Interim Report

January - September 2018
Storytel AB (publ)

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Highlights from q3 2018 report

Click here to watch the quarterly video with CEO Jonas Tellander and CFO Sofie Zettergren. For the full report see attached pdf.

- Subscriber base up 43% Y/Y to 720 900 in average in Q3, 2018.
- Streaming sales up 41% Y/Y to 280 MSEK in Q3, 2018, on track to reach 1 000 MSEK in 2018
- International streaming sales now 51% of total Streaming sales
- Opened up an office in Bangkok to serve the Asian Region which Storytel will enter in 2019
- Successfully completed a share issue amounting to 500 MSEK
- Norstedts Förlagsgrupp AB acquired Printz Publishing with authorships such as Jojo Moyes. The acquisition was completed Oct 1st and will be consolidated from the completion date

Key numbers for Streaming and Print Publishing

Currency: thousand SEK	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 Forecast[1]
Streaming Total						
Revenue	197 881	209 225	222 133	239 139	279 979	290 000
Contribution Profit[2]	27 784	30 277	24 079	25 045	22 063	
Contribution Margin	14,0%	14,5%	10,8%	10,5%	7,9%	
Paying Subscribers	503 900	533 400	577 900	621 200	720 900	765 000
ARPU[3] *(SEK/Month)*	131	131	128	128	129	126
Streaming Sweden						
Revenue	113 709	118 038	122 046	125 759	135 986	137 500
Contribution Profit	32 872	38 501	43 067	35 763	40 888	
Contribution Margin	28,9%	32,6%	35,3%	28,4%	30,1%	
Paying Subscribers	282 300	292 700	305 100	314 700	336 200	341 000
ARPU (SEK/Month)	134	134	133	133	135	134
Streaming International[4]						
Revenue	84 172	91 187	100 087	113 380	143 993	152 500
Contribution Profit	-5 088	-8 224	-18 988	-10 718	-18 826	
Contribution Margin	-6,0%	-9,0%	-19,0%	-9,5%	-13,1%	
Paying Subscribers	221 600	240 700	272 800	306 500	384 700	424 000
ARPU (SEK/Month)	127	126	122	123	125	120
Print Publishing[5]						
Revenue	132 619	173 832	106 312	115 898	116 252	
Contribution Profit[6]	47 905	66 854	39 223	41 889	40 140	
Contribution Margin	36,1%	38,5%	36,9%	36,1%	34,5%	

1 Forecast is an approximation based on information available at time of reporting.
2 Contribution Profit is defined as streaming revenue minus costs for content (licensed content and in-house productions) and marketing. Storytel Reader is not included in Streaming.
3 ARPU = Average Revenue Per User (Subscriber) per month
4 Storytel Norway included in figures @ 100%. In the consolidated group accounts Norway is reported according to the principle of proportional consolidation.
5 Print Publishing refers to physical books. Internal transactions have been redacted. Barnens bokklubb not included in table.
6 Contribution Profit is defined as revenue minus cost per sold unit, distribution costs, and sales and marketing costs.

Comments from the CEO

We're closing the books on yet another quarter of high subscriber growth. With 100 000 more subscribers than last quarter the summer of 2018 can only be described as a successful quarter for Storytel. With regard to our target to reach 800 000 subscribers by New Year's Eve, it now looks as if we will end the year just short of the target at 780-790 000 paying subscribers. However, our streaming revenue target of 1 000 MSEK will be reached, an amazing achievement.

As the table below shows, at the end of 2017 we had four markets with more than 25 000 subscribers, and at the end of this year we expect this number to have grown to seven markets. Three markets with more than 50 000 subscribers in 2017 grows to become four markets this year and our expectation is to increase that number to seven markets next year.

Equally important is the speed by which our new markets get off the ground and reach our first milestone of 10 000 subscribers. We expect to double the number of markets with more than 10 000 subscribers from five markets last year to ten markets by the end of the year. With the addition of Mexico and Bulgaria we will have launched six markets by the end of the year and will be live on fifteen markets, with production of stories and audiobooks in as many languages. After the end of the quarter we announced that we are also preparing for launch in Singapore and Brazil. We expect to add at least the same number of new markets next year as in 2018.

In conclusion, we are no longer dependent on the Swedish market to generate growth which dramatically reduces risk in our streaming business, in terms of a growing subscriber base.

