

07-May-2021

Storytel AB (STORY.B.SE)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Ingrid Bojner

Chief Commercial Officer, Storytel AB

OTHER PARTICIPANTS

Derek Laliberte

Analyst, ABG Sundal Collier AB

Stefan Wård

Analyst, Pareto Securities AB

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Oscar Erixon

Analyst, Carnegie Investment Bank AB

MANAGEMENT DISCUSSION SECTION

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

Good morning and welcome to Storytel's Interim Report for the First Quarter of 2021. My name is Jonas Tellander, I'm CEO and Founder. And on my side I have Sofie Zettergren, our CFO; and Ingrid Bojner, our Chief Commercial Officer. Good. So, let's get started.

Next slide, please. So, Storytel's vision is to make the world a more creative and empathetic place with great stories to be shared and enjoyed by anyone, anytime, and anywhere. And what does that mean? It basically means that we think that storytelling is incredibly strong, has always been since the beginning of mankind and the beginning of language. And our task is really to ensure that great stories can be spread to all corners of the world and that anyone can listen to them. So, that's the path we're on and it's a long journey.

We're only really getting started. And we're now looking at our next 10 years as very, very interesting years for the audiobook market around the world. We've seen it grow tremendously in the past from – by about 20% CAGR, and we think that that will continue. So, the market will continue to grow from SEK 40 billion to SEK 200 billion in the next 10 years, and Storytel will take a substantial part of that. Our ambition to be at, at least, 15% of the worldwide market in 2030.

Next. Looking at where we are right now, the subscriber growth for the quarter compared to Q1 last year is 33% up, and looking at revenues, it's 21% up. But we've had some headwind on the exchange rates in the past year. As you know, the Swedish krona has been very strong. And this means that if we exclude that headwind on the FX, then our growth would be 26.5% instead. So, that's where we are right now.

Looking at the quarter. So, revenues grew to \$517 million for the streaming sites. And our net turnover, including our books division, is growing from SEK 513 million to SEK 615 million. What's really, really exciting is that the publishing side is also growing strongly. It's growing by 10% organically year-on-year. And this is totally organically. We don't have Lind & Company, our recent acquisition, in the numbers yet. That will come into Q2 where the growth rate will be even stronger for the books division.

We also did a successful capital raise of about SEK 1.2 billion. So that's, in short, some really strong financing, which gives us fuel, not only to grow organically, but also to do some M&A going forward. M&A has been an important part of our strategy for the past six years and we see that there will be a lot of opportunities for us to take good market positions in the countries where we want to operate, both on the publishing side and also by acquiring start-ups on the audiobook arena.

A couple of those acquisitions were acquisitions of Kitab Sawti in Arabic and also iCast in Israel, and we now launched Israel a month ago, and have great hopes that Israel would be a very important market. It's a hotbed for books and storytelling, where you have languages not only Hebrew, where we have a strong catalogue now, but also Russian and also Arabic, which we hope to add to the service going forward, and as well as French. It's a very interesting market that has a high GDP rate and a high level of tech adoption. Next slide, please.

So, yeah. I hand over to Ingrid.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Thank you. So if you look at the commercial side in the markets, what's been going on, apart from opening three new stores, we have during this quarter also raised prices on our unlimited products in three markets; two in the Nordics and one in Bulgaria.

We have also increased the prices on our family offer in four markets, so adding also the Swedish market to that. We're very happy to see the progress of the family product. And also, the reading is increasing on that platform and the offer is getting better and better. So, we felt it was suitable for a price increase.

Apart from that, we are elaborating quite a lot with new subscription models. This quarter or last quarter, we opened Storytel Free in Brazil, which is an offer to listen to books for six hours for free before needing to put in your payment details and, of course, upgrading them to unlimited product, which is of course also in the market still.

Very good traction the first month, we saw over 100,000 customers signing up to the free product. And lots of those are continuously [indiscernible] (00:05:20) as we calculate them now. And we also launched a reader in Iceland and preparing for the launch of the reader in the Netherlands, which is a large country with a good tradition of also digital reading. So, we'll look forward to seeing how that progresses.

