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Storytel AB (STORY.B.SE)

Q2 2023 Earnings Call

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Peter Messner

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Storytel Q2 Report 2023. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions]

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

Johannes B. Larcher

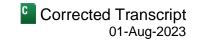
Chief Executive Officer, Storytel AB

Good morning and welcome to the Storytel's Q2 report. My name is Johannes Larcher and I am the CEO of Storytel. Here with me today is Peter Messner, our newly appointed CFO. Welcome to your first quarterly report, Peter. And a warm welcome to all of you joining us on this call today.

Before I get to our Q2 results and highlights, please allow me to set the stage a little bit. We spent the second quarter of this year in further pursuit of our company's mission, to move the world through story. Storytel was founded on the belief that there is no more powerful thing in the world than a good story well-told. The first stories humans ever told were conveyed verbally, and we see lots of evidence that in a world of constant sensory overload, the purest act of listening to a good story is gaining in popularity, thanks to its ability to uniquely stimulate the mind and engage the listener. And that's why our company is all about audio stories, as is reflected in our name.

To deliver on our mission, we are in two businesses at Storytel. We are in the business of creating stories and owning content. 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 publishing houses like Norstedts and Gummerus, or our audio publisher, Storyside.

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In our streaming business, we take the great content from our publishers as well as others, and make it available in audio format. The Storytel app makes it easy to listen to your favorite stories anywhere, anytime, and on the device of your choice. We believe that publishing, despite the changes taking place in the industry, is a solid business that can deliver healthy margins and strong cash flow. We also believe that ownership of publishing houses can make our streaming service much stronger. The access to offers, the opportunity to tap into the submission pipeline of new works, and the ability to create original audio stories, these are just some of the valuable contributions the publishing houses can make to our streaming business.

Vice versa, we believe that our ownership of streaming services can help elevate our publishing business. Offers appreciate the opportunity to create new, original audio stories. And our ability to feature and actively promote their audio books on our platform and in our off-channel marketing is an attractive proposition for those offers wanting to grow their personal brands and sales. That is why we operate both a content business and a streaming business. The combination of the two creates unique value that is bigger than the sum of its parts.

Turning to our performance for the reporting period. The second quarter of 2023 saw us make steady progress in the disciplined execution of our profitable growth strategy. As a group, we delivered net sales of SEK 851 million, an increase of 11% year-over-year. This was primarily driven by strong streaming revenue growth, delivering nearly SEK 800 million, an increase of 15% year-over-year. We also delivered our fifth consecutive quarter of EBITDA profitability at the level of 4.6% for the quarter and showed a healthy gross profit margin of 39.1%.

Our operational cash flow continued to improve and changed from negative SEK 49 million a year ago to only minus SEK 5 million in Q2 of this year. In terms of paid subscribers, we added 14,000 this quarter for a quarterly average total of 2.06 million paid subscribers worldwide. Q2 saw the completion of the successful rollout of new packaging and pricing in the Nordics, an important step for the company in our efforts to expand the addressable market and achieve better subscriber economics.

Operationally, we launched significant new partnerships, including with leading telco A1 in Bulgaria and held our annual Storytel Awards, which achieved the highest ever level of audience participation. We also announced an innovative partnership with ElevenLabs around text-to-speech generative artificial intelligence. Together with our new VoiceSwitcher product feature, this partnership over time will give our subscribers more choice and more control over their listening experience from Storytel, and will contribute to our efforts to achieve better content economics.

Lastly, we held a well-received Capital Markets Day in mid-June that laid out our plans and financial targets for the period until 2026 and contributed to increased transparency for our investor base. Our strong group net sales growth of 11% was driven to a large extent by a strong performance in the Nordics streaming segment, where revenue increased 16% year-over-year. This growth in the Nordics was the result of our higher ARPU, which now stands at an all-time high of SEK 162. The higher ARPU reflects the changes we made to our service packaging and the price increases we rolled out in the first half of 2023. These significant changes to our Nordic offer were well-received by our subscribers and performed ahead of our internal expectations.

Average paid subscribers in the Nordics were essentially flat quarter-over-quarter, and while we saw some softness on new subscriber intake in the early parts of the second quarter, we are encouraged by our acquisition momentum as we headed into the summer. We also saw healthy revenue growth in our non-Nordic segment where revenue grew by 9%, subscriber growth accelerated, and ARPU and gross margin also developed positively. As expected, books revenue declined year-over-year as a result of lower physical sales and certain changes in our digital distribution partnership mix. However, internal books revenue increased by 36%, and books gross margin increased by nearly 3%. Our books business continues to perform according to our business plan.

