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Storytel AB (STORY.B.SE)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Storytel Q3 Report 2023. [Operator Instructions]

Now I will hand the conference over to the CEO, Johannes Larcher; and CFO, Peter Messner. Please go ahead.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Good morning and happy Halloween to all of you. I'm Johannes Larcher and I am Storytel CEO. I am joined in today's call by Peter Messner, our CFO. As we have quite a number of new listeners on today's earnings call, allow me to start off with a brief introduction of Storytel.

Storytel exists to bring the world's best audio stories to our listeners. There is no more powerful thing in the world than a good story well told. They have the ability to entertain, to educate, to inform. They can inspire, engage and change people like no other force in the world. In our fast paced lives, the purest act of listening to a story is gaining in popularity, thanks to its ability to uniquely stimulate the mind and engage the listener.

In this context, we are in two businesses at Storytel and that combination creates synergies and value. We are in the business of creating stories. This is our content business and we are in the business of bringing these stories to our listeners. This is our streaming business. Our content business consists of renowned publishing houses like Norstedts and Gummerus, or our audio publishing house Storyside.

In our streaming business, we take the great content from our publishers as well as content license from others and make it available in audio format. We bring these audio stories to listeners around the world through the Storytel app that makes it easy to listen to your favorite stories anywhere, anytime and on a device of your choice. We've been streaming audiobooks since 2006 and are a leader in this fast growing industry.

To our audiences, we are synonymous with highest quality content, [ph] creates (00:02:30) to discover the stories that are right for them at the right time, and a product experience that is intuitive and enjoyable. I am pleased to report that in the third quarter of 2023, the company delivered strong improvements of both operational and financial performance through continued disciplined execution of our profitable growth strategy. In the past quarter, we've increased group revenue by 12%, excluding Russia to SEK 896 million for the quarter.

Our group gross margin remained strong at just under 40%. Q3 was our 6th consecutive quarter of EBITDA profitability. We delivered SEK 92 million in adjusted EBITDA in Q3, up 55% year-over-year. This represents a group EBITDA margin of 10.3% for the quarter.

Our operational cash flow, adjusted EBITDA less operational CapEx, amounted to a positive SEK 56 million, almost tripled from the SEK 20 million a year earlier. Q3 was also the first quarter since 2016 in which the company delivered on operating profit. It amounted to SEK 15 million, up from negative SEK 21 million a year ago.

In our streaming segment, we delivered revenue growth of 15% year-over-year excluding Russia. Streaming revenue came in at SEK 842 million versus SEK 742 million a year earlier. It is worth noting that in the Nordics, our most mature markets, streaming revenue increased 16% year-over-year.

We also saw [ph] faster paid (00:04:22) subscriber growth and have added 80,000 paid subscribers year-over-year. Half of these came from growth in the Nordics, but our four growth markets the Netherlands, Poland, Bulgaria, and Turkey also contributed significantly, with 25% increases year-over-year. Our subscriber growth, which is continuing its momentum into the fall is driven by higher marketing efficiency. In simple terms, we are acquiring more subscribers for less marketing investment than previously and continue to acquire customers with healthy lifetime values. This improvement in CLV/SAC and subscriber growth, when seen in the context of the price increases we implemented in many markets in the past year, is very encouraging.

We are also pleased that the positive development of our ARPU continued in Q3. We delivered all time high ARPU in the Nordics at SEK 163, the non-Nordics SEK 93 and globally SEK 131. As a testimony to the resilience of our business model and the quality of our team's execution, we continue to see favorable churn dynamics. While paid churn increased slightly over the summer as is seasonally expected, it is down year-over-year and remains at healthy levels in all regions, despite the continuing macroeconomic pressures on consumer spending.

Based on the strong operational and financial performance we delivered in Q3, we are in a position to update our full year 2023 financial guidance as follows: For organic streaming revenue growth, we maintain our guidance of growth exceeding 11% for the full year. For adjusted EBITDA margin where we saw over 10% in Q3, we are currently tracking at 6.4% year-to-date and are updating our full year guidance to well above 6.4%. For operational cash flow, we are updating our previous guidance of breakeven or better to at least SEK 80 million for the full year. As you can see from this updated guidance, we have confidence in our ability to perform and continue the disciplined progress Storytel is making on our journey of profitable growth.