And last, but not least, going forward, looking a little bit ahead, we are launching our limited time product in four new markets during the next couple of months in Spain, Mexico, Russia and Turkey. This is something we launched in Finland already last year and we see that this is a product that is actually asked for by many of the customers.

If you look at the content side, very happy to see that the consumption actually overshoots the subscriber growth in the Q1, which means that more and more people are engaging more with our platform and our service, and that

we are very happy to bring to the ecosystem. Reading is up by 41%. We have also released a lot of new hours into our service 16,000, of which 14,000 hours in the Non-Nordic segment.

We're investing quite heavily in original production. And it's very good to see that one of our Polish Original, the production and the campaign around it, the Future Peasant, has won or has been nominated for a Webby Award. And last but not least, we're improving the service in Norway. We have signed more publishers to the service. So, we will have a very broad offering in that Norwegian market.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

So, Storytel is basically, I think, made up of three important pillars. One is the commercial side, where we have presence on the local markets and are doing – trying to find the right product market fit and with localized communication to the market. The second part is the content side, as Ingrid just explained. And the third part is really the product and the platform that we're operating, the user experience, app experience, and also other devices where you can use the service.

And one very important metric for us is to follow how our App Store rating is improving and that's been improving in a nice way in this past year. So on App Store for iOS, we're up now to 4.7, and looking at the Google Play, we are up to 4.3 right now. Also the Net Promoter Score, i.e., how people say that they would recommend the service to a friend is on a good growth track. It's gone from 28 to 32 in the past year.

We also have a PayPal integration live in Germany and Israel. So, our payment platform is something that we're working very, very actively with, and to ensure that we, on every single market, has the most attractive payment way. Sometimes that's an App Store payment, which is more expensive for us, but we always try to ensure that we can introduce other payment alternatives and PayPal is a good one for German and Israel.

We also have a Telia telco integration since eight years back actually, and it's been a good one. It's making up a part of the Swedish subscriber base and keeps growing. So, we can see that now in order to drive unaided awareness in many of the newer markets, we feel that telco integrations is a really good way to go. And also Docomo is an aggregation solution that can be used for many different markets. And we started out with Telenor in Bulgaria.

So, looking at the [ph] softer (00:09:07) side of the business. At the end of Q1, we had close to 600 people in the streaming side and about 150 on the book side. The gender distribution is very equal. We also participated in the Women [ph] in (00:09:22) Tech Conference in Sweden, which is becoming a really big and important conference in order to attract and position Storytel as a good employer for people in the tech sector and in particular women.

Looking at the sustainability. We now publish a sustainability report for three years. And it's a very juicy and meaty report. I really recommend you to read it. There's lot of good stuff in there. And sustainability, we look at it from three different lenses. Basically, the footprint, i.e., how we affect the climate and the world in terms of environmental aspects is one part of that, but also how we affect our customers and how they think about reading in their everyday lives and how that affects how they view the world, something we feel is a very important factor where we can play an important role in ensuring that people feel good about reading a lot and not just flip around with their mobile phones on different social media. So there, we have a really important role to play. And also how we affect society is another really important point that we call our fingerprint.

So please take a look at the sustainability report. We reduced emissions tremendously. A lot of it has been, of course, travel during corona that has decreased, but we have a very ambitious target of becoming totally climate

neutral by 2025. And I think we'll get back to that in future [ph] reportings (00:10:49) a lot. Of course, we climate compensate all our carbon footprint as well.

Good. So with that, I hand over to Sofie.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yes. Thank you, Jonas. So, moving over to streaming top line and profitability, we continue to grow our streaming revenues quarter by quarter. They amounted to SEK 517 million in Q1, SEK 402 million coming from the Nordic segment and SEK 115 million coming from the non-Nordic segment. Our subscriber base averaged 1,540,000 subscribers. We continue to add many subscribers to our base growing with around 100,000 subscribers from Q4 2020.

