



***Interim Report***  
***January - September 2017***  
***Storytel AB (publicly traded)***



## Summary of Q3, 2017

### Highlights from the past quarter (compared to Q3, 2016)

- ❑ Increased subscription base from 423,200 to 503,900 subscribers (341,500)
- ❑ Increased Streaming-revenue from 167.0 MSEK to 197.9 MSEK (135.7 MSEK)
- ❑ Increased share of international Streaming-revenue from 39.3% to 42.5% (36.0%)
- ❑ Issued new shares worth 200 MSEK to the company.
- ❑ Prepared to launch service in Spain; started Spanish service after close of quarter.
- ❑ Contracted to make acquisitions in Turkey, Bulgaria and Iceland in preparation for launch. After end of quarter, Storytel completed acquisition of each company.

### Key figures for the Streaming division and Print Publishing

currency: thousand SEK	Q3, 2016	Q4, 2016	Q1, 2017	Q2, 2017	Q3, 2017	Q4, 2017
<b>Total: Streaming</b>						Forecast <sup>1</sup>
Revenue	135 703	147 399	155 660	167 008	197 881	208 000
Contribution Profit <sup>2</sup>	29 269	32 684	32 133	27 847	27 784	
Contribution Margin	21,6%	22,2%	20,6%	16,7%	14,0%	
Paying subscribers	341,5	360,2	381,2	423,2	503,9	533,0
Subscriber-base change	49,9	18,7	21,0	42,0	80,7	29,1
<b>Streaming, Sweden</b>						
Revenue	86 889	91 557	96 177	101 365	113 709	118 000
Contribution Profit	29 464	27 073	32 678	31 257	32 872	
Contribution Margin	33,9%	29,6%	34,0%	30,8%	28,9%	
Paying subscribers	219,9	230,8	241,4	255,8	282,3	293,0
Subscriber-base change	26,2	10,9	10,6	14,4	26,5	10,7
<b>Streaming, other markets<sup>3</sup></b>						
Revenue	48 814	55 842	59 483	65 643	84 172	90 000
Contribution Profit	-195	5 611	-545	-3 410	-5 088	
Contribution Margin	-0,4%	10,0%	-0,9%	-5,2%	-6,0%	
Paying subscribers	121,6	129,4	139,8	167,4	221,6	240,0
Subscriber-base change	23,7	7,8	10,4	27,6	54,2	18,4
<b>Print Publishing<sup>4</sup></b>						
Revenue	133 179	189 258	104 137	111 969	132 619	
Contribution Profit <sup>5</sup>	48 544	74 367	37 543	37 840	47 905	
Contribution Margin	36,45%	39,29%	36,05%	33,80%	36,12%	

1 Forecast based on information available at time of reporting

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

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

4 Print Publishing refers to physically printed editions. People's Press is part of the Group from Q2, 2017. In the table above People's Press is included in all past quarters, to allow for comparability. I In Group Accounts, all acquisitions are included from date of acquisition. Internal transactions have been redacted. Barnens bokklubb not included in table.

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



## *Comments from the CEO*

Thanks to Storytel's ongoing growth, we welcomed a record number of new subscribers, as per usual, to our service this past summer — during Q3 our customer base increased by 80,000 satisfied new listeners, as compared to 50,000 new listeners in Q3, 2016. On the whole, Storytel's rate of growth is rapidly rising, with rates of increase in Norway and Denmark almost at the level of Sweden's. Thanks to these three profitable markets with high growth, we are able to continue investing and growing in new markets. Our subscriber bases in The Netherlands, Poland, and Finland increased according to plan in Q3, 2017, and we have reason to believe these markets will provide an excellent foundation for expansion in 2018. We plan to make significant investments in marketing in Russia and Spain (our service went online in the latter market in October), and we expect these efforts to bear fruit during the coming year.

The forecast for Q4, 2017 looks positive in all our markets. In Sweden we have nearly 300,000 subscribers, and in total more than 530,000, which will generate up to 210 MSEK in streaming revenues during Q4, 2017. During 2017 as a whole, we estimate our streaming revenues will total approximately 730 MSEK, which is an increase of 47% compared to 2016 as a whole.

Our goal is to be the world's most successful and innovative audio-book service, with the ambition of always being the most popular provider in each of our markets. This demands strong regional teams who take advantage of the benefits of being part of a multinational company. One example of our desire to be each market's top service can be seen Denmark, where our two major acquisitions (Mofibo and People's Press) lay the foundation for strong growth and the advantageous position we now enjoy in that country.

Audiobooks are riding a global wave of listening and streaming services. Increasing numbers of people are listening to podcasts and audiobooks, with individual sales-plans tending to be recast as subscription services. Storytel's unique position allows us to capitalize on these trends. Based on our Swedish, Norwegian, and Danish markets, we could already choose to switch gears and turn a profit with an EBITDA-margin of 15-20%; the reason we haven't slowed the pace of growth is that we see the potential to build and expand in these markets as well, for many years to come.