I'm now going to hand over the mic to Peter for a deeper dive into our financials.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much, Johannes. And I'm happy to walk through some further details on the group's financial results and improved performance. Net sales of the group grew by 11% year-on-year or 12% when excluding

Russia. As Johannes outlined earlier, the growth was driven by the solid performance in the streaming segment, which was up 15% when excluding Russian operations last year.

Gross profit grew by 13% as compared to the third quarter last year to SEK 352 million, which represented a gross profit margin of 39.3% as compared to 38.7% last year. When taking a closer look at the group's cost structure, you'll see that our sales and marketing expenses increased by 10% year-on-year, where the comparison is also affected by organizational changes since then and was 12% below the previous quarter, amounting to SEK 193 million.

Our technology and development expenses totaled SEK 63 million and were in line with the previous quarter. The comparable quarter last year included roughly SEK 15 million in one-time effects from write-downs and accelerated depreciation.

Finally, the general and administrative expenses increased versus last year due to an increased centralization of certain functions and management and was 4% below the previous quarter. Our operating profit improved by SEK 36 million as compared to last year and was positive with SEK 15 million and EBITDA improved to SEK 92 million and the margin, as Johannes outlined earlier as well, of 10.3%.

Let's turn to the next slide and a closer look at the group's segments performance. Storytel reports on three segments, two within our streaming business, which are our Nordics and our non-Nordics segments, and one within our content business, which we call books and which is our publishers' external business. Books represented 14% of total group revenue this quarter.

Our Nordics segment, the most important segment, grew by 16% to SEK 572 million in revenue. The gross margin increased both as compared to previous year and the previous quarter and was 42.2%. The improvement as compared to last year was mainly due to the price increases that happened earlier in this year and hence also the increase in the ARPU which was 12% as compared to last year and SEK 163, was also in line with the previous quarter. The average paying subscriber base increased by 40,000 as compared to last year.

Our second most important segment is the non-Nordics streaming segment which grew by 13% when excluding Russia, also supported by currency exchange tailwinds. The gross margin slightly decreased versus the previous year and increased versus the previous quarter and was 46.3% ARPU increased both versus last year and the previous quarter and was SEK 93, and the average paying subscriber base increased likewise to 40,000 and then our four key growth markets, as Johannes also mentioned before in the Netherlands, Poland, Bulgaria and Turkey, altogether subscriber growth was 25%, and Bulgaria also benefited from the subscriber additions through our partnerships with [ph] A1 (00:10:18) and the Yettel.

Our book segments saw an unexpected external revenue decline of 4% versus last year due to market conditions and increased its revenues by 9% versus the previous quarter. The group internal revenue growth, however, during the quarter was 25%. Gross margin decreased versus last year and versus the previous quarter as a result of lower external revenues and higher proportionate royalty cost as well as inventory write-downs which reflect the market conditions.

Let's turn to the next slide for a closer look to the group's balance sheet then. Our intangible assets decreased by roughly SEK 26 million, as compared to the second quarter as a net result of investments, amortization and FX effect. Non-current financial assets increased by SEK 6 million, net of movements in the pension provisions, incentive program provisions and leasing liabilities. The total assets of the group amounted to roughly SEK 4.1 billion and the equity to asset ratio improved from 47% to 53% at the end of the third quarter. The total bank debt of the group as of the end of the third quarter was SEK 850 million and includes SEK 150 million of a bank term loan, which is a current liability and SEK 700 million in a utilized revolving credit facility, which is a non-current liability.

Cash and cash equivalents were SEK 541 million and the total available liquidity, including SEK 150 million unutilized revolving credit facility amount, was SEK 691 million at the end of the quarter. The net debt as a total bank debt minus our cash and cash equivalents was just above SEK 300 million at the end of the quarter.

Turning to the next slide then and our cash flows, we see the positive effects from our strategic delivery and cost reduction that resulted in continued solid profitability and cash flow improvements. Reported EBITDA, as I mentioned, increased to SEK 93 million and operating profits to SEK 50 million and the adjustments for non-cash items in the cash flow statement, as in previous quarters, mainly relates to depreciation and amortization, currency exchange movements and changes in provisions.

