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Storytel AB (STORY.B.SE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Hello, and welcome to Storytel Interim Report Quarterly One 2022. I'm Ingrid, Acting CEO, and with me, I have Susanne, Interim CFO. So, let's begin by some highlights from the past quarter. Jonas stepped down as CEO in mid-February, and since then, I've been Acting CEO of the company. I've been with the company since 2018 and prior to that on the non-executive board since 2016. Very important quarter for us. We completed the acquisition of Audiobooks.com as marking that entry to the US market, the single most largest audiobook market in the world.

We also have a new Chairman since early February, Hans-Holger Albrecht, as our previous chair stepped down. We also announced in early March that we put a pause to our business in Russia due to the devastating war that's going on in Ukraine at the moment and the humanitarian crisis. We have done some changes to the management team. Claus Wamsler-Nielsen has stepped in as COO and Åse stepped up as CBO for Nordics, Chief Business Officer. And since Sofie, our CFO, is on maternity leave, Susanne has stepped in as Interim CFO.

We have also taken a major step forward in order to get our cost structure in better order. And it is never easy to do downsizing, but I think that at the end of the day, we have left colleagues that we cheered and liked a lot, and done that in a good manner, hopefully. And now we can look forward and having a better costume for us going forward. And this is all in line with the strategic shift to focus much more on the top 10 countries where we see that we have an underlying positive trend in consumer sentiment for audiobooks.

So, in numbers, our streaming revenues were up 35% on quarterly comparable from 2021 to 2022, almost SEK 700 million. Looking at exchange rate, this is 33%. We want to be transparent that this goes a little bit up and down depending on how the world looks. Organic growth is underlying 19%. And of course, our 35% is heavily

boosted by our acquisition of Audiobooks.com that came into the books in early January. And group net sales were up by 27%. This is including our Storytel Books. And the totality of the revenues were SEK 747 million past quarter.

We have done quite a lot of restructuring over the quarter, including also fees related to the acquisition of Audiobooks.com as well as some amortization for development issues. So, that is amounting to SEK 133 million, leaving us at a comparable figure of a negative EBITDA for the quarter. But looking at more comparable figures, we ended up at minus 4.4% EBITDA. And I think this is what we will continue to come back to and ensuring that we have a sound economic underlying business and, of course, continue to focus on the growth in our top 10 markets. So, we have also changed accounting standards to IFRS. So, this is the first quarter that we report with function-based statements.

So, I will with that leave over to Susanne to go through the numbers in more detail.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Thank you, Ingrid. So, let's look at the financial details. Our streaming revenue is in line with the revenue forecasted for the quarter. The average paying base is now above 2 million and driven to a large extent by the acquisition of Audiobooks.com. Looking at the Nordics, revenue is in line with forecast, Denmark and Iceland being slightly positive contributors. And the average paying base is 1,061,000 and the ARPU for the period in Nordics is SEK 144. Moving on to the non-Nordics revenue has doubled compared to the same period last year and Audiobooks.com affects the revenue line by approximately SEK 80 million. And the subscriber base has increased to almost 1 million on par actually with Nordics. And the ARPU has increased due to Audiobooks.com.

So, let's move on to the group financial statements, starting with the P&L, adjusted for items affecting comparability. On this slide, we have the adjusted P&L in order to better explain the underlying drivers. Net sales is growing according to plan, with Audiobooks.com contributing by approximately 10% of net sales. So, the adjusted EBITDA margin is minus 4.4%. And we can already now see an improvement even if our updated strategy is not fully implemented. As you also can see, we continue to invest in marketing, but we are more selective where to invest just to maximize the effect on CLV to SAC. And the change to IFRS does result in a few changes compared to our previously reported figures. However, the figures in this slide are, of course, restated. So, this quarter we now report Norway under contribution from associated companies, due to Norway being a joint venture.

Moving on to the next slide, you will find the reported figures. So, let's go through the actual items affecting comparability included in these figures. First, we have costs related to our strategic shift and that is affecting the result by SEK 71 million in this quarter. Secondly, we have revalued current asset according to Russia, and that has an effect of SEK 45 million. The acquisition of Audiobooks includes transaction fees amounting to almost SEK 9 million. And finally, a cost of SEK 8 million due to the previous CEO stepping down.