In streaming, we extended positive trends in all major metrics. Perhaps most importantly, despite continued macroeconomic challenges placing pressure on consumers and other D2C streaming players facing difficulty, we see the favorable trend in our churn metric continue. This is remarkable, especially in our Nordic segment, where in Q2, we completed the rollout of new service tiers and increased prices meaningfully, but applies also to our non-Nordic segment. ARPU increased in both the Nordic and non-Nordic segment and our paid subscriber base increased by 14,000 for the quarter, while Nordic subscriber – new subscriber intake was somewhat soft in Q2. We are encouraged by our trend line in the later part of Q2 and the early momentum we see in Q3. I am pleased by these results. They represent steady progress step by step on the disciplined implementation of our profitable growth strategy, and show that our steps to improve marketing efficiency, life cycle management, product positioning and pricing, as well as content differentiation are starting to have a positive effect.

I'm now going to hand over to Peter for a deeper dive into our financial results.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much, Johannes. I'm very happy and excited having joined Storytel recently as CFO and to walk through some further details on the group's financial results and improved performance. The net sales of the group grew by 9% year-on-year or 11% like-for-like when excluding Russia to SEK 851 million. As Johannes outlined just before, the growth was driven by the solid performance in the streaming segment, which was up 15% year-on-year. Gross profit likewise grew by 15% as compared to the second quarter last year to SEK 333 million and represented a gross profit margin of 39%, which is an almost 2-percentage points improvement as compared to Q2 last year.

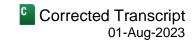
When taking a closer look at the group's other operational cost structure, the sales and marketing expenses decreased by 18% year-on-year to SEK 219 million due to the more focused and centralized, and hence, also, more effective spending approach on the profitable core markets. Technology and development expenses decreased by 11% year-on-year to SEK 64 million and the general and administrative expenses were in line with the previous quarter and heavily changed year-on-year, which is due to the strategic shift and reorganization of last year that resulted in an increased centralization of certain functions, including the entire management team.

The operating profit improved to minus SEK 29 million from minus SEK 94 million last year, and EBITDA, including any items affecting comparability, improved to plus SEK 40 million from minus SEK 6 million last year. There were no reported items affecting the comparability this quarter as compared to minus SEK 19 million in the second quarter last year. As a result of all that, the reported EBITDA margin increased from negative 0.7% to positive 4.6%.

Let's turn to the next slide then for a closer look at the group's balance sheet. Worth highlighting on the balance sheet is the increase of intangible assets by roughly SEK 85 million, which is primarily due to currency exchange effects on the US dollar-denominated assets. Other than that, noncurrent financial assets increased by SEK 6 million due to increased profit share from our Norwegian operations and likewise certain currency exchange effects on certain tax receivables in particularly in the US and in Mexico.

Total assets amounted to SEK 4.1 billion, and the equity to asset ratio [ph] have (00:11:48) improved to 52% as compared to 44% at the end of the second quarter last year. Noncurrent liabilities decreased by SEK 50 million as have been reclassified as current, and those SEK 50 million relate to the overall SEK 200 million bank term loan that is to be repaid until the end of June 2024, and therefore considered as a current liability now. The total bank debt includes this SEK 200 million bank term loan and an additional SEK 850 million revolving credit facility, of

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which SEK 700 million is utilized and SEK 150 million can still be drawn. The total available liquidity at the end of the quarter was SEK 681 million.

Turning to the next slide 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. As mentioned earlier, the reported EBITDA increased to SEK 40 million and the operating profit to minus SEK 18 million. Adjustments for noncash items in the cash flow statements are primarily driven by the depreciation and amortization, currency exchange gains, and they are mostly with regards to the US dollar and also certain changes in provisions. The cash flow from operating activities totaled SEK 36 million as compared to negative – minus SEK 64 million last year in second quarter. Cash flow from investing activities was minus SEK 52 million, and that reflects our continuous investments into the product and technology, and in particularly also into content.