Cash flow from operating activities increased from SEK 73 million last year to SEK 120 million. The cash flow from investing activities was negative SEK 46 million and the cash flow from financing activities was negative SEK 59 million, which reflected also repayment of SEK 50 million of our bank term loan. All-in-all, the total group cash flow for the period was positive with SEK 14 million.

And finally, turning to operational cash flow, which is defined as our adjusted EBITDA, which is excluding items affecting comparability, less operational capital expenditures and that operational cash flow was SEK 56 million compared to SEK 20 million in the third quarter last year. The group continues to invest in product and technology and in particular in content. Operational cash flow significantly improved versus the previous quarter and almost tripled as compared to last year, which reflects the overall positive trend in our business. For this year, we target more than SEK 80 million in operational cash flow.

And with that, I hand back to Johannes.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Peter. For those of you who joined us at our recent Capital Markets Day, you will recognize our mid-term financial targets. We are, in fact, reiterating these targets for 2026 as follows: Group revenue will reach over SEK 5 billion. This implies a revenue CAGR of low double digits between 2022 and 2026 for the group. This group revenue ambition is driven by our streaming revenue CAGR, which we forecast to be 15% in 2023 to 2026.

In terms of profitability, we expect to remain EBITDA positive every quarter. We expect to deliver over SEK 600 million in EBITDA in 2026. This equates to a target of at least 12% EBITDA margin. Margins will increase from 2022 to 2026. Importantly, however, as we learn more and more about our business, we have become convinced that steady state unit economics may allow for further margin expansion in the years following 2026. As we reinvest less in top line growth, achieve better economies of scale, and become more efficient with our content and marketing investments, the business has the potential to exceed 15% EBITDA margins over time.

In terms of CapEx, we expect to spend around 5% of revenue annually on CapEx for content and technology investments. Based on over SEK 5 billion in revenue and over SEK 600 million in EBITDA, we expect north of SEK 350 million in operational cash flow in 2026. We are confident that from this year onwards we can run the company on a cash self-sufficient basis. These targets are purely organic. They do not reflect any potential strategic transactions we may or may not undertake in the years to come. I'd like to emphasize our conviction that these targets are realistic and attainable and provide us with the room to make the necessary investments in content technology, marketing, and our team that will allow Storytel to succeed and operate profitably for the long term. Our strategy deliberately balances profitability and growth for long term success and sustainability, and we believe that this strategy represents the efficient frontier for long term value maximization for our shareholders.

Our commitment and excitement about the path we're on is grounded in part in the rich set of opportunities to drive further growth and increase profitability that are available to us. To drive growth, we see four major levers. One, we operate in a fast growing market and as a market leader with proven experience in both content and distribution, we are well-positioned to take advantage of that underlying market growth. Two, we also believe that our increasingly differentiated content offer will contribute to strong growth of high quality revenue that over-indexes versus the market. Three, Storytel has significant opportunities to optimize further the performance of our subscription funnel and growth marketing practice. This will yield higher efficiency for every marketing dollar invested. And four, we see a better aligned mix of products, optimized pricing and smarter promotions that can unlock meaningful growth.

In terms of profitability, we also see multiple levers to improve on the status quo; one, by further reducing churn, improving ARPU and more efficiently managing SAC, we will improve our LTV/SAC ratio; two, we have identified clear steps to improve content economics, thus lowering our cost of goods sold as percent of revenue ratio over time; and three, we are going to be strongly focused on efficiency. With regards to personnel and other overhead costs, we see significant leverage available to us in this area as we grow revenue faster than overhead costs.

As you know, almost all our investment in content marketing and personnel is focused on a modest number of just 10 core countries that collectively represent an addressable market of 400 million consumers, including the US and over 130 million consumers excluding the US. These 10 core markets out of five Nordic countries; United States through Audiobooks.com and our four European growth markets, the Netherlands, Turkey, Poland and Bulgaria. These core markets play different roles in our profitable growth strategy. In the Nordics and the US, we are focused on generating substantial profitability and strong cash flow while still growing at roughly 10% revenue annually. We are confident about our position in these markets and our ability to deliver against our growth ambition.

