



Interim Report
January - June 2017
Storytel AB (publicly traded)



Summary of Q2 2017

Highlights from the past quarter (compared to Q2, 2016)

- ❑ Increased subscription base from 381,200 to 423,200 subscribers (291,600)
- ❑ Increased Streaming-revenue from 155.7 MSEK to 167.0 MSEK (111.3 MSEK)
- ❑ Increased share of international Streaming-revenue from 38.2% to 39.3% (32.4 %)
- ❑ Launched service in Russia; Storytel now serving seven language markets
- ❑ Moved Storytel's head office to the historic Norstedts building on Riddarholmen Island
- ❑ Acquired Telegram Förlag publishers and launched a journalistic imprint (Storytel Dox)
- ❑ Launched a new app "Stories by Storytel," consisting of tap/chat stories

Key figures for the Streaming division and Print Publishing

Currency: thousand SEK	Q2, 2016	Q3, 2016	Q4, 2016	Q1, 2017	Q2, 2017	Q3, 2017
Total: Streaming						Forecast*
<i>Revenue</i>	111 339	135 703	147 399	155 660	167 008	195 000
<i>Contribution Profit**</i>	20 961	29 269	32 684	32 133	27 847	
<i>Contribution Margin</i>	18,8%	21,6%	22,2%	20,6%	16,7%	
<i>Paying subscribers</i>	291,6	341,5	360,2	381,2	423,2	496,0
<i>Subscriber-base change</i>	23,3	49,9	18,7	21,0	42,0	72,8
Streaming, Sweden						
<i>Revenue</i>	75 284	86 889	91 557	96 177	101 365	110 500
<i>Contribution Profit</i>	22 424	29 464	27 073	32 678	31 257	
<i>Contribution Margin</i>	29,8%	33,9%	29,6%	34,0%	30,8%	
<i>Paying subscribers</i>	193,7	219,9	230,8	241,4	255,8	280,0
<i>Subscriber-base change</i>	13,4	26,2	10,9	10,6	14,4	24,2
Streaming, other markets ***						
<i>Revenue</i>	36 055	48 814	55 842	59 483	65 643	84 500
<i>Contribution Profit</i>	-1 463	-195	5 611	-545	-3 410	
<i>Contribution Margin</i>	-4,1%	-0,4%	10,0%	-0,9%	-5,2%	
<i>Paying subscribers</i>	97,9	121,6	129,4	139,8	167,4	216,0
<i>Subscriber-base change</i>	9,9	23,7	7,8	10,4	27,6	48,6
Print Publishing****						
<i>Revenue</i>	129 615	133 179	189 258	104 137	111 969	
<i>Contribution Profit*****</i>	51 109	48 544	74 367	37 543	37 840	
<i>Contribution Margin</i>	39,43%	36,45%	39,29%	36,05%	33,80%	

* Forecast based on information available at time of reporting

** Contribution Profit is defined as streaming revenue minus costs for content and marketing

*** Storytel Norway included in figures @ 100%. In the consolidated accounts it is reported according to the principle of proportional consolidation.

**** Print Publishing refers to physically printed editions. Norstedts publishers and People's Press are included for all quarters. People's Press has been included from Q2, 2017 and past quarters have been adjusted accordingly, to allow for comparability. In Group Accounts, all acquisitions are included from date of acquisition. Internal transactions have been redacted. Barnens bokklubb not included in table.

***** Contribution Profit is defined as revenue minus cost per sold unit, distribution costs, and sales and marketing costs.



Comments from the CEO

Storytel's success is largely defined by our ability to lay the building blocks for future growth, constantly allowing us to make our service available to new groups of subscribers. We grow through geographic expansion, through launching onto new digital platforms, and through introducing new types of content or new ways of enjoying stories.

During Q2, 2017 we introduced ambitious new initiatives in all of these growth sectors. We launched Storytel in Russia, released Storytel on the Sonos wireless Home Sound System, we introduced journalistic reporting through Storytel Dox, and we created a promotional app for chat stories called Stories. We also moved our head office to the historic Norstedts building on Riddarholmen Island in central Stockholm, where Sweden's first book was printed six hundred years ago. Thus the circle has been closed, giving our virtual service an excellent physical home base.

The summer looks positive, and our forecast for Q3, 2017 is close to 500,000 paying subscribers, in average in Q3 and streaming revenues totalling 195 MSEK, which equates to nearly 50% yearly growth.