And finally, cash flow from financing activities was minus SEK 10 million in comparison to positive SEK 140 million last year. And that positive cash flow from last year in financing activities was due to our SEK 150 million draw down of the bank revolving credit facility. All in all, total group cash flow for the period was minus SEK 26 million. Cash and cash equivalents at the end of the period were at SEK 531 million. And as mentioned just previously, with the remaining and non-utilized SEK 150 million of the bank revolving credit facility, the total available liquidity at the end of the period was SEK 681 million.

Let's turn to my final slide and operational cash flow. The operational cash flow is defined as EBITDA, excluding any items affecting comparability minus operational capital expenditures and was SEK 5 million as compared to a negative SEK 49 million in second quarter of last year. The group continues to invest into product and tech and in content and the operational cash flow sequentially improved versus the first quarter. And overall, in the past four quarters, we have seen a very positive development for which we stand firm to our target of breakeven or better operational cash flow for the entire year 2023.

And with that, I hand back to you, Johannes.

Johannes B. Larcher

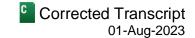
Chief Executive Officer, Storytel AB

Thank you, Peter. The second quarter was a very solid quarter for Storytel and demonstrates that the direction we have set for the company is sound and that the steps we are taking in managing our business day-to-day are moving us in the right direction. For the remainder of this year, our focus is on four key priorities: One, offer great content to our listeners and readers with improved content economics in our streaming business. Two, significantly improve how we take our streaming service to market. Three, focus our efforts and investments on our 10 ten core countries, in a smart way that localizes our strategy according to the situation on the ground in each country we serve. And four, complete the transformation of our company into a more efficient organization with the right people and the right culture in place.

We are committed to carefully balance continued and increasing levels of EBITDA profitability with growth of revenue. With five consecutive quarters of EBITDA profitability now under our belts and solid top line growth, we are encouraged by the steadfast progress we are making in our profitable growth strategy, but we remain vigilant as to any external and internal challenges that may arise and could require updates to our strategy and operations.

Beyond 2023, we communicated our medium-term growth plan at our recent Capital Markets Day in June. Let's briefly review some of the key elements of our 2023 to 2026 strategy. Storytel has a very strong starting point. What you see here is the local EBITDA margin for 2022 from left to right, our growth and expansion streaming

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markets, our books business, and in our Nordics and US streaming markets. Local EBITDA margin excludes product, tech and certain central overhead costs. Our two largest areas, the Nordics and the US, which make up a significant majority of the group's business, are already delivering very strong revenue and profitability. The areas of growth and expansion are markets where we have only relatively recently established ourselves and have not yet reached the scale required to be profitable on an EBITDA basis. And while books is a relatively small part of our overall revenue, it has a solid EBITDA margin.

Building on that strong starting point, we have set the following medium-term financial goals for 2026. We believe we can reach over SEK 5 billion in group revenue by 2026, driven by a 15% streaming revenue CAGR. We also believe that we can deliver a 12% EBITDA margin or better by 2026. We aim for CapEx of approximately 5% of group revenue and that our operations will generate strong cash flow, and we are confident that our plan can be delivered on the basis of strong cash generation and within the framework of our existing capital structure.

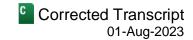
We have segmented the strategy that will get us from the starting point to these 2026 targets into three categories: Content, go-to-market, and company. Our strategies and actions within these three categories will enable us to deliver profitable growth quarter-after-quarter on an organic basis while we remain open-minded about strategic opportunities. In content, we aim to offer our customers a world-class selection of great content every time they open our app, including audio stories that are exclusive and can only be found at Storytel. This can only be achieved if in our content business we manage to become a preferred partner that attracts and retains the world's best storytellers. Additionally, we are aiming to achieve more favorable content cost economics over time that lower our cost of content as a percent of our revenue.

We have plentiful opportunities to improve the way we take our product to market. We have begun unlocking significant marketing efficiencies, are in the process of localizing our commercial model and approach to tactical execution market-by-market, and are taking additional steps, including recently announced innovations in text-tovoice AI to provide our customers and content creators with a world-class experience. As a company, we remain committed to operate a dual model and will operate both streaming and content businesses going forward. As discussed earlier, we believe that the combination of publishing and streaming businesses under one roof creates unique value that is bigger than the sum of its parts and we are succeeding in attracting executive and operational talent at the highest global caliber to the company, in good part because we are building a strong and rewarding culture based on transparency and collaboration. Our commitment and excitement about the path we are on is grounded, in part, in a rich set of opportunities to drive 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 market-leader, we have a strong set of experiences 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 overindexes versus the market. Three, Storytel has significant opportunities to optimize the performance of our subscription funnel that will yield higher efficiency for every marketing dollar invested. Four, we see that a better aligned mix of products, optimized pricing and smarter promotions 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 subscriber acquisition costs, we will improve our LTV/SAC ratio. Two, we have identified clear steps to improve content economics, thus lowering our COGS as a percent of revenue ratio. Three, we are going to be focused on efficiency with regards to other operating and overhead costs. We see additional leverage available to us in this area as we grow revenue much faster than costs.