Since this past summer we have been continually hiring new staff at our offices in Stockholm and Copenhagen, in order to assure that our global teams for marketing, expansion, content, IT, innovations, human resources and finance have the capacity to assist all of our new teams

around the world. These are exciting times, and great demands are being placed on our organization. Therefore we have set up a new leadership group within streaming, whose focus is to guarantee strong expansion and appropriately sized teams on the ground — who are still nimble and flexible enough to create new content, new IT solutions, and new ways of doing business.

During the next few years we plan to rapidly expand internationally, building up the company with the express ambition of being the top streaming service in each new market. This strategy will require significant investments during the next few years, which is the main reason why we made a share issue of 200 MSEK in September. These funds will be used exclusively to increase our list of titles in new language markets, as well as investing in stronger marketing and in certain cases making minor acquisitions. During 2018 we plan to invest app. 200 MSEK in producing more than 5,000 high-quality audiobooks in fifteen different languages in order to assure our service remains attractive in existing regions, and to make new markets more viable. All investments in audiobook production, except prepaid royalties are expensed when they occur in the profit and loss statement, hence not capitalized in the balance sheet. Our goal is 40% annual growth in streaming revenues and increased investments in audiobook production. During 2018, we therefore foresee EBITDA-level margin losses at 5-10 % of our turnover. Our solid financial foundations make this strategy possible. Nonetheless we always prioritize caution and can, if necessary, lessen the pace of expansion and content-investments if we perceive negative local or global trends.

The biggest publishing event of the year was September 7th, when Norstedts released the fifth book in the *Millennium*-series about Lisbeth Salander — five weeks later, a million books had already been sold worldwide. The popularity of Elena Ferrante's Naples-quartet has continued, selling 700,000 copies in Sweden since the first book was released two years ago. In terms of books for young readers, Rabén & Sjögren has been very successful with *Handbok för superhjältar* (The Superhero Handbook) and *Fyr 137* (Lighthouse 137) by Ingelin Angerborn. In Denmark our publisher People's Press released Camilla Läckberg's latest novel *Häxan* (The Witch), which has sold very well. Our publishers' digital sales (mainly through Storytel's service) are growing very strongly, and all our imprints are increasing their production of audiobooks. The publishing division's profitability continues to hold solid, with a profit margin of 6-7%. Every imprint is now operating in the black, with Massolit (formerly in the red) now quite profitable thanks to bestsellers by among others Jenny Colgan. Most annual publishing profits are normally made in the final quarter (Q4), thanks to the holiday season.

## *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, Russia, and Spain. 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), Kontentan (non-fiction), Telegram, the Danish publisher People's Press (adult trade), Rabén & Sjögren, and B.Wahlströms (books for young readers), as well as Norstedts Kartor (maps) .

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, Storytel SL ES 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. Kontentan, a member of the group since February 2017, offers books on management and business, which has been made available to Storytel's subscribers during October under the new imprint Storytel Brief. 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 under.

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, Massolit and Rabén & Sjögren. 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 changed names to Storytel Publishing AB — its only overlap with Norstedts Förlagsgrupp AB is currently the imprint B.Wahlströms. Work is in progress to move all digital production to Storytel Publishing AB, in order to streamline the corporate structure and increase efficiency. People's Press in Denmark publishes mostly literary fiction 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)

	July – Sept. Group		Jan. – Sept. Group		July – Sept. Parent Company		Jan. – Sept. Parent Company	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Operating Revenue</b>								
Net Turnover	308 778	237 216	805 806	456 602	-	-	-	-
Change in inventory during production	-3 741	-3 462	-2 453	-3 462	-	-	-	-
Sum of profits/losses from associated companies	969	-215	-272	-215	-	-	-	-
Other revenue	2 594	694	15 978	3 115	680	353	2 050	1 072
<b>Total Group revenue</b>	<b>308 600</b>	<b>234 233</b>	<b>819 059</b>	<b>456 040</b>	<b>680</b>	<b>353</b>	<b>2 050</b>	<b>1 072</b>
<b>Operating expenses</b>								
Unit-sale costs	-185 158	-139 276	-480 210	-275 964	-	-	-	-
Other external costs	-78 316	-41 773	-207 133	-83 511	-408	-1 193	-1 713	-1 947
Staffing costs	-47 841	-33 490	-144 489	-62 538	-675	-300	-2 096	-989
<b>Earnings before depreciation</b>	<b>-2 715</b>	<b>19 694</b>	<b>-12 773</b>	<b>34 027</b>	<b>-403</b>	<b>-1 140</b>	<b>-1 759</b>	<b>-1 864</b>
Depreciation	-13 878	-9 491	-38 891	-12 285	-	-	-	-
<b>Earnings before financial items</b>	<b>-16 593</b>	<b>10 203</b>	<b>-51 664</b>	<b>21 742</b>	<b>-403</b>	<b>-1 140</b>	<b>-1 759</b>	<b>-1 864</b>
Profits from associated companies	-4 126	516	-318	516	-	-	-	-
Profits from group companies	-	-	-	-	-	-	9 500	-
Net financial items	-3 382	-3 494	-10 934	-4 188	-1 139	-966	-3 094	-1 235
<b>Earnings before taxes</b>	<b>-24 101</b>	<b>7 225</b>	<b>-62 916</b>	<b>18 070</b>	<b>-1 542</b>	<b>-2 106</b>	<b>4 647</b>	<b>-3 099</b>
Deferred taxes	1 022	-	2 845	-	-	-	-	-
Taxes on year's profits	-99	-1 206	-1 457	-3 673	-	-	-	-8
<b>Earnings/losses for period</b>	<b>-23 178</b>	<b>6 019</b>	<b>-61 528</b>	<b>14 397</b>	<b>-1 542</b>	<b>-2 106</b>	<b>4 647</b>	<b>-3 107</b>