We also continue to have relatively high ARPU. Q1 is generally a lower ARPU quarter due to fewer days in the quarter. It's also affected by our subscription mix, mainly from our family offering, which lowers the ARPU, but increases the total revenue and also the value of the subscriber base since it has a higher customer lifetime. And as Ingrid mentioned, we increased prices in many of our markets in Q1, which pushes up the ARPU and has a full effect in Q2, which you can see also from the forecast especially in the Nordic markets.

Looking at the contribution margin, it went down slightly in Q1, mainly driven by the Nordic segment where we experienced higher consumption as Ingrid said, and we do have seasonality effects in the consumption. And normally, Q1 is a high-consuming quarter, but it's also affected, of course, by the marketing spend where we see good traction in many of our markets, which will generate revenues going forward.

And looking a little bit also on the Q2 forecast, we expect the streaming revenues to grow to SEK 545 million, and the subscriber base to grow to 1,625,000 subscribers and continue to have a strong or a high ARPU. You can see the increase, as I said, in the Nordic segment and also continue to have a good ARPU level in the non-Nordic segment.

And if we go to the next slide, we have our financial targets for 2021. And we reiterate them as we communicated in the Q4 report, which is to grow the streaming revenues to SEK 2.4 billion to SEK 2.5 billion. And I mean, looking at the Q1 and Q2 forecast that we provide today, we need to accelerate growth basically in the second half year of 2021. But we do have a lot of tools in our toolbox. We are much more flexible in our customer offering and localizing our product than we were a few years ago. And as Jonas said, we are also looking on potential M&A targets.

With that said, we also want to grow the subscriber base to 2.1 million to 2.2 million paying subscribers and we also plan to turn some more markets into profitability on the local level, as you can see Finland and Poland and potentially also Russia. On the overall level, we expect the EBITDA to stay negative on a group level, 0% to minus 5%, and be present on 25-plus markets. And with the markets we communicated in Q1, Israel, Saudi Arabia and Egypt, we are actually present now on 25 markets. So, we will see if we launch some more markets during the year. And for the 2023 targets, we reiterate them as we communicated on the Capital Markets Day in January 2020 and we think that we will be able to accelerate growth basically and come back to at least 30% GAGR on the streaming revenues.

And one important goal for us is also to turn markets into profitability within five years from launch. So, that will mean that a lot of markets will actually be profitable in 2023, while we are still adding more markets. So, we want to be present in around 40 markets in the end of 2023, and continue to prioritize growth over profitability. We are

a growth company and that's where we want to be. And as Jonas mentioned in the beginning, we plan to increase our global market share to 15% by 2030.

And with that said, we will move over to the Q&A session.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

Great. So, we have a couple of analysts on the call, which [ph] you all see (00:16:00) in picture. So, this is going to be exciting to have a discussion. So, let's get started. First question?

QUESTION AND ANSWER SECTION

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

So maybe, Derek, do you want to start? I see you have all raised your hands in the Teams. So, Maybe, Derek, you can start with your question.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

All right. Thanks very much, and good morning, guys. Thanks for a great presentation. I was wondering just to remind us, if you could just sort of give a brief update on each of the five Nordic markets in just a couple of short bullets on each, on how you're performing right now? What's the market share like and any specific highlights that you think might be worth mentioning? Thanks very much.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

I don't [ph] know (00:16:52) – I mean, we do report on a Nordic level, as you say. We do not want to go into too many details on specific countries. So, I'm not quite sure on how to respond to that question. Can you rephrase it somehow, be more specific?

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yeah. Just if there are any specific highlights, like what's the – how is their competitive landscape developing, sort of how is your position relative to [ph] say ownership and anything (00:17:18) about that? What's going on, on the [indiscernible] (00:17:23) or just if there are any highlights to point out, it's I guess kind of an open question and it's up to you how you'd like to answer.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

Sure. I can start and then Ingrid can fill in. So, I think, I mean, we do have a very strong market position in Sweden, if you look at the Nordics, in all countries, except Finland basically. So, Sweden, Denmark, Norway, and Iceland are all very strong markets and we continue to see good growth. It can vary a bit quarter by quarter, but our competitive situation I think is a solid one.