When we look at 2026 then, you can see from the movement and size of the circles versus our starting point in 2022 that we achieved growth with increased profitability going forward. The Nordics and the US become even

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bigger and even more profitable, but so do our markets on the growth and expansion, driven by strong performance in the Netherlands, Poland, Bulgaria and Turkey. Also, books will deliver growth with increased profitability even if the growth here is more modest than in our streaming business.

Today's call covers our results for the second quarter but the beginning of Q3 has built on the positive momentum we've achieved in the first-half of 2023. We see that demand for spoken-word audio stories remains strong and is getting stronger. We also continue to weather the challenges consumers face as a result of recession, inflation and other macro pressures. Our churn levels remain low and continue to trend in a positive direction despite recent price increases. My team is making step-by-step progress, unlocking further efficiencies in content, marketing and operational overhead. With my senior leadership team now almost complete, we have reorganized the company and are operating at a higher level of effectiveness than ever before.

July also saw the announcement of an additional partnership with a leading telco, this time in Denmark, where we are launching a relationship with Telenor's CBB. Last but not least, the new VoiceSwitcher feature was launched on July 24 across all Storytel markets. It is currently available on five selected books in the English language and I invite you to check it out for yourself and let us know what you think.

We are reiterating our guidance for 2023 as per the previously communicated near-term targets. Organic streaming growth will be in-line or better than 2022, which delivered 11%. Our 2023 first-half growth rate is 11% and Q2, as just reported, is 15%. We are optimistic for the second-half of the year's development of our streaming revenue growth. Our full-year EBITDA margin for 2023 will be better than last year. As a reminder, full 2022 EBITDA margin was 2.9%. For Q1 2023, EBITDA margin was 3.8%, and Q2 2023, as we just reported, was 4.6%. We believe this positive trend line can carry over into the second-half of 2023. We are committed to deliver breakeven or better operational cash flow for the year and we will deliver these results within the framework of our existing capital structure.

I'd like to wrap up today's presentation with some personal thoughts about Storytel and explain why I and others on my management team have recently invested meaningful personal funds into the company. I believe that Storytel is poised for significant growth and success over the next few years. We operate in a market that is experiencing rapid growth. We are a leader in that market and have proven that we can build a profitable business in the market when we achieve scale. We have shown that we can replicate our success outside our Nordic home market. We offer a unique combination of content and streaming businesses and are starting to demonstrate how exactly these two businesses can elevate each other. By going beyond our traditional core of audio books and expanding into audio stories, we are putting ourselves into a strong position to address a larger customer base over time. Our financial profile is attractive, featuring a strong balance sheet and self-sufficient cash generation. And, lastly, we are assembling a world-class team that can deliver this plan.

With that, we're going to wrap and we're going to open up for the Q&A. Thank you very much.

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)

Good morning. So, starting off just with the impressive ARPU growth year-over-year, can you just help us break down the contribution from pricing, product and market mix here especially in the Nordics and the durability of that? Thank you.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

I'll start with a quick comment and then Peter may may add on top of that. Yeah. We are very pleased with how ARPU has developed across the group for the second quarter of 2023. We went from SEK 116 million in 2020 to SEK 130 million average in 2023. The growth is across regions, by the way, across segments, I should say. In the Nordics, we grew from SEK 145 million to SEK 162 million, but also in the non-Nordics, we grew from SEK 82 million to SEK 91 million.