In the four European growth markets, we are currently accelerating revenue growth and in the past year have exceeded our annual growth ambition of 20%. Based on our strong position in these four markets, we believe that we can maintain and perhaps accelerate growth in the years to come. Since my arrival at Storytel a bit more than a year ago, we have dramatically reduced the level of investment in our expansion markets. At this point, very limited resources are applied to content, marketing and personnel investments in these markets.

Collectively, they account for less than 10% of our total revenue and we have in the past few months further tightened our focus. Today, we see markets like Korea, Italy, Brazil and Germany grow their subscriber bases with minimal investments in content and marketing and at healthy CLV stock levels. We believe that through strategic partnerships, smart and self-funded marketing efforts and a disciplined focus on efficiency, we can not only maintain the revenue contribution these markets represent, but also identify and develop some of them to become our next growth markets.

We have effectively restructured this part of our business and are now poised to resume disciplined growth in this area. We are optimistic that collectively these expansion markets are approaching EBITDA positive territory and that this trajectory can be continued.

The audio book industry is fast growing and offers attractive prospects to new competitors, both locally and globally. We welcome competition and we believe that we can continue to build on our successful track record, competing against various types of competitors for the long term. In many of our core markets, we have benefited from being the first mover and have been able to establish a strong consumer brand that is synonymous with audiobooks and high quality. The knowhow and experience that comes from being 100% focused for almost two decades on only the audio story business is substantial, valuable, and helps strengthen our consumer offer.

Unlike other media and entertainment businesses, the audiobooks business is highly localized. The vast majority of hours listened, comes from local offers and takes place in the local language. These offers are represented by a large number of publishers in every market, and language, and it's taken us many years to establish the over 1,400 publisher relationships that provide us and our listeners with access to more than 1.4 million titles.

It should also be pointed out that our investment into original and differentiated content serves as an important accelerant for branded entity and customer acquisition and sets us apart from other services in our space. Moreover, we are well-positioned in our most important markets as operators of not only streaming services, but also as owners of large publishing houses. Publishers like Norstedts, Gummerus, Peoples, and Lind & Company are renowned for their ability to attract the best offers with the very best stories and allow us to realize many valuable synergies.

Storytel is also well-positioned as a result of the high loyalty we continue to earn from our subscribers. Almost a 1 million subscribers listen to Storytel for at least 10 hours per month and more than 40% of paid subscribers listen to at least five minutes of Storytel every day. These numbers reflect just how well we are executing on our mission to move the world through story, on behalf of our subscribers and how much value we deliver to them, on a daily basis. In aggregate, these factors make us confident that while we may not be immune from competitive forces, we are well-positioned and enjoy a level of insulation that will allow us to compete effectively for the long-term.

Now before we open up the session to your questions, I'd like to sum up the key takeaways from this quarter. We had a strong quarter and the improvements to our operational and financial performance as a result of the team's disciplined execution of our profitable growth strategy are showing positive results. The numbers show that we can be last line profitable and cash generating as a result of healthy subscriber growth, higher ARPU, positive CLV/SEK development and a strong and sustained focus on efficiencies.

We are making steady progress towards our 2026 financial targets as communicated at our Capital Markets Day in June and as reiterated today. We find ourselves in a good position for the remainder of 2023 and going into 2024. And we are updating our near-term guidance with a significantly increased level of EBITDA margin to well above 6.4% for 2023 and operational cash flow of at least SEK 80 million for the year.

With that, I'd like to thank you for listening and giving us your time, and I welcome the first of your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Joachim Gunell from DNB markets. Please go ahead.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

Good morning, Johannes and Peter. Congratulations on strong numbers. So I have a couple of questions. If we can just start here with the updated full year guidance. So basically what that implies here into Q4, can you just help us with the organic growth reasoning for Q4 especially if we should see I mean easier comps and also what you [indiscernible] (00:25:49) when you talk about the healthy – the margin being well above so to say 6.4%. Thank you.