Milestone (# of markets)	2016	2017	2018
Total launched markets	6	9	15
>10 000 subscribers	4	5	10
>25 000 subscribers	3	4	7
>50 000 subscribers	2	3	4
Profitable markets	2	3	4

Although our growth rate is highly relevant for our business, it is equally important for us to demonstrate that we can generate profitable markets along the way. At the end of the day, our market capitalization is the sum of the expected discounted cash flows our businesses generate over time. Last year we had three profitable markets (Sweden, Denmark and Norway) and now we have four profitable markets with a positive cash flow, as Iceland turned profitable in record time, only six months after launch. Storytel Iceland has extremely favourable metrics with a high degree of proprietary content resulting in a high gross margin, and low marketing investments relative to sales thanks to a strong word of mouth virality effect. We expect to add at least one market to this cash-flow-generating group next year before allocation of global costs.

Growing a market from 10 000 subscribers to profitability requires investments in content production and marketing. We now have a sizeable group of markets in this cash-consuming phase, which is the reason why we decided to raise 500 MSEK in September. A couple of years after launching a new market we want the expected customer lifetime value (CLV) to exceed the customer acquisition cost (CAC). We put a lot of focus on improving these metrics, and as for our profitable markets the CLV/CAC ratio is typically 2.5-3.5, which results in a profitable and healthy local business.

Storytel Sweden has enjoyed eight consecutive years of uninterruptedly high growth. We are still growing our Swedish subscriber by approximately 50 000 subscribers year-on-year. Before Christmas we will launch our Storytel Family plan, which is expected to help grow the subscriber base further. The EU recently ruled that member states can apply a reduced VAT-rate for digital books and publications, and our expectation is that the new Swedish government, once installed, will reduce the VAT on services like Storytel from 25% to 6% by July 1st 2019. This will allow us to improve our offerings to both customers and authors in many of our markets.

During the last week of September we made our first advertising campaign for our e-book device the Storytel Reader, generating more than 1,000 Readers sold in a single week, during the Book Fair in Gothenburg. User data has so far indicated high usage, resulting in high loyalty for early users of the Reader. Furthermore, the Reader will support audiobook listening capability shortly, via an over-the-air software upgrade. We expect this audiobook feature to boost Reader-sales. Having said that, we still believe it will take some time to generate high demand for e-books on the highly penetrated Swedish audiobook market, and it will likely take a couple of years until the Reader has a material impact on our overall revenues.

In our Streaming organisation, including Digital Publishing, we have grown from 30 employees three years ago to our current 300 employees. This growth has obviously been tremendously challenging for the organisation, but where we now have a global structure that supports all our 17 country teams. This transformation has been successful, in a recent employee survey our eNPS (Employee Net Promoter Score) was incredibly high (60+) which places Storytel among the top five percent of companies globally, in terms of how likely their employees are to recommend Storytel as an employer.

I am proud of this, as well as the fact that we have very low employee turnover, only five percent this year. In September we organised a company-wide conference in Stockholm which was a great success and tied the bonds between our local teams and global functions. With the company now launching in more markets on other continents we are also preparing to set up an organisational structure with self-containing regional hubs, starting with one in Mexico for Latin America, and one in Bangkok for South East Asia.

Our Print Publishing house in Sweden, Norstedts Förlagsgrupp has enjoyed solid profitability over a three-year period under the competent management of CEO Otto Sjöberg. We expect a solid profit for Norstedts this year, as well. During this quarter Norstedts acquired a small publishing house, Printz Publishing, which has enjoyed great successes in the feelgood genre literature. The acquisition was completed on October 1st.

Our Danish streaming business continues to deliver very impressive growth and profitability under our two Danish brands, Mofibo and Storytel. Next year we are planning to start with the merge of Mofibo into the Storytel platform and brand. We believe this is a necessary step to take in order to optimise development and branding investments in future years on the Danish market.

Thank you for believing in our quest to make the world a better place by telling stories!

Organizational Overview

The Storytel group consists of two divisions, Streaming and Publishing. The Streaming division currently offers a subscription service for audio books and e-books under the brand names Storytel and Mofibo in Sweden, Norway, Denmark, Finland, Iceland, The Netherlands, Poland, Russia, Spain, India, the United Arab Emirates, Turkey and Italy. The Streaming division also publishes audio books and Storytel Originals, mainly through the audio-book publisher Storyside. The Publishing division consists of the publishers Norstedts, Massolit, Printz Publishing, the Danish People's Press, Storytel Publishing, Rabén & Sjögren and B. Wahlströms, as well as Norstedts Kartor.

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

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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 50% owned by Cappelen Damm and is reported here according to the principle of proportional consolidation. Wholly owned subsidiaries are included in the yearly statement of accounts from their time of registration or acquisition.