This is very positive. As I mentioned, we did change our pricing tiering and product lineup in the Nordics throughout the course of Q1 and Q2. We were very careful in doing so and managed very carefully against migration, negative effects from migration to lower cost plans and we're keeping a close eye on churn as well. Despite that, we've seen basically flat subscriber numbers in the Nordics quarter-over-quarter and we've seen ARPU increased significantly. So we're very encouraged by the SEK 162 million in the Nordics, which is an all-time high. But also, outside the Nordics, we've also been able to grow ARPU. So we think though that we are appropriately priced in the market for the service we offer today. I want to make sure you all understand that these price increases are, for now, the last of their kind. Certainly, we keep the door open to future adjustments, but for now we think we are very well-priced vis-a-vis the value proposition and competition in the market.

Peter, do you want to add anything to the ARPU story?

Peter Messner

Chief Financial Officer, Storytel AB

I think there's hardly anything to add, Johannes. I think that was a very comprehensive and broken down answer. I think I wanted to highlight exactly as you did, the very positive churn development that we continuously have, so in that short-term since Q1. And the pricing changes, we haven't seen any other adverse effect on our pay base. So that's a very positive development.

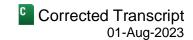
Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Great. And then perhaps on subscribers and, yeah, both Nordics and non-Nordics but perhaps in particular non-Nordics. Would you say that it's fair to assume that Q4 seems like the main, call it, acceleration quarter in the way you envision the coming quarters play out or with regards to easier comps, et cetera, or do you believe that you've come to a place now where you're going [indiscernible] (00:29:58) on increasing also the subscriber numbers outside of the Nordics?

overall, we are pleased with how subscribers have developed.

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Johannes B. Larcher

Chief Executive Officer, Storytel AB

Well, thank you very much for that question. So what drives revenue is obviously a combination of subscriber growth and ARPU growth, and we just covered ARPU growth pretty comprehensively. Let's set the stage. If you look at our subscriber numbers and you exclude Russia, which was shut down last year, we have grown year-over-year from 2.31 million to 2.55 million average subscribers per quarter. Importantly though, in the Nordics, we've grown over 4% year-over-year, which is strong growth. And then the non-Nordics, as a result of tightening our focus to the core markets and away from expansion markets, we've seen a slight decrease as expected. So,

I want to talk a little bit about the Nordics. It's very, very important to understand that the quarter-over-quarter essentially flat comment that is contained in the materials we shared today, this has to be seen in the context of the price increases we just conducted. So churn has not spiked as Peter mentioned. We have retained subscribers very, very well. And two, we are focused on attracting the right kind of customers. We are after high lifetime value customers that will stay with us for extended periods of time. Unlike some of our competitors, we are not offering very extensive free trial periods. In some cases, you can get audiobook streaming services for 90 days for free. We are not playing this game. We are focused on bringing in the right customers with high LTV that will stay with us for a very long time.

So, I do see additional opportunity to accelerate subscriber growth in the Nordics and beyond. As I mentioned, the end of Q2 and the momentum we are seeing going into the summer season have actually been quite strong. And as Oleg Nesterenko, our new Chief Marketing Officer, takes further steps to improve how we actually manage the acquisition funnel, I think we look forward to positive momentum of subscriber growth as well.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

All right. And then just finally for [ph] market (00:32:20), could you just clarify here, if I understood you correctly, that SEK 200 million of the debt is due to be repaid by Q2 next year?

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Yes. That's correct. So, the final SEK 50 million that were part of the non-current liabilities have been reclassified within the quarter as they are due by the end of June next year as well. The idea is based on the existing agreement that the SEK 200 million would be repaid in four quarterly installments of SEK 50 million each, starting at the end of Q3. So, end of Q3, Q4, Q1 and by the end of Q2 next year, SEK 200 million would be repaid of debt.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

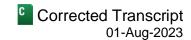
Very clear. And just adding to that, with regards to the long-term part of the debt, is it fair to assume that similar quarterly installments should be expected going forward from that point as well?

Johannes B. Larcher

Chief Executive Officer, Storytel AB

It's a bit premature to conclude on that. Not based on the current agreement that we have. The expiry of that revolving credit facility is in the fourth quarter next year. So we already started to initiate these discussions in order to come up with what we then will deem hopefully a favorable refinancing scenario for ourselves and then we will have to see where we end up in that. But that is still open.

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Joachim Gunell Analyst, DNB Bank ASA (Sweden)
Great. Thank you very much, both. And have a good summer.
Peter Messner

Thank you.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Chief Financial Officer, Storytel AB

Thank you. Likewise.