So, moving on, let's have a look at the balance sheet. Audiobooks.com is affecting our intangible assets by SEK 1.4 billion. Our cash position is SEK 447.6 million, but you have to add our non-utilized RCF at SEK 400 million to get a better view of our available liquidity. Adding that, we have the same position as previous quarter before we acquired Audiobooks.com. In our non-current liabilities, we have our net debt at SEK 500 million, which was part of the financing for Audiobooks.com. And under current liabilities, we also have SEK 450 million of debt as part of the financing for Audiobooks. So, all in all, we have a stable financial position.

And with that, I hand over to you, Ingrid.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Thank you, Susanne. So, let's go back a quarter and talk about this slide that you recognize, because this is our strategic focus [indiscernible] (00:09:59) down to four very important pillars for us. This is the strategy we are on and this is the strategy we are continuously focusing on executing on. So, it's basically four important pillars. First and foremost, we are a growth company and continuing to focus our investments where we believe that they have the best payoff in terms of consumer sentiment, our position and of course also where we believe that the future audiobook industry is going.

Secondly, it's very important for us to have the innovative in our product. This is where most of our customers spend 25 to 30 hours a month with us, and of course then our app and service should be excellent. They are there, our customers, because they love our content. So, having a very broad catalog and also the right catalog is very important for us. So, I'll go into some of the acquisitions and investments that we have done recently in this area as well. And last, but not least, we need to be a scalable organization, operate smoothly, have a great team in place on all levels in the organization, and of course a sound culture and a performance culture. So, this is also what we are working on.

So, digging a little bit deeper into the accelerating growth. We divide our markets into more pioneering markets and more priority markets. So, if we look at how we conduct on our top 10 markets, which we call priority markets, that's where we have the biggest, largest subscriber base and that's also where we think that we will focus our marketing investments more. That's where the CLV to SAC is more sound and our brand awareness is high.

In terms of content, this is super important for us to have a really, really good catalog. So, we will continue to invest heavily in producing and even owning content in these markets. And last, but not least, we have a smart organization locally that can take care of the local relationships that are very important for us, of course, in the publishing industry as well as towards authors and narrators, and as well as looking out for potential mergers and acquisition activities.

And then, in the more pioneering markets what we have done over the past six to nine months is really to try to find alternative ways to work towards growth. This could potentially possibly be partnerships, et cetera. And hence, why we are investing less of our marketing budget into these countries. We still believe in the audiobook and the future of the audiobook industry basically everywhere in the world.

So, we will continue to do focused investments in our catalog. This is an asset that we believe is very important for us going forward. And also, in this global world, it's good to have 30-plus languages on an audiobook catalog that we can offset in any market throughout the world where we have our service. And last, but not least, this of course means that we have a smaller, agile team in those markets.

So, taking a step back into understanding why we acquired Audiobooks.com. When we look at the industry, 2020, if you look at the orange-yellow picture here, you can see that the largest single market is actually represented by the US and the rest of the world stands for about 44% of the market. So, when we look at the green picture where we had a presence, we thought it was good to complement our presence, of course, also into the US market. And if we look at the other markets that are important, it's still the Nordics, which stands for almost a fourth of the rest of the world activities in audiobooks, as well as the English-speaking world and Germany and France.

So, one of the things that we have wanted to do is to go out in the world and being the pioneers in the audiobook industry with our service, and of course reduce the dependency of the Nordics. So, if we look at the shift that we have done over the years, we have organically and with some smaller acquisitions throughout the year reached

almost a fourth of our revenues in streaming outside the Nordics. But with the acquisition of Audiobooks.com, now that number is 34%. So, almost one-third of our revenues. And if you look at the subscriber base, almost half of the subscriber base is now outside Nordics.

So, that is about growth. What about then our product? Well, a few things that we have been working on for the past quarter and will continue to work on is of course to ensure that we have a really immersive experience for our customers when they enter the app. The single most important factor is of course that you find the right content. So, we have invested quite a lot in different AI algorithms to make it more personalized and improve heavily our search mechanism in our catalog. Since we have hundreds of thousands of titles, it's important that you as a customer find the right and relevant catalog for you. We've also improved our metadata in order for this to be an even more exciting experience and working with also recommendations and emojis to make this a more contributing also from our customers to help other customers find the right book. And this has resulted in better app reviews and of course also more personalized lists that are used from our customers.