If you look more specifically, probably most excited about Denmark right now. I mean, it's very competitive market. I think there's like a dozen different streaming players right now, but we hold incredibly high market share there and continue to see that the brand that we've chosen to play with in Denmark, which is Mofibo, has a very, very strong – it's the strongest book brand actually on the book market. So, I think that's a good position we're in.

Sweden, I think competition has been more successful than on the Danish market, but still I think we have a healthy and sustainable good growth in Sweden. The Storytel brand is very strong in Sweden and has very good annotations to it that helps us to bring in more and more book lovers.

Norwegian market is now changing a bit and that, as you saw from the report, we'll get also the content from the other big publishers, i.e. Gyldendal and Aschehoug, in October, which is really great. I think it's opening up in the same way that the other markets we're on do where all competitors have access to pretty much the same catalog and the distinguishing factor can be our original productions, which I think we're increasingly seeing successes with. In particular in some markets like Sweden and Iceland, we've been very successful in launching those campaigns and getting good strong media attention.

Yeah. Finland, as we mentioned, I mean, BookBeat has done a really good job in driving up that market and getting to a market leader position, but we see great opportunities for growth. We can see when we look at unaided awareness, which is really driving – has been driving and going in correlation with the penetration on each market. We can see that for Sweden, Norway, Denmark, and Iceland, we have very, very strong unaided awareness and very strong penetration. Whereas in Finland, our unaided awareness is a lot lower, we can see the same for other markets like Netherlands and Poland and Russia. So, we see great opportunities there to be a bit more aggressive and actually grow unaided awareness and also grow penetration and subscriber base.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Thank you, Jonas. So, great answers. Really helpful.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

All right. So, should we take a question from maybe Joachim from DNB.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Thank you. Good morning, guys. So, to perhaps focus a bit on your 2021 guidance, it seems like, I mean, growth rates will be – well, they're back-end heavy for this year. So as you highlighted, you have these new subscription models to [ph] collaborate (00:20:36) with. But can you comment a bit on the subscriber composition here for the full year? Would it be fair to assume that non-Nordic will actually, now for the first time, by year end, be a larger subscriber base than the Nordic segment?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

Maybe we can just go back to this slide. Well, I mean, maybe I can start answering and then Ingrid will fill me in. But as you say, I mean, we're growing now the Nordic markets with around 15% on the revenue side quarter-by-quarter, we done so the last couple of – four quarters. And of course, the overall or the main growth should come from the non-Nordic segments. We have highlighted some markets where we have substantial subscriber base

and which will be very important for the future growth in the short term. So to say, the next couple of quarters, which is [ph] Holland (00:21:36), Russia and Poland and maybe we could add Turkey to that segment as well.

So, of course, if we are to reach our overall targets, the non-Nordic segment will need to contribute and that's where we see the accelerated growth potential with the localization of the product, the different subscription models. We're signing up more partnerships. We have seen that the Telia partnership in Sweden and Norway has been very successful and we think we can replicate that to many markets. We also have a good collaboration now with [ph] Coop (00:22:10) in Denmark, which is in the Nordic segment, but we are looking at different partnerships also in the non-Nordic segment. It will also be interesting to follow the free subscription that we have in Brazil, even though they are not contributing now to the overall revenue, but we do see a lot of traction into the service, which will lower the customer acquisition cost and, hopefully, also add to the revenue growth.

Do you want to add [ph] something (00:22:42)...

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

I think that was a pretty complete answer. I think what we are going to see in the Q3 and Q4 is it's really pooling our investments on the marketing side into the markets where we see a good potential for growth. So, that's how we will elaborate. And we've also seen some of the markets actually lagging behind a little bit in terms of our projections when it comes to some of the South American markets who has been quite hit actually by the COVID situation not only in terms of on health, but of course also in terms of economic disparity. So, we will pool these resources in a smart way. So, that's how we aim to grow in combination with the new products that we're launching.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Very comprehensive. Thank you.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

Oscar, do you have a question?