Peter Messner
Chief Financial Officer, Storytel AB
A

Yeah. Let me start. Good morning Joachim. Great to have you on the call. Let me start on the EBITDA margin and the cash flow. So we have a year to date adjusted EBITDA margin of 6.4%, and that is if you want to run rate for nine-month, so our guidance is simply to update that we will, of course, be well above for the full year on 6.4%, without indicating in detail what the Q4 number really is going to be. That has to be seen in connection with the revenue growth overall, where we did not update the organic growth for the full year. So that has been unchanged at or above 11%. The operational cash flow as a result of that is more the logical conclusion of that adjusted EBITDA margin being well above 6.4%. But underlying that, we're very confident to obviously exceed what we are guiding here in the near term.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

Understood. But just the organic growth component here, I mean, of course, it's unfair to assume that we should see a quite steep acceleration in organic growth year over year just due to contract.

Peter Messner
Chief Financial Officer, Storytel AB
A

Can you repeat? Just in relation to contract or?

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

No, Q4 last year.

Peter Messner
Chief Financial Officer, Storytel AB
A

Yeah.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

You are facing this year comparables, hence it's fair to assume, although you maintained the 11% year-over-year organic growth, I would think it's fair to assume that we should still see that quite call it material acceleration in organic growth just due to the fact that we have easier comparables. Am I right with that reasoning?

Peter Messner
Chief Financial Officer, Storytel AB

A

Difficult to answer Joachim. I don't think that the comparables I haven't been here last year, I have to say that as well. But the comparables, I mean, things are changing, obviously, year-over-year. What happened during this year and you saw that in the trajectory of this year from an organic development has been the increases in our ARPU, right? That has been a main component of improvements for this year. And overall, as I said, we haven't updated overall the full year guidance. So we will stick to that from an 11% perspective.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

I will say this Joachim. This is Johannes. I think you know us by now and that our guidance tends to be on the conservative side. That's just good business practice for us. We are very excited by the progress we have made. We are very optimistic about that momentum continuing into the fourth quarter and we are hopeful to exceed the guidance that we have given today. So I think you should assume that Q4 will show positive momentum and you should take comfort in our reiterating that we are on track with regards to the medium term targets for 2026.

The plan that we have implemented of profitable growth is actually starting to work. It's showing some results a little earlier than we expected, but we also need to be cognizant that there's a lot more to be done. We are going to continue on a disciplined basis executing our strategy, and we're not going to get ahead of ourselves in terms of raising expectations in the markets above what we think is responsible and realistic.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

That is very clear. And on that topic, so you're able here to, as you highlighted, show early signs that your focused strategy is bearing fruit with both sub and revenue growth acceleration here despite only increasing marketing some by 10%, but the lower head count. So just help us here, just understand what's enabling this dynamic and whether you believe that is sustainable into next year, especially as you have highlighted that call it 12% margin progression through 2026 should be rather back end heavy?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. Great question, Joachim. Let me say a few words about the summer. The third quarter is traditionally a very strong quarter for our business, as is the fourth quarter. What we saw this summer was quite remarkable. We spent less money this summer marketing but acquired more subscribers than in the comparable periods in the previous years. Now, you could say, well, what does that mean, it could just mean that you're discounting heavily, you're bringing in low quality subscribers. When we look at the cohorts that we acquire and their behavior over time, the lifetime value we see that is predicted from these incoming segments of our customer base is as good as or better than it was in the years previously. So with this increase in marketing efficiency, we are really starting to shift the momentum. We've seen strong subscriber growth, sustained subscriber growth into the fall. We're bringing in great quality subscribers at a lower price with high lifetime values. So there is more to be done, by the way, in terms of increasing the marketing efficiency further.

Since we brought in Oleg Nesterenko as our head of marketing earlier this year, we have captured quite a few low hanging fruits in terms of improving our growth marketing practice. But as I look out into 2024 and what we have to do on our product and technology roadmap, in our marketing team, I see further opportunities to accelerate and get better and increase marketing efficiency even further. So that is one example on why things are starting to really work in this business that we are getting smarter and more efficient in how we take our business to our consumers.

Joachim Gunell Q
Analyst, DNB Bank ASA (Sweden)

Thank you for that. And when it comes to the telco bundles and the partnerships you have announced, I think you showed here that there are some early indications that these are also showing tractions, but did this have any material impact on the numbers here in Q3, both with regards to, of course, sub-intake but also gross margin in non-Nordics?