When it comes to content powerhouse, we can look at our catalog in three buckets. First of all, the majority of our catalog is licensed content. We work with all of the largest publishers throughout the world to ensure that we have a great catalog licensed for the use of our customers in our service. We've had a long-lasting relationship with Pottermore. So, the latest exclusive audiobook production we have done is in Korea with Harry Potter on the Korean language. Then, we own publishing houses. This is something we call Storytel Books. We believe that in our major markets, it's important to also have a close relationship to the author community through publishing houses.

And last, but not least, we make Storytel Originals. When we produce automatically to audio and work with the most interesting and upcoming and different type of creators in the world that may not have started out as book creators, but they may have started out as YouTubers. So, one example is [ph] how to be cool (00:17:53) collaboration that we have in Sweden, and last announcement this week was what we did a big collaboration with taking over the Silfverbielke character from Öhrlund and Buthe to produce even more material for the future. And I'm very happy to say that almost 500 million hours were consumed in our service during 2021, and this continues to grow, and the engagement of our customers is continue to deepen.

When it comes to scalable organization, we have done quite a lot of changes over the past quarter. And this is as a direct effect of our strategy to continue to invest in the top 10 the markets that we have, we have also ensured that we can pool and work smarter with all the good people that we have in our organization. So, if you look at the non-recurring costs this quarter, they were quite substantial, but they will help us in going into the future and of course also going towards the target that we have for this year in terms of EBITDA margin of minus 3% to 0%. And this is to continue to be a thriving company and ensuring that we are future proofing also how we work to be able to continue to grow.

So, in terms of looking forward, we will continue to guide towards our two targets for 2022, which is top-line growth of 30% to 34%. And it's an important quarter Q1 for us with a 35% growth year-on-year already taken in Q1. And then, of course, we have the other target, which is our group EBITDA target of minus 3% to 0%. And I can also say that some of the cost adjustments that we have done over the past quarter is in order us to continue to work towards that target. So, for guiding for Q2, we guide towards SEK 698 million to SEK 705 million revenues in terms of streaming revenues, and this without Russia is 31% to 33% year-on-year like-for-like growth. And we have no EBITDA target for the quarter, but we will continue to track towards the minus 3% to 0%.

Good. And with that, I will come back to just summarizing what we are doing in terms of our strategy. So, we are accelerating the growth in our top markets. We are continuing to do important investments in our product and tech

to make it an immersive and a great experience. We compete for our consumers' time and energy and commitment, and this is what we will continue to do, with of course also the content, which is the great stories. So, we will continue to invest in great stories and licensed content in order to have a great experience with Storytel App. And last, but not least, we will continue to overlook how we organize and how we work so that we become lean and mean and smart and work in a good way and attracting the right talent we need to be successful going forward.

So, with that, I conclude this with going over to Q&A.

QUESTION AND ANSWER SECTION

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

So, we welcome questions. And perhaps, we could start with Dennis from Carnegie. Do you have any questions for us?

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Good morning. Yes, I do. So, starting up with Audiobooks.com, you clearly saw this substantial gross profit boost from the consolidation. Could you give an indication of the contribution to the adjusted EBITDA on a group level in Q1?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

We can see that the contribution to the gross margin is of course good both in terms of acquisitions from the Audiobooks.com and then in terms of group margin.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

I think we could say we have the revenue is SEK 80 million in the first quarter. So, I think we stay there. Yeah.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yeah.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Okay. Understood. And if – well, let me put like this, if and how have your outlook for non-Nordics changed compared to the beginning of the year if we exclude Russia, and perhaps, if you could provide some more comments on some general market development in the top countries outside Nordics?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

I think we continue to stay positive towards the underlying growth of audiobook industry. If we look at penetration in the Nordics, we believe it to be somewhere around 10-plus percent for people above 18 years. So, I think there is more to come from other countries where we are in, where we believe that the penetration is lower. So, this is the underlying trend that we think and see for in terms of audiobook industry.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Perfect. And for you more specifically on the market developments in the top markets outside the Nordics how has Q1 developed?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

We're positive towards the outlook, and there's almost 20 countries underlying this. So, of course, we can see that some markets also if we look back at the two past years of pandemic, we started to see more shifts in the subscriber bases between different countries. Whereas, when we went into 2020, we believe that the trajectory would look quite similar in all markets, but of course, the pandemic has changed that a bit. And now, looking forward, we can see that there's turmoil in the world, but in collective group on the non-Nordic, we see positive development.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Perfect. And then, finally from my side, could you provide some insights on the level of content investments and capitalizations here in Q1 and how you think about these investments for full year 2022 in comparison to 2021?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yeah. So, we will continue to invest in content. We believe that content is king and queen and prince and princess in our world. So, we need to both attract and retain our customers through great content. And then, how we split our content investments, that will, of course, also be in parallel to where we see that the growth is happening on the consumer side. But we will continue to invest in content going forward in all our markets or languages.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

All right. Thank you.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Thank you.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Okay. Thank you. Stefan, do you have any questions for us?