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Yes. I do. Thank you and good morning, all of you. So, I want to ask about the targets for the year and also I mean the product improvements after quite a sort of internally focused 2020? What do you see in terms of rollout for [indiscernible] (00:24:00) light and Storytel free respectively during the year? You mentioned a few markets for the second half of the year or rather for Q2, that you expected in basically all markets this year. Thank you.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

Yeah. Yes. As we indicated, we will launch some of the free – or sorry, light products also in new markets and now in Q2. And then during Q3 and Q4, we will actually see more of the roll out of these products elsewhere. And the free product, we're really getting a very close look at it. It is of course also – we're very positive on the traction side in terms of spreading the word about the audiobooks in a market, which is maybe as less mature if you compare it to the Nordic markets in audiobooks. And this is a big potential for us, of course, to grow also in other countries where we have the same situation where it's also a very broad audience to reach if we're thinking about,

for example, India and also some of our APAC regions. But we will want to follow some of the learnings and adjust a little bit and then we will continue to launch these services.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Excellent. Thank you very much.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Stefan, do you have a question?

A

Stefan Wård

Analyst, Pareto Securities AB

Sure. Thank you. It's a follow-on question on the implied subscriber forecast for the second half. It looks like you will need add about 425,000 new subs, that's 2.3 the rate for the first half, assuming what you've guided for in Q2. So, I'm a bit curious if you can give us some more information on how this dramatic increase in intake will take place and if there's anything sort of specific to hang that guidance on. Thank you.

Q

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

Yeah. I mean, you're right, Stefan, it is a very ambitious target we have. But I think we also have good faith in that there are really, really good opportunities for us now. I think we have underestimated the value of driving awareness and that's made us to under-spend on some markets, we can see that attraction and the payoff is really, really strong, just as strong as we have on the Nordic markets. So, I think that gives us really good hope for and potential for growth.

A

You have to also remember that we have a couple of markets that are on the verge of finding that really, really strong product markets, like India, for instance. We think that there we will drive big subscriber numbers. So, that will probably help us to drive the subscriber growth that you're looking at. Whereas it won't really add too much to the revenue side since prices are very low there. So, there could be a slight disconnect where subscriber growth escalates and revenues don't keep track. So, that's why we also need to understand that the Nordic market, there's still a lot of potential in there. We don't think that the penetration level we have now is anywhere near saturation. So, that also gives us a strong belief that investing more on the Nordic markets will also help us.

Stefan Wård

Analyst, Pareto Securities AB

Thank you very much.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

All right. So moving over to Hjalmar from Kepler Cheuvreux.

A

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Thank you. Maybe a question on M&A, I mean, maybe two in one question. I mean, you mentioned that you have done something in publishing now and you see other products as well. What do you think is the most important?

Q

Is it on the publishing side or other products? And also, if you can say on this M&A that you've done, has this been competitive, other bidders on this, or is it something that you have approached only by yourself?

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

I mean it's the combination, of course, on the competitiveness of us being very proactive and initiating talks with the founder or the owners, like we did with Lind & Company that didn't have any plan to sell. And two other scenarios where there's maybe institutional investors and venture capitalists involved in businesses that may have an exit agenda. So, that's we've seen as well. I think that's fundamentally what's most important for our M&A is to have audiobook – make audiobook near acquisitions or at least digital book near acquisitions. So, finding a strong local player that has a substantial catalog that we did with iCast, for instance, is I think the ideal M&A target for us. But then also on some of the markets where we see that the audiobook market is maturing and becoming a strong part of the book market, then we also have to be open to look at acquiring publishers, like we've done in the Nordic region. And that may also happen outside of the Nordic region, but it's not the number one focus.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Thank you.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

All right. Should we move back to Derek from ABG.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Sure. Thank you. I [ph] had another (00:29:21) question on e-books and the Storytel Reader [ph] as I can – (00:29:27) or if I remember correctly, seem like the market statistics here locally showed a pick-up in e-book reading consumption. What are you seeing here and how is the Storytel Reader performing after sort of the release of the latest version?