Johannes B. Larcher A
Chief Executive Officer, Storytel AB

Yeah, it's a really good question. And I will say this that in the past few months, we have seen the contribution of these kinds of distribution partnerships like [ph] A1 (00:32:24) and Yettel in Bulgaria, Telia in the Nordics and others to increase. When I look at the net additions of paid subscribers over the summer, a significant double digit percentage of that contribution is coming from distribution partnerships. So we are starting to see some momentum. Are these numbers massive in absolute terms? Not quite yet. But I will also say that hopefully in the fourth quarter, you will hear more about additional partnerships in additional markets. So over time, deals like the one with LG Uplus in South Korea, for example, have the potential to become really meaningful in helping us accelerate our subscriber growth. So we are pleased with the progress. It took us a little longer to get going than I had expected and want it, but we are pleased with what these partnerships are now starting to contribute.

Joachim Gunell Q
Analyst, DNB Bank ASA (Sweden)

Very encouraging. And the final one from me. So with regards to the SEK 135 million acquisition of Audiobooks.com here, so it represents two-thirds of your goodwill. So, perhaps a question for Peter then. I mean these transaction multiples was [indiscernible] (00:33:36) sales four times you currently trade below one. So, can you guess just the short-term impairment risk to see, how Spotify's US audiobook launch could pay out for Audiobooks.com? Is this core to you? And how you think about recouping that SEK 135 million investment? Thank you.

Peter Messner A
Chief Financial Officer, Storytel AB

Yeah that's a very fair question. I mean, as all companies going into the final quarter of the year, what we, of course, are doing is as always taking a look at our assets, our balance sheet. I just came in before the summer, so I have my very own keen interest on identifying do we have any risks on our balance sheet or not. The impairment testing from an IFRS point of view is a very usual process that we just kick started now. So, you can expect that we will update the market if we find any reason to revalue some of these assets and also how we value the positioning going forward in the US.

As of now and I believe Johannes has mentioned that before and we may address one of the questions that are coming up with regards to that as well is, so far nothing has really changed in the US for our strategy with Audiobooks.com. We have a very profitability focused strategy in the US that is generating very positive cash flow for us and the group and the market situation as of now has not changed. So, we will take all factors into consideration when doing these exercises and as I said, together with the Q4 report or earlier, we will update the market accordingly, if there is any change in that.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Understood. Thank you, and let's hope you can build on this momentum into Q4.

Peter Messner
Chief Financial Officer, Storytel AB

A

Thank you.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you.

Operator: The next question comes from Derek Laliberté from ABG Sundal Collier. Please go ahead.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Good morning and thanks for taking my questions. Great to see the strong quarter here. I wanted to ask you on the development in the Nordics, a very strong development on and obviously also boosted by the seasonal sort of summer boost. And you did mention that the retention has been stronger, but of course, there is also some seasonal churn afterwards. And last year you did see, I suppose, a fairly meaningful decline in the subscriber base in the fourth quarter. So now going into this fourth quarter, are you confident that we should see a sequential subscriber increase or is it more likely that we'll have a decrease in the Nordics in Q4?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah, I'll take that Derek and thank you for your question. So we are pleased by the momentum in the Nordics that we have seen in the third quarter. Let me address the topic of retention and churn, first. What we delivered in the third quarter in the Nordics is an all-time low in terms of seasonally measured churn. Year-over-year churn has gone down in the Nordics. And yes, it always ticks up in the summer a little bit as a result of large numbers of subscribers being acquired and some promotions that we run in the summer. But overall, year-over-year, the trend on churn and retention is absolutely going in the right direction for the company and we are pleased with how loyal the subscriber base has been to Storytel in the past year.

So that's the first thing I will say. And we have to understand that this all takes place in the context of what are quite significant increases in pricing in the Nordics that have been rolled out in the last year. Our ARPU in the Nordics year-over-year has increased by 12.4% as a result of these price increases. And the churn numbers also have to be seen in the context of the continuing macroeconomic uncertainty. So we are very, very pleased and confident.