## Balance Sheet (TSEK)

	Group		Parent Company	
	30 Sept. 2017	31 Dec. 2016	30 Sept. 2017	31 Dec. 2016
<b>Assets</b>				
Intangible assets	294 244	236 201	-	-
Tangible assets	2 745	2 834	-	-
Non-current financial assets	19 177	32 399	856 601	752 659
Inventory	71 474	65 470	-	-
Current receivables	294 063	257 828	55 604	26 487
Liquid assets and short-term investments	281 594	129 561	175 274	33 365
<b>Total assets</b>	<b>963 297</b>	<b>724 293</b>	<b>1 087 479</b>	<b>812 511</b>
<b>Equity and liabilities</b>				
Share-capital	25 755	23 924	25 755	23 924
Other Equity, including current year's profits/losses	319 876	148 548	948 410	710 459
Provisions	56 167	54 629	-	-
Long-term liabilities	142 020	155 161	86 000	65 280
Short-term liabilities	419 479	342 031	27 314	12 848
<b>Total Equity and liabilities</b>	<b>963 297</b>	<b>724 293</b>	<b>1 087 479</b>	<b>812 511</b>

### Revenues and profits for period (compared to Q3, 2016)

The group's total turnover for Q3, 2017 was 308,778 (237,216) TSEK. Within the Streaming division, Sweden accounted for app. 57.5% (64.0%) and other markets for app. 42.5% (36.0%). 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, which 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 Q3, 2017 totaled 185,158 (139,276) 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. The contribution margin is stable — around 40% in both Q3, 2017 and Q3, 2016.

Other external costs for the group during Q3, 2017 totaled 78,316 (41,733) TSEK. The greatest external cost was marketing, which tends to be relatively high in Q3; Storytel makes its greatest marketing efforts during the summer, which is the quarter with the most new subscribers. Other significant costs included rental payments, tech services, and consultants.

Staffing costs for the group in Q3, 2017 totaled 47,841 (33,490) TSEK. Staffing costs for Publishing have been level, while costs in Streaming have increased in relationship to revenues due to the demands of expansion.

Profits before depreciation for the group for Q3, 2017 totaled -2,715 (19,694) TSEK. The dip in profits compared to Q3, 2016 is mainly due to increased marketing efforts; Storytel is now serving eight countries, and marketing costs tend to be higher compared to turnover the first few years. Compared to Q2, 2017, the group EBITDA has improved, thanks mostly to Print Publishing's strong quarter which contributed to earnings in Q3, 2017.

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.

Earnings from holdings in associated companies are related to a reduction in shares in Pocketförlaget publishers which during Q3, 2017 were sold to Piratförlaget publishers, for a lower price than their book value.

Net Financial Items includes both interest income and interest expenses, as well as realized and unrealized exchange differences. Interest expenses from bank loans totaled app. 2 MSEK for Q3, 2017.

Earnings per share, after taxes, in Q3, 2017 totaled -0,45 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 Sept. 30th, 2017 (compared to Dec. 31st, 2016)**

At the end of the period, the group had 281,594 (129,561) TSEK in liquid assets. Solvency was 35.9% (23.8%). Equity totaled 345,631 (172,472) TSEK, an increase related to Storytel's share issue in worth 200 MSEK in September.

Non-current liabilities to loaning institutions totaled 142,020 (155,161) TSEK. Amortization of bank loans started in 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.

### **Number of shares and Share-Capital (as of September 30th, 2017)**

There were 51,510,040 registered shares in issuance at the end of the period, divided between 635 A-shares and 51,509,405 B-shares. Share-capital totaled 25,755,020 SEK as of September 30th, 2017.



## *Post-period activity*

In October Storytel launched in Spain; the service is now available in eight countries.

On the 19th of September, Storytel contracted to acquire three companies — in Bulgaria, Turkey, and Iceland. After the close of the quarter, each of these companies was acquired accordingly, and will be transformed into streaming companies under the Storytel banner. Prior to launching local services, our focus will be to invest in audio-book productions in order to assure rich content.

### **Date of next reporting**

The end-of-year report for 2017 will be released on February 26th, 2018.

### **Stockholm November 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

Ingrid Bojner  
Board Member

Karin Alexandersson  
Board Member, staff representative

## *Get in touch with us at*

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