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

	July - Sep Group		Jan - Sep Group		July - Sep Group		Jan - Sep Group	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Operating Revenue								
Net Turnover	373 242	308 778	1 023 332	805 806	-	-	-	-
Change in inventory during production	-3 865	-3 741	-2 502	-2 453	-	-	-	-
Sum of profits/losses from associated companies	-	969	-	-272	-	-	-	-
Other revenue	3 578	2 594	16 055	15 978	804	680	2 393	2 050
Total Group revenue	**372 955**	**308 600**	**1 036 885**	**819 059**	**804**	**680**	**2 393**	**2 050**
Operating expenses								
Unit-sale costs	-217 393	-185 158	-604 234	-480 210	-	-	-	-
Other external costs	-134 408	-78 316	-355 356	-207 133	-1 005	-408	-2 864	-1 713
Staffing costs	-64 649	-47 841	-199 676	-144 489	-1 112	-675	-3 341	-2 096
Earnings before depreciation	**-43 495**	**-2 715**	**-122 381**	**-12 773**	**-2 117**	**-403**	**-6 205**	**- 1 759**
Depreciation	-17 615	-13 878	-49 115	-38 891	-	-	-	-
Earnings before financial items	**-61 110**	**-16 593**	**-171 496**	**-51 664**	**-1 313**	**-403**	**-3 812**	**-1 759**
Profits from associated companies	58	-4 126	44	-318	5 999	-	5 999	-
Profits from group companies		-		-	-	-	-	9 500
Net financial items	-2 263	-3 382	-10 149	-10 934	-948	-1 139	-1 593	-3 094
Earnings before taxes	**-63 315**	**-24 101**	**-181 601**	**-62 916**	**3 738**	**-1 542**	**594**	**4 647**
Deferred taxes	1 457	1 022	4 421	2 845	-	-	-	-
Taxes on year's profits	-254	-99	-688	-1 457	-	-	-	-
Earnings/losses for period	**-62 112**	**-23 178**	**-177 868**	**-61 528**	**3 738**	**-1 542**	**594**	**4 647**

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Balance Sheet (TSEK)

	Group		Parent Company	
	30 Sep 2018	31 dec 2017	30 Sep 2018	31 dec 2017
Assets				
Intangible assets	270 533	304 393	-	-
Tangible assets	4 927	3 588	-	-
Non-current financial assets	23 243	23 948	918 619	868 619
Inventory	78 162	65 631	-	-
Current receivables	354 098	302 729	199 888	95 974
Liquid assets and short-term investments	652 445	249 132	528 563	111 169
Total assets	**1 383 408**	**949 421**	**1 647 070**	**1 075 762**
Equity and liabilities				
Share-capital	27 933	25 759	27 933	25 759
Other Equity, including current year's profits/losses	634 168	317 814	1 434 459	948 019
Provisions	53 802	61 892	-	-
Long-term liabilities	211 001	127 962	156 809	101 000
Short-term liabilities	456 504	415 994	27 869	984
Total Equity and liabilities	**1 383 408**	**949 421**	**1 647 070**	**1 075 762**

Cash-Flow statement (TSEK), Group

	2018-09-30	2018-06-30	2018-03-31	2017-12-12
Net earning/losses after financial items	**-63 315**	**-64 395**	**-53 891**	**-82 963**
Adjustments for items not included in cash-flow	22 952	12 642	12 006	65 076
Taxes, paid	-5 632	-1 884	-2 382	-10 660
Cash-flow from operations, before changes in working capital	**-45 995**	**-53 637**	**-44 267**	**-28 547**
Cash-flow from changes in working capital	-48 905	31 324	16 680	44 179
Cash-flow from operating business	**-94 900**	**-22 313**	**-27 587**	**15 632**
Cash-flow from investment activities	-1 881	-2 120	-2 019	-70 464
Cash-flow from financial operations	474 817	91 234	-11 615	176 028
Cash-flow, current period	**378 036**	**66 801**	**-41 221**	**121 196**
Available funds, beginning of period	**276 552**	**209 300**	**249 132**	**129 561**
Translation differences in available funds	-2 143	451	1 389	-1 625
Available funds, end of period	**652 445**	**276 552**	**209 300**	**249 132**

Revenue and profits for the period (compared to Q3, 2017)

Net turnover for the group in Q3, 2018 totalled 373 242 (308 778) TSEK. Total revenue for the group in Q3, 2018 ended at 372 955 (308 600) TSEK. Within the Streaming division, Sweden accounted for approximately 48.6% (57.5%) and markets outside of Sweden for approximately 51.4% (42.5%). Storytel A.S in Norway is a Joint Venture together with Cappelen Damm and is reported according to the principle of proportional consolidation. The table on page two includes all subscribers and revenue in Norway, listed under Streaming, other markets; hence Streaming revenues listed in the table on page two are higher than in the consolidated statement of accounts, in order to provide a more accurate Average revenue per subscriber. Streaming revenue was up 41% compared to Q3, 2017 and on a total Group level revenues are up 21% compared to Q3, 2017.