Stefan Wård

Analyst, Pareto Securities AB

Q

Yes. I have a question. I think that the guidance for the international business looks a bit cautious. If you can comment on [ph] the revisions (00:26:06) there? And also, if you could go through the liquidity situation, is there any need in the short term to raise more capital, just to clarify for the market would be helpful there? Thanks.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

In terms of the guidance for the non-Nordics, we continue to see double-digit growth. Past quarter we've had a triple-digit growth. So, now we're guiding around 80-plus-percent. We believe that that's a strong development. When it comes to the ARPU, it is quite different in between different countries. So, we have done the absolute best projections that we can in terms of seeing where the underlying growth happens.

And when it comes to funding, I think my short answer before handing over to Susanne is that we don't see any need for funding at this moment.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

No, that is absolutely correct. We have our cash position that you see in the balance sheet and it's SEK 447.6 million. And we have quite large non-utilized RCF as well. So, going forward, I actually would like to say that we are in a very good position. So, we have cash, if that was the question, yes.

Stefan Wård

Analyst, Pareto Securities AB

Q

Okay...

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Are you happy with that, Stefan?

Stefan Wård

Analyst, Pareto Securities AB

Q

I'm happy with that for now...

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Stefan Wård

Analyst, Pareto Securities AB

Q

I may be come back with a question. Thank you.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Of course. Yeah, you're welcome. Derek, do you have any questions?

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yes. Thank you very much. Great to see you both fully on onboard here in Q1. I was wondering, I mean, given there has been some changes in the business [ph] and (00:28:04) uncertain environment here, when should we expect an update on sort of a long-term guidance in terms of what to expect here? I mean, your current growth target for 2023 looks quite optimistic the way the business is faring. So, sort of it's kind of interesting kind of to know what to expect in terms of organic growth over the coming years?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

I think a good indicator of our organic growth is to see what happened during Q1. Our organic growth was at 19% on comparable numbers. And this is about the organic growth that we have had over the past six to seven quarters. So, depending on M&A, I – of course, we are boosted this year, the 30% to 34% is guiding with the acquisition of Audiobooks.com. And with the climate that we are in today, we will continue to guide more short term in order to kind of follow development and that's also Stefan was diluting towards, we are in a world that is very much in change. So, I think we will stick to the guidance for this year in terms of the 30% to 34% growth.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Okay. Cool. And which of your markets at this point do you expect will contribute the most to revenue growth for this year?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yeah. So, the revenue growth is really highly boosted by our top 10 markets. So, I wish that they will contribute the most also going forward. So, that's also where we do most of our marketing activities and investments. But of course, we will be prudent and always go, look at the numbers very, very carefully to be able to see how do we do this in the absolute smartest way and where do we see sentiment in the market, et cetera. So, we will continue to stay very, very close to our markets and be prudent in our investments.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Sounds good. And on Russia now with the situation, [ph] I just presume (00:30:25) ahead of everything you had some expenditure or investments planned for that market. I mean, is that – where are you allocating these resources, like, is there another one of your markets that is sort of taking Russia's place in terms of the plans for this year and which one would that be?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

No, but I think the largest, most exciting new market for us is of course the US where some of that resources may go. And then, we will continue to invest them in the markets, as I said, we will be very prudent and follow our metrics in the best ways to ensure that we invest them smartly and where we believe that they can have a payoff, of course not only short term, but long term. So, I think it's important to state that this is not a short-term game. The audiobook industry has been growing, thriving for the past almost seven years, 10 years since we came into this business, and I think this is the underlying trend that we will continue to be. So, it is a long-term trend and we

will do the best to kind of balance this over the quarters, of course. But I would like to see us more of a long-term growth company.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

All right. Makes a lot of sense. And just finally, just to clarify, I'm sure [indiscernible] (00:31:50) information, but on the sort of the short-term debt here, I mean, is it correct that, I mean, you have the SEK 500 million bridge loan utilized, right, for the Audiobooks acquisition and then you've utilized SEK 450 million of the RCF now in Q1 that was taken up. So, you have SEK 400 million...