I can tell you that the positive momentum on subscriber acquisition in the Nordics has continued into the fall. So we are optimistic that when we come back to you and communicate our Q4 results, we will be able to show a trend line on churn and subscriber balance that will be positive. That's about as much as I'm allowed to say. But I do think that I have confidence in the strength of the Nordic business.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Thanks. That's [indiscernible] (00:38:03). That's very clear. I look forward to that. And could you also share a little bit on the breakdown in the Nordic markets? I mean, what markets were the main contributors, et cetera, amongst the Scandinavian countries?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

No, we don't really talk about that. We do not break out individual markets in the Nordics. We report as the Nordics as one segment. And I believe you'll understand that we'll stick to that, Derek, thank you.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Yeah, that's fine. And if you can just kind of go on the non – the international markets here. I think you mentioned here about you had a 25% growth in the subscriber base looking at the Netherlands, Poland, Bulgaria and Turkey. But then you ended up with a total subscriber growth of 4% there. So just if you could give some flavor on that, I mean, did you lose subscribers in the US, for example? And any other movements that might be worth mentioning here?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. It's important that our segmentation and how we report on our non-Nordic business includes all markets outside Scandinavia, it includes the US, it includes the four growth that we mentioned and it includes a large number of smaller expansion markets. So what we are reporting there is the aggregation of all of these subscriber numbers and the development we've seen. What I can tell you is this, that in the US, we are satisfied with the development of subscriber base. We are certainly optimizing this business for profitability and therefore subscriber growth alone is not the most important dimension we are running the business against.

In the four core markets, the European markets, Netherlands, Turkey, Bulgaria, Poland, we have been very, very pleased with what the teams have achieved in terms of adding new subscribers, net paid subscribers to our balance. It's important to keep in mind these markets are not as well penetrated yet as the Scandinavian markets in terms of audio book penetration. We see further headroom there in subscriber growth as we go into 2024 and improve our go to market strategy in these markets.

And then what's also reflected in the aggregate subscriber number for non-Nordics is obviously the developments in our expansion markets. As I mentioned, we've decreased our focus and radically decreased our investment in content marketing and personnel in these expansion markets. They collectively represent a single digit percentage of our overall revenue. We are holding that revenue number. We are seeing encouraging signs in terms of further subscriber growth in some markets. I mentioned them in my remarks. Markets like South Korea, Germany, Italy, for example, Brazil, we are growing with good CLV/SAC ratios in these markets.

But what you are seeing in this one number that you quoted and the 4% growth is the amalgamation, aggregation of all of these countries into one. Again, the most important message I have in the four growth markets, we are doing very well in subscriber growth and we believe we can continue that path in 2024.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Cool. Thank you very much. And also on the on the ARPU side, I wanted to ask you, obviously, how this massive uplift in the second quarter, especially in the Nordics, following the new tiers and price increase [indiscernible] (00:41:56). You saw solid increase in both Nordics and the non-Nordics here in this quarter on a sequential basis. Just wondering what's sort of behind this. You mentioned the partnerships having some effect, but not a massive one. Just is it fair to assume that you're still seeing some small positive effects from the price increases and then maybe some headwinds from a lower ARPU B2B contributions or how should we view that development here?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. Thank you. Yeah. So ARPU development has been positive on all levels globally in the Nordics and the non-Nordics. In the Nordics, most pronounced where we grew over 12% year-over-year SEK 145 to SEK 163. And this is a direct result of the new packaging and products we introduced in Q4, Q1 and Q2 in Finland, Sweden and Denmark. And also the price increases we implemented in the same period. We're very pleased with how this change in packaging, pricing and promotional strategy has been received by the consumer. It's gone very, very well. We may consider additional changes in other territories going forward as a function of that well-executed implementation.

Of course, there are lots of things going into ARPU. One thing I will mention is obviously foreign exchange rates also play a role in our ARPU development. But overall, as we've guided previously, I think you should expect that ARPU growth will not continue at the same level of year-over-year or quarter-over-quarter percentage changes as it has most recently. The price increases, the product changes have now made their way through the system and are therefore fully reflected in the ARPU as you see it today. So we hope that we will see further incremental growth as we move more and more subscribers into our higher priced premium and unlimited tiers. But I believe that the main driver in 2024 for us in terms of growing the business further has to come from subscriber growth and less strongly so from ARPU developments as we've seen this year.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

