main challenges for Audible in competing in the [ph] Nordics (34:24)? Thank you.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

A

I think, Audible, typically when they have a chance to build up a local catalog that can be exclusive, they typically want to take that chance. I think that's not possible for the Nordic markets, where the investments in content have been very, very strong for many years now. I think launching in [indiscernible] (34:50) in 2020 is very different from launching in the US in 1995.

The streaming audiobook market is not overheated, but very, very competitive here already. So that's the one. And then, looking at the book e-commerce market, we have a couple of pretty strong local players [indiscernible] (35:15) that's doing a good job in providing books at the low price with slim margins and doing it quickly and conveniently to people. So, I think there's not a huge revolution to make there. But if Amazon does well and they'll do well all – in some market is to build up a strong prime catalog and start a strong big number of trying subscribers, that can benefit from on a couple of different things, but in the Amazon ecosystem. And I think that if they manage to build that up in the Nordic markets and Sweden for a start, I don't know. But if they do, of course, there will be a very, very strong competitor in the online space, for anyone.

But, short term, I think we're not going to see the big effect from it. Audible has been on the Swedish markets for a year and made some marketing already. But again, it's a very competitive market as it is.

Oscar Erixon

Analyst, Carnegie Investment Bank AB



Great. And one final question for me. Regarding your long-term financial targets, where you target 20 new markets until 2023. Could you just say something about what local humps do you expect to be the main driver behind this expansion? I suspect now that there is much stronger competition now in the MENA region, content wise, following the [indiscernible] (36:40) Kitab Sawti acquisition. Thank you.

Ingrid Bojner

Chief Commercial Officer, Storytel AB



Thank you. Yes. So, I will just start with the MENA region. Of course, investing in Kitab Sawti as an acquisition is also something that provides a very strong catalog and one has to understand that the region is built-up of several different countries, with different dialects and different traditions in terms of content. And so, we're going to explore of course this opportunity, including North Africa.

And then as we've already stated, we're going to launch more markets in the APAC region. So, that's going to be very exciting to follow-up on and we're continuously investing in local languages in India, for example, and that also is a vast country, which is made up of several sub-language groups. So, those markets are of course very interesting for us. And we have already launched several markets in South America and I believe that that's also a region where we will explore much more opportunities going forward.

Oscar Erixon

Analyst, Carnegie Investment Bank AB



Excellent. Thank you very much. That's it for me.

Ingrid Bojner

Chief Commercial Officer, Storytel AB



Thank you.

Operator: Our next question is from Hjalmar Ahlberg, Kepler Cheuvreux. And the floor is yours.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)



Thank you. One more question on the outlook for Q2 and maybe Q4 as well. I mean, as you see this kind of uncertainty and insecurity, but you're still keeping your full-year subscriber estimate. Can you say something about what kind of – do you expect it's based on a pickup in this market where you see uncertainty or do you see some new markets having growth or what's the growth for the full-year, and so if you can add anything there?

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB



Yes. I'm sure [indiscernible] (38:39). No. But looking at the Q3, I think, it's like what said, July was the last month, then we see positive signs coming in August and we know we have good things coming later on this fall. That's why we dare to believe that we will be able to deliver the numbers we said in the beginning of the year. And we had a good first half of the year as well, as good starting point. I think that's why if you can combine a somewhat softer Q3 forecast with keeping the full-year target. That's what we do and we also said that the full-year target would be in the lower upper range previously communicated as well, so a very small change to that as well.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Well, and looking up at – on the contribution margin, in the Nordic, it was quite strong now in Q2. It's [indiscernible] (39:31) to some decrease in marketing spend as we saw maybe lower uptake in them of the quarter or it's just as you – I mean, you're going and improving profit in that way?

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

A

Yeah. I mean, positive, it's like Ingrid explained about Finland. But I mean, when you come to a certain point when you grow the subscriber base and you grow the revenues, we very quickly could come to a positive contribution margin in the country. So, it's a volumes game that we see in many of these territories and that's positive.

Then secondly, as you mentioned that overall contribution margin is directly hit by marketing spend in the present quarter. We typically, in the Nordic, Scandinavian countries, where we have this vacation pattern where people go on leave and we usually grow much during the summer months, we usually do a lot of marketing as well as do the competitions. You need to be out there and invest heavily in these markets.

I think, we have not invested that much in the non-Nordic markets, partly that we saw that some of the [indiscernible] (40:31) campaigns simply were canceled, because we didn't think anyone would see them in the beginning of this period. So, the lower spend in marketing in the non-Nordic countries brought up the contribution margin and that could then be one of the explanatory factors to the softer growth in these countries and vice versa with the Nordic countries. So, it's plausible that they are connected.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Got it. And maybe, a last question on these new markets, we see some lower growth. Are you changing your marketing here or are you doing the same as before or is there a reason to look that over or think it's more a temporary slowdown per se?

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

I think, we have strong country managers heading up our local operations in each of our markets. And they are continuously looking at the best go-to-market strategies. For some markets, we're working more with partnerships and growing also the brand awareness in the country. And in some countries, we have seen that once we are the first in place, in terms of building really the audiobook industry, it takes different types of measures. But I think, we have a very strong and best practices catalog of efforts that we continuously work on and we are pruning our digital marketing efforts all the time, having strong partnerships of course, also on the digital side with Google and Facebook. So, I think this is a mix that always is going to change slightly. And yeah.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, thanks. And just last question on print publishing, which is compared to my estimates almost quite strong in this quarter and also in Q1, both in terms of growth and profitability. What kind of trends do you see here? Do you think this is a sustainable change in this business or some temporary that this is improving the profit and growth in the print publishing?

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

A

I mean, just as you mentioned, I mean, maybe I shouldn't say this loud, but we're also positively surprised by how well our print publishing companies hold up in Q2. Q1, I mean, we're really not affected by the corona, because everything has all been done. But in Q2, we could see that looking at comparable units in our print publishing business, we just declined 2% on the revenue lines in our printing business, actually growing, adding our position approximate 16% in the period. So, extremely strong. The gross margins are hit, probably because you can say, all the cost that we had during the period, but we also save on the less marketing and other initiatives. So, the profits are not hit that bad either.

Forecasting, what will happen to this business in Q3 and Q4, is even more difficult than before. And we were wrong about Q2, but we thought it would be worse. The Q2 definitely gave the color, I would think and we will be able to stand up better than we expected in March, April, and where this end on the P&L.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, that's all for me. Thank you.

Operator: [Operator Instructions] And we do not have any more question at the moment. I hand the floor back to you.

Per Jonas Tellander

Chief Executive Officer, Director & Founder, Storytel AB

Good. So, thank you very much for listening in and looking forward to talk to you all in three months from now. And keep listening and tune in on an audiobook and just enjoy it. Thank you very much.

Jörgen Gullbrandson

Interim Chief Financial Officer, Storytel AB

Thank you.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Thank you.

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