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yes...

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

... [ph] left under (00:32:14)...

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

...under RCF, yes.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yeah.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Okay.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Correct.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yeah. Cool. Okay. Thanks. That's all for me.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Good.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Okay. Mathias, do you have anything for us?

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Well, hi. Yes, one, two, three questions something. [ph] Tying (00:32:33) back to what Dennis asked about regarding content investments, I wonder if you could specify perhaps a bit on what level intangible CapEx is that right now? Is it lower now after the IFRS conversion?

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Please one more time.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

I'm asking about the content investments and particular in the investment in intangibles, has that changed something now after the IFRS conversion, what level is that on? Is it like SEK 50 million, SEK 60 million run rate or lower percentage to revenue?

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

So, the change compared to IFRS is more that we don't gross the amount in the P&L, but we still have it in the balance sheet and that is not any change.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Great.

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yeah.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

And another follow-up accounting question.

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yeah.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

The impact from the items affecting comparability...

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yeah.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

...was different on the EBIT line item and the EBITDA line item. So, I suspect there was a write-down, what was the write-down related to?

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

We have done some write-down in the restructuring saying when we have downsized. And that is I don't know if we have the specific numbers, but it's quite low. And then, we have of course the effect on Russia. So...

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Great. Thanks.

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

...it's split. The Russia effect is split. Yeah.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

And one more we'll see, it's regards to the restructuring you made over the past quarter...

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yes.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

...could you say anything about what you expect that it could save in annual run rate in savings? Like, the people leaving, how much do that make in a saving in absolute terms?

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yeah. I think you could think a little bit that we have 100 employees that have left the company, and we don't have cost for them going forward, so to say. So, yeah, that's the way...

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Great. Thanks.

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

...you could calculate it.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

And if I may, I want to throw in one more here.

Q

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yes.

A

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Could you perhaps say something about the marketing climate, how's that is developing, price, volume, mix, strategy and so forth?

Q

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Yeah. Maybe I can say a few words on that. I think there was major changes over 2021 in terms of the marketing universe, both in terms of privacy policies and of course also iOS 14, that changed quite dramatically. And then, we were in the middle of a pandemic also last year, still globally. So, of course, more investments came to the online world. So, basically, assets became more scarce and prices went up. And this is, of course, also something that we see that even though we have done everything we can in terms of our center of excellence, trying to find new online marketing angles, this is still a big concern for us. And we need to find other ways, of course, to market our service. Because, I do believe that the shift that we've seen will just continue and there will, of course, be more laws and regulation in terms of GDPR and towards privacy policies, which is good. We should shelter the customers and their data. So, this is something that's ongoing. And then, we just have to find new ways, new avenues.

A

I think I read in the news, which was quite funny about TikTok now having been a good channel in the UK for addressing a very important thing that we also are very much pro, it's young people reading, and they have actually attracted much more younger people starting to read and use books and listen to books through TikTok. And this was also something that confirmed our strategy that we've had in LatAm for quite some time where we've used that as a channel. So, yes, it's changing and costs are going up, we need to be smarter and follow the development.

Mathias Lundberg

Analyst, Kepler Cheuvreux SA (Sweden)

Great. Very clear. Thank you. That's all for me.

Q

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Thank you.

A

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Thank you. Joachim, do you have anything for us?

Joachim Gunell

Analyst, DNB Markets

Q

Yes, thank you.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Joachim Gunell

Analyst, DNB Markets

Q

So, a couple of more questions from my side, starting off where Mathias left. In terms of, I mean, reprioritizing your focus here to your more established markets, can you shed some more color on how this will basically enable you to scale marketing spend better going forward, as, I mean, here in Q1, I would assume that this was one of the first quarters where you have, I mean, emphasized these markets even more, but we didn't really see the marketing spend scale accordingly? So, can you talk a bit about how you think you will basically revise your marketing strategy going forward?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

I think if you look at marketing spend as a percentage of revenue, when you compare our Q4 figures 2021 to our Q1 figures 2022, you will see a shift in terms of percentage. So, that's an indication of where we're heading on the cost side. But I think the more important question here is, of course, to ensure that we also combined with the marketing have a great offer that we have the best content in our catalog. And I think this is also why we, for example, now have invested in the future of Silfverbielke. We know what is relevant for our customers in many of our markets since we've been around for a while, and then to do relevant and good investments for content, that's also important for us going forward, regardless of the marketing spend. So, I think you have to look at this as a little bit of a universe. It's marketing combined with content and, of course, a very strong app experience. So, those are the three kind of parts that dance together when things are good.