Streaming, Sweden

Storytel Sweden has grown consistently during the past seven years, from 4K (4,000) subscribers in Q2, 2010 to the 256K we averaged during Q2, 2017. During the past two years our yearly growth has been at a stable 60-70K subscribers, and shows no direct signs of slowing down.

Out of a Swedish population of eight million people over the age of eighteen, our current subscription rate is 3.2% (compared to Spotify and Netflix respectively, who have reached Swedish rates of 20% and 30%). We still haven't achieved full brand recognition in Sweden; our Swedish marketing is still proving effective. Thus we believe chances are good that Storytel Sweden will continue to grow in the future. The Swedish contribution profit is steady at just over 30%, which indicates long-term profit-margin stability, with an EBITDA-margin of circa 20% for the Swedish market.

According to our forecast, the market for audio-book services in Sweden should eventually reach a rate of six to eight percent of the population at saturation. We expect audiobooks have a similar potential in our other markets, as well.

Streaming, other markets

Storytel is currently available in six markets outside of Sweden (Norway, Denmark, Finland, The Netherlands, Poland and Russia) and we plan further market expansions during the coming six months. Our non-Swedish subscribers totalled on average 167K in Q2, 2017 which is an increase of 69K from our Q2, 2016 average of 98K. In recent years we have nearly doubled our individual new-subscriptions rate, and are now growing more quickly outside of Sweden.

Revenues per non-Swedish subscriber have increased by circa six percent during the past year, thanks to subscription-price increases in Denmark and Norway during the second half of 2016. The average Swedish vs. non-Swedish revenue per subscriber is now largely the same. In Q2, 2017 our non-Swedish revenues were 66 MSEK, as compared to 36 MSEK in Q2, 2016 (which equates to circa 82% in increased revenues). Our goal is to lead the audio-book market in every language market where we are present, which we so far have achieved in Sweden, Denmark, Norway and The Netherlands.

We are now entering a period of rapid international expansion, and our ambition is to greatly increase our international efforts in coming quarters, as we launch and expand our service in a greater number of language markets. In Q2, 2017 we posted a non-Swedish EBITDA loss of ca. 17 MSEK, according to plan. Our non-Swedish investments in marketing and content cost ca. 32 MSEK during Q2, 2017. During Q2, 2017 we launched our service in Russia, but have not yet begun any serious marketing campaigns.

Publishing

Two years ago Storytel acquired Massolit Förlagsgrupp AB publishers, which was at the time posting considerable losses. Today the situation is completely altered thanks to a clearer focus on adult trade and children's titles aimed at pleasure reading, as well as a leaner organization. Publishing is an industry beholden to powerful seasonal shifts, in which the fourth quarter is normally meant to change the bottom line from red to black. Therefore we are pleased to announce that our Swedish publishing efforts have largely broken even in terms of their EBITDA profit margins during Q2, 2017.

All four of Elena Ferrante's books in the *Naples Quartet* have topped the Norstedts sales charts during the quarter. The series, which I highly recommend, is a fantastic tale charting two girls from their youth in Naples in the 1950s, all the way through to old age in the present.

Jenny Colgan's feel-good books about the Little Beach Street Bakery, published by Massolit, have also done very well. The new novel *Into the Water* by Paula Hawkins hit the shelves in hardback during the past quarter, and hopefully the paperback edition will reach an even

broader readership when released, following in the footsteps of *The Girl on the Train*. Both Rabén & Sjögren and B. Wahlströms continue to publish lists with impressive breadth, but one title nonetheless stands out during Q2, 2017: J. K. Rowling's *Fantastic Beasts and Where to Find Them*.

September 7th will mark the biggest international book release of the year, with David Lagercrantz's *The Man Who Hunted his Shadow*. We hope for the same exceptional success as with the previous novels in Steig Larsson's *Millenium* series about Lisbeth Salander.

Organizational overview

Storytel's organization is comprised of two divisions, Streaming and Publishing. The Streaming division offers a subscription service for audiobooks and e-books under the brand names Storytel and Mofibo in Sweden, Denmark, Norway, Finland, Holland, Poland, and Russia. The Streaming division also publishes audiobooks, mainly through Storyside in Sweden, and Rubinstein Audio (The Netherlands). The Publishing division is comprised of the publishers Norstedts and Massolit (adult trade), Rabén & Sjögren and B. Wahlströms (children's and young adult), Norstedts Kartor (maps), Barnens Bokklubb and Böckernas Klubb in Sweden, and People's Press in Denmark (adult trade).