Unit-sale costs for the group in Q3, 2018 totalled 217 393 TSEK (185 158) TSEK. Unit-sale costs include costs for producing audiobooks, cost of goods sold for physical books, warehouse and distribution costs, as well as royalty payments to other publishers and rights owners. Gross Margin ended at 41.7%, up slightly against Q3, 2017 (40,0%).

Other external costs for the group in Q3, 2018 totalled 134 408 TSEK (78 316) TSEK. Marketing costs are still the largest driver of the increase, in line with Storytel´s aggressive roll-out strategy, with heavy content and marketing investments in our newly launched markets. By Q3, 2018 Storytel had launched its service in thirteen markets (as compared to seven markets during Q2, 2017) which requires greater investments in marketing. Other significant cost items included office leases, IT-related services and costs, and consultants.

Staffing costs for the group in Q3, 2018 totalled 64 649 (47 841) TSEK. Staffing costs within the Print Publishing division were at a stable level, while Streaming has experienced increased costs in order to meet the needs of the pace of expansion.

Earnings before depreciation (EBITDA) in the group in Q3, 2018 totalled –43 495 TSEK (–2 715) TSEK. The contribution margin for Sweden increased in Q3, 2018 to 30,1% compared to 28,9% in Q3, 2017, mainly due to lower production costs relative to sales. Contribution margin for markets outside Sweden followed expected trend, driven by marketing and and production costs incurred in connection with the 15 countries Storytel now operates in outside of Sweden (13 launched and 2 in preparation).

Depreciation primarily includes depreciation attributable to goodwill and other excess value identified in connection with acquisitions. The largest asset items are connected to the acquisitions of Norstedts Förlagsgrupp, Mofibo and People’s Press. All goodwill and excess values are depreciated according to linear depreciation. Other depreciation primarily concerns the purchasing and development of IT-systems from external parties. All tech costs related to developing Storytel’s technical platform are expensed as staff costs, when they occur.

Financial items included both interest income and interest expenses, as well as realized and unrealized exchange differences. Interest costs from bank loans totaled app. 2 500 TSEK for Q3, 2018.

Earnings per share, after taxes, in Q3, 2018 amounted to –1,26 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 Sep 30th, 2018 (compared to Dec. 31st, 2017)
At the end of the period, the group had 652 445 (249 132) TSEK in liquid assets. In September Storytel completed a directed share issue of approximately 500 MSEK, to support Storytel in continuing it's accelerated growth strategy.

Solvency was 47,9% (36,2%). Equity totaled 662 101 (343 573) TSEK. The change from Q4, 2017 is explained by the current period's earnings/losses, the completed share issue and translation gains or losses on consolidation.

Non-current liabilities to loaning institutions totaled 211 001 (127 962) TSEK. The portion that will be amortized during the next twelve months is considered short-term liabilities and totals app. 30 069 TSEK. After the completed share issue the loan structure has been changed where yearly amortization has been decreased by app. 20 MSEK.

Number of shares, and share capital (as of Sep 30 2018)

There were 55 865 307 registered shares in issuance at the end of the period, divided between 635 A-shares and 55 864 672 B-shares. Share-capital totaled 27 932 653,5 SEK as of Sep 30, 2018.

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Post-period activity

After end-of-quarter, ECOFIN made a decision that will allow Sweden and other EU member states to reduce the VAT-rates of digital books to the VAT-rate applied for physical books. In Sweden that means this means that the VAT rate might go down from 25% to 6% on digital books.

After end-of- quarter Storytel also announced that they are preparing for launch in Singapore and Brazil in 2019.

Date of next report

The year-end report for January - December, 2018 will be released on February 25th, 2019.

This information is such information that Storytel AB (publ) is obliged to make public in accordance with EU:s market regulation (marknadsmissbruksförordning). The information was made public by above contact person on November 15th, 2018, 8.20 CET.

Stockholm Nov 15th, 2018

Rustan Panday
Chairman of the Board

Jonas Tellander
Board member and CEO

Jonas Sjögren
Board member

Nils Janse
Board member

Morten Strunge
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Eva Swartz Grimaldi
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