All right. And finally, from here, I'd like to ask you on – I mean, you have this 15% CAGR streaming growth here 2023-2026, and it obviously delivered a fantastic quarter here, reaching say 13% growth in the total of streaming and 15% if we exclude Russia. But you do have, as Peter mentioned, a very good contribution also from the price increases. So just wondering if you could in general remind us what will drive sort of the growth acceleration that is required on an underlying basis going forward to reach your target.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah, I think Peter will want to comment as well. But look, again, we are pleased with the development we have seen in 2023 and hope that Q4 will continue on those lines. There is no doubt that further growth is not going to be achieved without hard work and some new strategies. We have to drive subscriber growth further. I think it is very clear in the Nordics, for example, where we compete very heavily with players other than ourselves who are very happy to discount heavily and offer incredibly pricey free trials and are operating at losses. In the Nordics, I think we certainly have the first mover advantage for very well established position as a brand synonymous with audiobooks. And we have a stronghold on what I would call the audiobook lovers and the really passionate users of audiobooks.

As the market grows, obviously it becomes very important to us to also penetrate into a more casual user segment, into the younger audiences, in particular, student segments, et cetera. So the team is working very hard on our plans to actually structure a strategy that will ultimately be reflected in product and pricing and promotional tactics that will allow us to drive subscriber growth in the Nordics into those more casual segments more effectively. That's a big part of what we need to accomplish in 2024 to continue to achieve what we set out in terms of growth objectives for the company in the mid-term. Peter, do you want to add to that?

Peter Messner
Chief Financial Officer, Storytel AB
A

The only thing to add maybe or to complement to that would be that, of course, the profitable growth story maintains on the basis that it's not only the Nordics, but it's in particularly the upcoming markets and the growth markets that will contribute on both the subscriber growth and then ultimately on the blended total company growth rate for streaming. And what we have shown now in the last couple of months in particular is our efficiencies in marketing so that this can really scale at a very profitable way, so that we can increase the bottom line. And I think that is exactly this balancing act. And I think we have proven that in the way how we operated and tested in various markets that this is achievable.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Great. Sounds promising and congrats again. Those are all my questions.

Peter Messner
Chief Financial Officer, Storytel AB
A

Thank you, Derek.

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Thank you.

Operator: [Operator Instructions]

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

I see one question being asked here regarding the Spotify entrance into English audiobooks.

I'd like to address that because obviously this has been big news in the audiobook and publishing business in the last few months. The first thing I'll say is nothing in the announcement that Spotify made and then the steps they have taken was a surprise. It was fully expected on our part that Spotify would increase its interest and participation in the audiobook business.

Second, I think this is actually a good thing. Think about the US market, 320 million people, 270 million consumers above the age of 18. And you have an audiobook penetration that is 2% to 3%. I believe that Spotify's entrance into the US market will accelerate market penetration, will lead to more recognition of the category and the value this product can provide to consumers at large scale and will therefore represent a tide that lifts all boats, including our own in the English speaking or US-North American market. So that's the very positive thing.

The second thing I will say about Spotify is that, look, they haven't launched a US service that launched in Australia and UK. We look forward and have obviously observed very carefully what we see about their plans and their execution in North America. You would expect that we are keeping very close tabs on what is happening there. I am doubtful that what you see in terms of Spotify's offer launched in the UK and Australia today will be the ultimate offer that you will see a year or two years from now. Just given the content licensing relationships and the unit economics, I think there will be changes that we can expect and I'm not going to speculate what they are, but I don't think that getting 15 hours of high quality audiobooks included in a $10 premium service is economically sustainable for the long term.

We believe we are well-positioned to compete with Spotify, not only in the Nordics, where we are the market leader, where we have content assets and capabilities that are unrivalled, and where we have an intense focus and a hugely popular brand and service with our consumers. Even in the US, think about the size of the market. This is not Sweden. It's 40 times as big as Sweden. There is lots of room for smaller players to have a position in the market that can be profitable and accretive. We've competed against Audible successfully in the North American market for many, many years. We've chosen to focus more on profitability than growth for Audiobooks.com. But we believe even with Spotify's entry and some optimization and tweaks we will be making to the business in Audiobooks.com, we have every reason to believe that we will continue to operate profitably at a small scale, admittedly in the North American market. So overall, the positive outweighs the negative. We take faith and confidence in our ability to compete in our core markets, but also in the North American market.

Are there any other questions.

Operator: There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Well, thank you for your interest and keeping up with our progress. We appreciate your good questions and your attention today. And again, happy Halloween.