Storytel AB (publ) is the group's parent company, and the only publicly traded company in the Swedish book industry.

Storytel Sweden AB, Storytel NL BV, Storytel A/S, Storytel A.S., Storytel sp. z.o.o., Storytel Oy, Storytel RU and Mofibo Books ApS are the consumer-oriented companies which comprise the Streaming division.

StorySide AB is an audio-book publisher which publishes the majority of the works produced by the Storytel group. Earbooks AB owns audio-book rights, but releases no new titles. Barnbolaget i Örebro AB owns audio-book rights connected to the *Sune* book series and *Bert* book series. Rubinstein Audio NL BV is an audio-book publisher in Holland and releases all its titles for the Dutch market. Audio-book titles are also released by Massolit, Norstedts, B.Wahlströms, Rabén & Sjögren, and People's Press. Kontenten, a member of the group since February 2017, offers books on management and business, which will be made available to Storytel's subscribers during this year. Telegram Förlag publishers was acquired this year, including the rights to 400 journalistic works which will build the foundation of Storytel's list of non-fiction and reference titles.

Norstedts Förlagsgrupp AB is a trade-book publisher with fiction and non-fiction titles and books for children and young adults, and which owns the brands Norstedts and Rabén & Sjögren. During Q2, 2017, the publisher's name Massolit was internally transferred and is now an imprint of Norstedts Förlagsgrupp AB. Norstedts Förlagsgrupp AB also owns Norstedts Kartor (which sells maps in various formats as well as other products through physical and online retailers), as well as Barnens Bokklubb. Massolit Förlagsgrupp AB has a similar focus as Norstedts Förlagsgrupp AB, and owns the imprint B. Wahlströms. People's Press publishes titles in Denmark, focusing on literature and non-fiction.

Financial information

Accounting principles

Storytel Group and its parent company comply with the Swedish law regarding yearly statements of accounts, as well as BFNAR 2012:1 (Swedish Accounting Standards Board standard 2012:1) concerning annual statements of accounts and group accounts at the K3 tier.

The registered parent company is Storytel AB (publicly traded). Storytel A.S. (Norway) is half-owned by Cappelen Damm and is reported here according to the principle of proportional consolidation. Wholly owned subsidiaries are included in the group statement of accounts from their time of registration or acquisition.

This report has not been audited by the company's accountants.

Statements of Accounts (TSEK)

	April - June Group		Jan - June Group		April - June Parent Company		Jan - June Parent Company	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating Revenue								
Net Turnover	265 899	120 363	497 028	219 387	-	-	-	-
Change in inventory during production	4 655	-	1 288	-	-	-	-	-
Sum of profits/losses from associated companies	-569	-	-1 241	-	-	-	-	-
Other revenue	9 666	2 131	13 384	2 421	628	351	1 370	719
Total Group revenue	279 651	122 494	510 459	221 808	628	351	1 370	719
Operating expenses								
Unit-sale costs	-161 073	-77 627	-295 052	-136 687	-	-	-	-
Other external costs	-73 090	-22 002	-128 817	-41 737	-875	-601	-1 305	-754
Staffing costs	-53 501	-15 737	-96 648	-29 047	-742	-355	-1 421	-689
Earnings before depreciation	-8 013	7 128	-10 058	14 337	-989	-604	-1 356	-723
Depreciation	-14 104	-2 284	-25 013	-2 794	-	-	-	-
Earnings before financial items	-22 117	4 843	-35 071	11 542	-989	-604	-1 356	-723
Profits from associated companies	31	-	3 808	-	-	-	-	-
Profits from group companies	-	-	-	-	9 500	-	9 500	-
Net financial items	-4 495	-58	-7 552	-694	-1 305	-	-1 955	-269
Earnings before taxes	-26 581	4 786	-38 815	10 848	7 206	-604	6 189	-992
Deferred taxes	1 035	-	1 822	-	-	-	-	-
Taxes on year's profits	-1 104	-1 120	-1 357	-2 467	-	-7	-	-7
Earnings/losses for period	-26 650	3 666	-38 350	8 381	7 206	-611	6 189	-999

Balance Sheet (TSEK)