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

Derek Laliberté

Analyst, ABG Sundal Collier AB

Thank you and good morning. I wanted to follow up on the Nordics and the ARPU here where we saw this great increase here. I mean would you say following the new tiers and price increases that this effect is now fully included and that we should expect more of a flattish ARPU for the remaining quarters of the year or are there any major effects or similar?

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Derek. Good to hear you. Look, some of those changes to our pricing tiers were implemented as late as early Q2. So, this is not a full quarter yet reflecting the entirety of the impact of these changes. So I'd be a little bit cautious. Look, we are very buoyed by the ARPU increases that we've enjoyed. I would say we should give it some time and observe how this just sort of develops in the next quarter. But probably it's fair to say that such a rapid acceleration of ARPU is unlikely to be a repeat – that we just experienced in Q2 is unlikely to be repeated in Q3.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Perfect. Okay. Thanks for that, the clarity there. And then you talked about this already somewhat but obviously we've had these major sort of promotions in the markets here or at least locally in Sweden by your competitors, and you've participated to some extent as well. How would you say if you sort of summarize these promotions, how has it affected your performance in the quarter and how have you come out of it now on the other side?

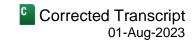
Johannes B. Larcher

Chief Executive Officer, Storytel AB

Well, I will say the competition in the Nordics is very, very intense. It's a rapidly growing market that is starting to be well-penetrated. And a market like that will attract competitors. And we continue to believe that imitation is a sincere form of flattery.

Now, with regards to what's happening there, if you are competing in a world where 90% of your product looks the same as that of your competitors and you are priced in similar ways to your competitors, it's very hard to actually

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compete effectively over time. So, as you would have seen at the Capital Markets Day, our long-term strategy is to have a highly differentiated product and service that stands apart and is unique and positioned in a superior way versus our competitors. I think that is the long-term answer.

In the short-term, we see lots of low-value subscribers signing up with our subscribers and with our competitors and that, to an extent, makes us smile a little bit. We are happy to bring the high-quality subscribers with high LTV to Storytel and we continue to do that. As I mentioned, the momentum on subscriber acquisition is actually quite positive right now.

So, look, it's a tough environment. Differentiation is the key to the game to win in the long-term. And I think it's important to also stress that these quite unhealthy 90-day-et cetera free trial periods, they are not really good for the offers either. It creates a perception that a service like Storytel should be enjoyed for free and that you can just hop from one provider to the next. I don't think that helps authors and publishers create and earn the real value for their work. It kind of diminishes and devalues the overall content and the service. So we are not participating in that. We're trying to steer away from that. But long-term, the key to success is a differentiated product with differentiated content.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Sounds great and certainly makes a lot of sense. I'd also like to ask you sort of a technical question there on the CapEx, how would you say the CapEx split should look going forward based on your guidance, I guess primarily between tech investments and content investments? And perhaps also if you could remind us what part of CapEx is operational and what is considered non-operational? Thank you.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

So I'll start with the latter part of that question. The majority of the capital expenditures is operational as we show in the operational cash flow. There has been and there's more fluctuation obviously when it comes to the non-operational items. Those would refer or relate, for instance, to the acquisition of certain IP rights or has also happened now in the second quarter, an increase in share ownership maybe in some of the assets that we own. So, the vast majority of the CapEx is operational in that respect.

How is that going to look forward? Well, the huge part of that then is in relation to what we really offer as a service, which is the content actually. So the audio book production is nevertheless the bigger part of that capitalization. There will still be, going forward, the technology and the product and the user experience investments of course that we are doing. It's a bit difficult now to predict how this is going to change because there are lots of parameters that we would have to take into consideration. What we definitely we'll have a closer look at and try to optimize a little bit with the increased data usage that we of course already have in the company is to make better predictions of where to produce the right content and therefore to capitalize on those productions. That's a predictive question that will take maybe a little bit more time. But that's the way how I would take a look forward on exactly that capitalization. But for the time being, you probably can use a run rate for your own purposes to see where we have been.

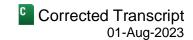
Derek Laliberté

Analyst, ABG Sundal Collier AB

That's very helpful. Thank you. And may I also ask you around the – on the subscriber increase that you saw in the non-Nordics. I mean, is there any meaningful partnerships component there or is that sort of yet to come?