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

I mean it's been incredibly well-received. It has a much higher net promoter score than the Storytel service itself. So, we can say that we're creating a lot of happy customers that find reading on this device a really, really nice way to consume books. We can also say that the volumes are going up steadily. We just placed another order for 40,000 more readers and we can say that this is something that will really help us to create the very strong user experience ecosystem in many parts of the world and that's why we're also launching it, for instance, in Netherlands that has a pre-existing e-book market that's quite strong with competitors like Kobo and also smaller on the Kindle side.

So, I think it's a long play, but fundamentally it's about digitizing the book. It's a complement to listening and we see people switching from the reader and into the app listening to audiobooks in the app and reading on the reader. And some people, in particular kids, tend to also listen a lot in the reader. So, we believe strongly in the product. And hopefully, five years from now, it will have a substantial impact on the Storytel overall revenues as well.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Thanks for that flavor.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Joachim, yes.

A

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Yes. Thank you. So, just a follow-up on – I mean, not necessarily easy, but it seems that like it's easier to launch an audiobook service than to sustainably scale it, and I mean you have a proven track record of launching markets, taking them into profitability after five years. But now that you are elaborating on new subscription models, et cetera, can you talk a bit about whether you see this impacting the road to profitability from, call it, the five-year standpoint?

Q

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Yes. Thank you. I think one should see some of our launches as we want to be a first mover and we, of course, need a long time to invest in content to be able to be a first mover. And we take a long time bet, basically, on many new markets. And it's also very important for us to follow this very closely in terms of how we engage with marketing activities, how we build the unaided awareness over time and how we pool our performance marketing money basically to markets where we have good traction and can be much more elaborative in actually how we do that. So, I can see an increase in how we are flexible about moving between different markets as we feel that they are taking off. And in particular, that's very important to take off with certain segments or with certain type of content. And we lately can see that, for example, in our Thailand launch that we launched just before the end of 2020, we can see a really good traction in some segments and then we keep on investing in those. So, I think that is a good model.

A

And then, the second thing is, of course, to have a really good product market fit. And while we've seen some difficulties, for example, in Mexico and in Spain and in Latin America, we now think that the light product would actually be something that will be even more compelling to a market, which is in economic distress as well as a market who has not yet picked up on the total audiobook evolution or revolution, [ph] as we want to (00:33:29) talk about. So, I think those will – and then, of course, our aim and goal is to get for local profitability, but that is, of course, also a factor how the subscriber growth is growing, because it's of course also scale again.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Interesting. Thank you, Ingrid.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Okay. Moving back to Oscar.

A

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Thank you. First one on ARPU for me here. That has been quite resilient, I would say, despite I mean high growth in lower ARPU markets and the successful family subscriptions. What do you see – how do you think your continued price hikes that you have done and report in this quarter, do you think they are sustainable also in the years ahead as sort of assuming constant currency rates as well?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

I mean, I think, it's fair to estimate that the ARPU will go down in the next coming quarters. The Nordic segment still stands for almost 80% of our total revenue and we do have a high ARPU level in the Nordics. And also affected in Q2 was the price increase that we did in Norway on the unlimited product and we also increased the prices on our family offering in Norway, Sweden and Iceland.

So, I mean, we feel pretty confident in increasing prices. We have done so in many markets, historically. Of course, there is usually a spike in the churn immediately after the price increase, but it tends to normalize pretty fast afterwards. So, the net effect of the price increases has been positive so far. And I think the family offering is one subscription where we feel confident in increasing price since we see that the customer lifetime on those customers are higher. They consume the product in a higher degree and their willingness to pay is higher than the unlimited offering. But then, as we said earlier, I mean the accelerated growth should come from the non-Nordic segment and we have lower ARPU in those markets. So, it's fair to say that the ARPU overall will decline going forward.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Excellent. Thank you very much.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

Thanks. Okay. Should we move back to Stefan from Pareto.