	Group		Parent Company	
	30 June 2017	31 Dec 2016	30 June 2017	31 Dec 2016
Assets				
Intangible assets	313 738	236 201	-	-
Tangible assets	3 171	2 834	-	-
Non-current financial assets	25 280	32 399	856 541	752 659
Inventory	73 955	65 470	-	-
Current receivables	252 543	257 828	24 281	26 487
Liquid assets and short-term investments	109 504	129 561	27 716	33 365
Total assets	778 191	724 293	908 538	812 511
Equity and liabilities				
Share-capital	24 255	23 924	24 255	23 924
Other Equity, including current year's profits/losses	150 201	148 548	754 598	710 459
Provisions	58 601	54 629	-	-
Long-term liabilities	156 931	155 161	91 000	65 280
Short-term liabilities	388 203	342 031	38 685	12 848
Total Equity and liabilities	778 191	724 293	908 538	812 511

Revenues and profits for period (compared to Q2, 2016)

The group's total turnover for Q2, 2017 was 265,899 (120,363) TSEK. Within the Streaming division, Sweden accounted for ca. 60.7% (67.6%) and other markets for ca. 39.3% (32.4%). Cappelen Damm owns 50% of Storytel A.S. in Norway, which is reported here according to the principle of proportional consolidation. The table on page two includes all subscribers and revenue in Norway, and is included under Streaming, other markets, which is why reported revenue for the table on page two is higher than in the statement of accounts, in order to give a truer indication of revenue per subscriber.

The group's Unit-sale costs during Q2, 2017 totaled 161,073 (77,627) TSEK. Unit-sale costs include costs for the actual production of audiobooks, Cost of Goods Sold of physical books, warehousing and distribution costs, and royalties paid to other publishers and copyright owners.

Other external costs for the group during Q2, 2017 totaled 73,090 (22,002) TSEK. The greatest external costs was marketing. Other significant costs included rental payments, tech services, and consultants.

Staffing costs for the group in Q2, 2017 totaled till 53,501 (15,737) TSEK. Publishing requires a greater concentration of staff, which explains the relative increase in staffing costs compared to Q2, 2016, before Norstedts publishers and People's Press joined the group.

Profits before depreciation for the group for Q2, 2017 totaled -8,013 (7,128) TSEK.

Depreciation primarily involves depreciation attributable to goodwill and other extra value identified in connection with acquisitions. The largest asset items are connected to the acquisition of Norstedts, Mofibo, and People's Press. Depreciation from these three purchases totalled app. 11 MSEK per quarter (People's Press calculated in from Q2, 2017). Other depreciation primarily concerns the purchasing and development of IT-systems.

Net Financial Items includes both interest income and interest expenses, as well as realized and unrealized exchange differences. Interest costs from bank loans total app. 2 MSEK.

Earnings per share, after taxes, in Q2, 2017 totalled –0.55 SEK, calculated as earnings for the period after taxes, divided by the average number of shares during the period.

**Group: Financial position and cash flow as of June 30, 2017
(compared to Dec. 31st, 2016)**

At the end of the period, the group had 109,504 (129,561) TSEK in liquid assets. Solvency was 22.4% (23.8%). Equity totalled 174,456 (172,472) TSEK. Non-current liabilities to loaning institutions totalled 156,931 (155,161) TSEK. We started to amortize these loans during 2017; the portion that will be amortized during the next twelve months is considered a short-term liability and totals ca. 45 MSEK.

During Q2, an acquisition loan of 20 MSEK was taken on in order to help finance the purchase of People's Press. The rest of the purchase was financed through newly offered stocks and cash.

Number of shares and Share-Capital (as of June 30, 2017)

There were 48,510,040 registered shares in issuance at the end of the period, divided between 635 A-shares and 48,509,450 B-shares. Share-capital totalled 24,255,020 SEK as of June 30th, 2017.

Post-period activity

On August 10, Storytel announced its Danish operations had reached more than 100,000 paying subscribers, equaling a doubling of revenues since Storytel acquired its Danish competitor Mofibo in May 2016. .

Date of next reporting

The interim report for January–September 2017 will be released on November 15th, 2017.

Stockholm, August 15th, 2017

Rustan Panday
Chair of the Board of Directors

Jonas Tellander
Board Member and CEO

Jonas Sjögren
Board Member

Nils Janse
Board Member

Stefan Tegenfalk
Board Member

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