I mean, I would also like to zoom out a little bit. I mean, we are in a world that is definitely changing. We're in a climate where we see inflation rates, et cetera. So, I think we will try to continue to monitor this in the best ways and be prudent with our cost side. But the first and foremost importance for us is really to grow, we think that the Storytel experience is something for more or less everyone throughout the world and how we get there is just to be smarter and better I think.

Joachim Gunell

Analyst, DNB Markets

Q

Thank you. And coming back to some cash flow related questions. Is the full business combination or the consideration here taking for Audiobooks.com in Q1 with regards to – I think you highlighted that on [ph] EBITDA basis it was \$135 million (00:40:24), although it appears slightly less so here in Q1, so, will this continue to impact cash flow going forward?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

So, in terms of US, this is the kind of work that we do on a quarterly basis also, we invest differently maybe over the quarter. So, you need to look at the EBITDA where we will land at the end of the year, which will be minus 3% to 0%. And then, it might fluctuate a little bit over the quarters, because it's also important that you invest when you see opportunities. So, that's also what you can see in the fluctuation over the marketing activities over quarters.

Joachim Gunell

Analyst, DNB Markets

Q

Sure. But, I mean, here in Q1, I noted that the cash consideration paid for Audiobooks.com, I mean, the net cash flow was roughly SEK 150 million, although I think when you announced the deal, you said \$135 million for Audiobooks.com. So, can you just help explain the difference?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

I think maybe we have to come back to some figure that we mentioned...

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

...in Q4 and [ph] related that (00:41:42). So, if we can come back to that specific number, we'll be happy to do it.

Joachim Gunell

Analyst, DNB Markets

Q

Absolutely.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

But in the intangible assets, if you look at the balance sheet, you have [ph] 1.4 (00:41:52) there and we had cash flow for Audiobooks.com at [ph] 1260 (00:41:59). Yeah.

Joachim Gunell

Analyst, DNB Markets

Q

Understood. Thank you.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Yeah.

Joachim Gunell

Analyst, DNB Markets

Q

[ph] And from a broader term (00:42:06), are you seeing any sort of changes to how your users are engaged? I mean, have you seen, call it, a heightened level of churn in light of inflationary concerns, or any comment on that?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

We look at the user data a lot and I think the biggest shift that we have seen over the – actually, I'll have to go back now almost two-and-a-half years, the biggest shift was actually when people consume the Storytel experience. Prior to the pandemic, we had very clear spikes in the morning and afternoon and night. Now we still have a spike in the night, but we have a much more fluent kind of consumption over the day.

And in terms of engagement, how many hours people consume with us over a month, it's actually fairly stable in the more mature markets and it's increasing in our less mature pioneering markets. And then, we could actually see an effect in late February, early March, where I think most people were consuming more news due to the outbreak of the war in Ukraine. So, yes, it fluctuates a bit, but fairly stable over time.

Joachim Gunell

Analyst, DNB Markets

Q

All right. And just a final one for me. We have seen some other streaming entertainment players being increasingly focused on [ph] ARPU method (00:43:45) such as, I mean, trying to hinder account sharing, I mean, driving more [ph] ad-related tiers (00:43:52), et cetera. In what ways could such tools be useful [ph] also for you (00:43:58)?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

We have a family subscription, which is shareable between people in a household, which is actually increasing in importance. We offered that for the first time in late 2018. And in some markets, it's actually a significant part of our subscriber base. And I think we have said that ARPU is sort of declining a little bit over time due to the shift in different types of subscription plans. Last year, we developed a student subscription plan, which we think is important, back to the question around the future consumer of audiobooks, we believe that the young population is important to adhere to.

So, I think we will see continuous development on our subscription plans that will cater to different type of individuals. And I think it's also important that we are a service that welcome our customers, but also we are sad to see them leave, but we are more than welcoming them back. So, I think that this is something that needs to be [ph] seen as an instinct (00:45:09) for a customer and also that you find the right kind of subscription model to work with for respective person behavior.

Joachim Gunell

Analyst, DNB Markets

Q

Understood. Thank you very much.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Thank you.

A

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Thank you. If there're anyone with last question or – no.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

So, yeah, we say thank you for listening.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Yes. Thank you so much for listening in. And yes, see you soon again.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

Yeah. See you.

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