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Johannes B. Larcher

Chief Executive Officer, Storytel AB

Well, thank you for that question. So the non-Nordics are developing quite well. I would say that we are especially encouraged by the growth in our four growth markets that I mentioned on the call as well, the Netherlands, Poland, Bulgaria and Turkey. There's a lot of organic growth going on and we are making some changes in our product mix. For example, we launched an annual plan in Turkey which is doing very, very well in a very high inflationary environment. That is a welcome addition to our lineup, both for the consumers and ourselves. So, organic growth in non-Nordics is strong.

We are seeing some good momentum on partnerships. We launched with A1 in Bulgaria this quarter and that has started to contribute meaningfully. The pipeline for additional partnership deals is quite full. I hope that we can communicate some exciting developments on that front in the next few weeks actually. So stay tuned. But partnerships are starting to play a more significant role in our overall growth in the — outside the Nordic markets.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Okay. Sounds promising. And just finally on – you mentioned some changes there to the digital business of the books segment. I mean is this mainly related to Nextory here or are there any other effects as well?

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Yeah. What we mentioned – thank you, good question. And what we mentioned on the call was that we saw a slight revenue decrease that was expected in our books business year-over-year. That is driven by a few things and some of it has to do with inventory write-ups. There is Nextory revenue that is not being reflected this year as a result of the discontinuation of that distribution relationship. And so that was a driver of that. And then, the [ph] third (00:42:29) factor was simply softness in physical sales in the second quarter of books in bookstores in the Nordic markets. I think that answers your question. Peter, did you want to add anything on that with regards to internal sales, perhaps?

Peter Messner

Chief Financial Officer, Storytel AB

Yes. Exactly. So, it's worth to mention that when you take a look at our books segment from an external reporting perspective, that is only summarizing and showing what the books segment is selling to the outside publishers. So everything that we are selling within our group is an intercompany relationship. But there, we see that our internal sales have drastically increased, which is a reflection of the usage of the contents that we own by ourselves with the publishers that are part of the Storytel Group. We mentioned on the slides that these internal revenues on a year-over-year comparison have increased by 36%. So that's an extremely positive development in terms of those digital sales inside of the group on our own content.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Okay. Great. Thanks for that. Those were all my questions.

Johannes B. Larcher

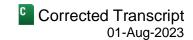
Chief Executive Officer, Storytel AB

Thank you, Derek.

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Operator: The next question comes from Stefan Ward from Pareto Securities. Please go ahead.

Stefan Wård

Analyst, Pareto Securities AB

Hello. I have a question regarding the comments you mentioned on the EBITDA development. It's clearly satisfying to see that you are improving the margins the way you do in Q1 and Q2. And if this continues, it looks like you will end up the year somewhere between 5% to 6%. Is that a correct interpretation of your comments for the second half?

Peter Messner

Chief Financial Officer, Storytel AB

We have not gone out with a new guidance on where we would end up in the year. So I think we would refer to what we have said previously that our margin will continuously progressively improve, but we will not stick to certain numbers now to guide the market.

Stefan Wård

Analyst, Pareto Securities AB

Okay. Then I just assume that myself that we will end up there somewhere. My next – my follow-on question is the development until the target of at least 12% in 2026. Looking at the slide where you have key drivers for sustainable, profitable growth, is that – it gives the impression that that will be sort of a linear improvement like stepwise, say 2-percentage point per annum, is that a decent assumptions do you think for...

Johannes B. Larcher

Chief Executive Officer, Storytel AB

I think the business of assumptions is a very risky one that you make at your own risk, Stefan. I would not assume that we are predicting linearity between 2023 and 2026. We are — when we talk about the 15% cumulative average growth rate of our streaming revenue between 2023 and 2026, then that is an average. And you will see some developments that are higher, quarters that are higher than that and some quarters that possibly will be lower than that. So, I don't want to get us pinned down onto specific trend lines, that we're not changing the guidance at this point. We are sticking to what we said previously. So, no real update on that front either.

Stefan Wård

Analyst, Pareto Securities AB

All right. Thanks. Then, on – if you can give some indication on how the cash flow development will look for the second half. Looking at history, the seasonality has been sort of somewhat in favor of improving cash flow for the second half, is that something that we can expect for this year as well?

Peter Messner

Chief Financial Officer, Storytel AB

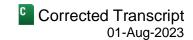
Yes. Indicatively, you should expect that as you also see that the operational cash flow year-to-date has still been slightly negative on the last line. So, turning that into the breakeven target that we have, that is exactly what you should expect.