Stefan Wård

Analyst, Pareto Securities AB

Q

Thank you. So, I have a more sort of conceptual question regarding the maturity of – I look at Sweden as the sort of the role market when assessing the potential for other markets as well. And I remember back in, I think, 2016, we discussed – Jonas described the penetration potential to be around 4%. According to my own assumptions, I think you are about penetration of 5% in Sweden, around 500,000 subs, and it's still expanding at a solid rate. So, if you can update on where you see penetration rates going in sort of a more mature [ph] stadium (00:36:51) or situation. And also, if that's applicable for the rest of the Nordics, if Sweden is a good model for the rest of the Nordics.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

Yeah. I mean, it's the million-dollar question we ask all the time. And I think that if you look at Storytel, including competition, we're at the higher level, 7%, 8% probably penetration on these types of services, audiobook streaming services in the Swedish area. And looking at Iceland, if I take that as a model, it's even higher. It's like 50% higher. So, I think that there is potential to get to at least the Swedish level for all the Nordic markets and, hopefully, also at least 50% more than that.

I do not see why – if we managed to position reading as something that's really, really good for you and that can become an even stronger trend. I cannot really see why there would be a limit right now given that TV streaming services are at penetration levels of, I think, probably 40% if you add them together, all the different services. So, reading and storytelling is a very fundamental form of entertaining people and entertaining yourself. So, I think there's more room for improvement.

Stefan Wård

Analyst, Pareto Securities AB

Thanks.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Hjalmar, did you have another question?

A

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Yes. On your 2023 target and these new models, both the free one and [ph] limited (00:38:24), have those always been there when you set this target? And if not, have you maybe become more kind of confident to reach the targets by using this model and how important will they be to achieve it?

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yeah. I mean, that's the target we set up when we had the Capital Markets Day in the beginning of 2020. And I think, 2020 was a year of really improving our product, improving our technology – yeah, technical platform, and making it much more flexible. So, yes, that was part of why we believe that we could accelerate growth. So, yeah, I don't know if Ingrid wants to add something, but we do have a lot of tools, as we said, in our tool box now to localize the product. We are much more flexible and that makes us pretty bullish in our forecast targets.

A

Ingrid Bojner

Chief Commercial Officer, Storytel AB

I think we can add that the revenue target is our strongest target in a sense. And the subscriber target is – it's more dependent on which market takes off. So, there might be actually more room in that target.

A

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yeah.

A

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

I mean, look, at the long term – the 10-year horizon, I mean, fundamentally, the audiobook market will grow by a lot. We're estimating a fivefold growth and Storytel ex-US should have a very strong market position there, at least 25%. And that brings us to SEK 30 billion revenues in 2030. And if you back calculate the CAGR, we end up at between 25% and 30%. So, that's our 10-year horizon where we think we will be.

A

And maybe that will vary a bit year by year, but the underlying growth and the underlying interest in listening to stories is so strong, and Storytel has a very, very good solid position. We have learned a lot from all the market

launches we've done and from driving a Swedish audiobook market and book market and pivoting entirely how that works. I mean, more than half of the sales in Sweden in fiction today is audiobooks, which is unheard of in the rest of the world. But fundamentally, why wouldn't that be the case for all other markets? Doesn't have to be. We can still get to SEK 30 billion in 10 years, but we should be getting some way on that journey in the next 10 years.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

And also, maybe to add, I mean, the audio – the spoken word is a very hot topic. And a lot of different streaming services are, of course, investing in the spoken word, either podcasts or audiobooks. And I think that will basically help us also to grow outside of the Nordic. We have a really strong base in the Nordic where we are the market leader in most of the countries. And then we have the sort of option in some of the non-Nordic markets, where I think we could actually be helped by competition driving the behavioral change of customers consuming spoken word, either be podcasts or audiobooks, but we have a good base to stand from and take market shares in these markets.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

A

Good.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Great. Thank you.

Per Jonas Tellander

Founder, Chief Executive Officer & Director, Storytel AB

So, thank you very much for tuning in. We have a great campaign on the Storytel Reader now in Sweden. It's an amazing companion to have with you on your summer vacation. You're going to miss it, if you don't. So go to the website, buy your reader and have a good time with that one.

So, thank you very much, Sofie and Ingrid, and thank you to the analysts, all of you, for asking very [ph] diligent (00:42:10) questions as always, and stay tuned and see you in three months. Bye-bye.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Thank you.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Thank you.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Bye.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Bye-bye.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.