Stefan Wård

Analyst, Pareto Securities AB



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Okay. Thanks for clarity on that. Then, if you could give some detail from the development in Poland and Netherlands, that would be highly appreciated from my side. Any sort of additional details on the performance in these two key markets would be great. Thanks.

Johannes B. Larcher

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Chief Executive Officer, Storytel AB

As much as I would like to, Stefan, we don't really breakout for many, many different reasons the performance of individual markets within our non-Nordic streaming segment at this point. What I can tell you is again that the four growth markets that I mentioned, Poland, Netherlands, Turkey, Bulgaria, all experienced significant positive development in [ph] Q3 (00:47:39) in terms of subscriber growth, in terms of ARPU, in terms of customer engagement, churn development. We are pleased on an aggregate basis on how these markets have performed.

I think in the Netherlands, we are in a very strong position and are one-off. Well, we are the largest provider of audiobook streaming services in the Netherlands. It's an attractive market. I think there, the big question is, going forward, how will penetration of audiobook streaming vis-à-vis the overall population develop. It is relatively low in terms of penetration compared to the Nordics markets where we stand about 10%. In markets like the Netherlands, we stand about 3% or thereabouts. So there is a ways to go in terms of penetration, but overall, very positive.

In Poland, the situation is a little different in that we are not the leading or largest provider of audiobook streaming services at this point. We've made a lot of progress. We are optimistic about the market. We've seen some good developments, again, ARPU engagement, churn numbers, but it's a different competitive environment and quite tough actually. So that's about as much as I can say about these two particular markets. But again, we remain very [ph] buoyed (00:48:58) and optimistic that these four growth markets for us will continue to see positive developments going forward.

Stefan Wård

Analyst, Pareto Securities AB

Okay. Thank you, Johannes. Then, if you're satisfied with all the current international markets and at the CMD you mentioned that you had in the pipeline, or without being specific on timing, you had plans to enter maybe three to five, if I remember correctly, new strategic growth markets. Can you give any idea or update on timing of these new markets?

Johannes B. Larcher

Chief Executive Officer, Storytel AB

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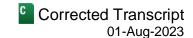
So we have been continuing our work to identify the prioritization of these markets. We have a pretty good idea, which are the ones that we are focused on and going after. We are also making some operational changes to some of our previous expansion markets where we are decelerating and reducing investment to virtually nothing in terms of content investment, marketing investment, personnel investment.

In terms of the ones we focus on going forward, I'm not yet in a position to tell you which ones these are. We are making progress with our plans for a small number of countries where we will, in a very disciplined manner, start experimenting and investing again. I think it's fair to say that by the end of the year, we'll be able to provide more clarity on which those are and how we're going about that.

Stefan Wård

Analyst, Pareto Securities AB

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Okay. Thank you very much. That's all for me. Thanks a lot.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Stefan.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers for any written questions.

Peter Messner

Chief Financial Officer, Storytel AB

Yeah. Maybe we have one digital question in the webcast in relation to licensing agreement for [ph] Nextory (00:51:01) and any impact that we would have seen in Q2 numbers. I think we talked about that before. So, in the books segment, publishing segment, yes, that, of course, had an impact. If there are no revenue this quarter in comparison to the revenues in the previous quarter, there is no new agreement in place as of now.

And then, we have an additional question in relation to acquiring through the publishing houses in our key international markets, as we have done in the Nordics. Is that something that we would intend? I think I will hand over to Johannes for that question.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Yeah. Thank you for those questions. Appreciate them. Look, we are firm believers that owning both publishing and streaming businesses makes a lot of sense and that they can elevate each other as we stressed at Capital Markets Day and again today. We are very pleased to be the owners of some of the leading Nordic publishing houses, including Norstedts, Gummerus, Lind & Company and others.

Would we potentially extend that into some of our other markets? The answer is yes, potentially. We may be interested in doing that. It does make sense from a strategic and competitive standpoint to consider doing so. Are we – do we have anything to share on that front today? No. We do not, but we are certainly open-minded about this opportunity as one of the non-organic levers for growth.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

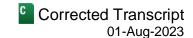
I think this was the final question we saw. We really appreciate everyone's interest. We wish everyone a good rest of the summer and we look forward to speak to you again for our third quarter results in the fall. Thank you.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much.

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