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Storytel AB (STORY.B.SE)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Storytel Q4 Report for 2020. Throughout the call, all participants will be in a listen-only mode, and afterwards there will be a question-and-answer session. Today, I am pleased to present Jonas Tellander, CEO; Sofie Zettergren; CFO; and Ingrid Bojner, CCO. Please go ahead with your meeting.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

Thank you. Welcome to this investor call for Storytel for Q4 2020. You can go to the next slide please with the snowballs. So basically, our global market opportunity for audiobooks is big and rising. We anticipate the overall market to grow from SEK 40 billion in 2020 to SEK 200 billion in 2030. And Storytel is aspiring to take a good share of that market. We currently at about 5% market share and we have to build up to about 15% global market share by 2030. Next slide, please.

The reason we are bullish and believe that the audiobook market will grow throughout the world is from the example of the Swedish audiobook market, which has grown from a couple of percent five, six, seven years ago and up to size where the audiobook market is actually the majority of the fiction sales book market overall. This is a trend we're seeing in many of our markets and we expect this strong audio trend across the world to impact the audiobook market and make it a dominant segment in the fiction book market globally.

Next slide, please. Storytel has been on an expansion from – over the past seven years. And we are now on 20-plus markets. We've demonstrated that we can grow many of these markets past the 50,000 subscriber milestone in a couple of years. So we see from one of our recent launches in Turkey a couple of years ago, we actually grew market to past the 50,000 subscriber line in only 15 months. What's interesting to note on this slide is that

Sweden, which is our by far the biggest market actually took the longest to grow from 0 to 50,000 subscribers. It took about four years. So that says something about the potential and the success of our expansion strategy.

Go to the next slide please. What is as important is that we want to demonstrate that we can grow markets to profitability within five years. That's the target we set for all our markets. And so far, we've been successful with all market except maybe for the Netherlands, which took us six years. But we now have five markets that are profitable, and we expect to turn three more markets profitable within the next year. And that's Poland and Russia.

Next slide please. And just briefly on the Q4 growth. So we grew subscribers year-on-year by 33% and revenues by 19%. But you have to bear in mind that the Swedish krona has been incredibly strong in the past year. So working off a fixed currency, then we would actually have grown by 26% between Q4 2019 and Q4 2020.

And with that, I hand over to our CFO, Sofie.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

All right. Thank you, Jonas. So let's jump into the report and you can change the slide. Highlights from the report, as Jonas said, Streaming sales up 19%, but using constant FX rates is up 26%. And we'll try to describe that a little bit more in this report also for the Q1 forecast for 2021. Net turnover increased to SEK 633,000 in Q4, up from SEK 565,000 in Q4 2019. On the EBITDA line, we came in at minus SEK 22.8 million. EBITDA margin of minus 3% which is in the targeted range that we have for the full year, and for 2020, we came in at minus 3.2%.

I think what's something great in this report is the Print segment as the figures came out from Sweden during this week. We saw that the Swedish book market actually improved by 9% in 2020. And of course, Streaming is a big part of that, but also the physical books actually increased. And on the EBITDA side, we increased from SEK 9 million in 2019 to SEK 42 million in 2020. So that's great news.

Next slide please. So digging into Streaming top line and profitability a little bit more, you can see that came in at above SEK 500 million in Q4 2020 on the revenue side. Contribution margin went down slightly in Q4 compared to Q3 and that's – the reason for that is the investment in the non-Nordic segment where we see a good momentum and the increased marketing expenses if you compare to Q3. On the revenue – on the subscriber side, we came in at 1,442,000 subscribers and an ARPU of SEK 116.

In the Nordic segment, we are almost SEK 400 million on a quarterly basis on the revenue side and a really, really strong contribution margin this quarter, 33.6%. So we are increasing top line and we are also increasing the profitability in the Nordic segment. And although we saw a slightly decrease in the ARPU this quarter, and that is, yeah, explained partly by the strength in Swedish krona but also that we see that more and more customers go over to the [indiscernible] (00:06:03) which we are very happy about since that increases the lifetime of the customers.

Looking at the non-Nordic segments, we are above the SEK 100 million mark on a quarterly basis from the revenue side. And as I said, contribution margin went down slightly, but we see that as a positive sign that we can get good return on investments on our marketing spend. The average subscriber increased to 560,000 and the slightly ARPU decline also here. Same explanation as I talked about on the Nordic segment.

Just touching briefly on the Q1 forecast. As you can see, we simply will come in at SEK 514 million on the revenue part. Subscriber base will grow with 100,000 subscribers while ARPU will declined slightly also this

quarter. Q1 is always the worst quarter for us when it comes to ARPU since it has fewer days in the quarter and we charge our customers on a 30-day basis. So if you adjust for that, the revenue would increase by 2%.

Yes, and the Nordic segment is, yeah, basically flat, but as I said growing 2% if you adjust for the number of days in the quarter. And the streaming revenue for the non-Nordic in Q1 amounts to 150,588,000 subscribers, ARPU of SEK 65. And as you can see on the graph to the right, it's going in the right direction on the Nordic side. As I said, on the non-Nordic, we are investing heavily in marketing and we see that we get a good return on investment on those spend. You can go to the next slide.

So, I will hand over to Ingrid talking a little bit more about our expansion activities.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

Thank you, Sofie. And, yes, so last year in our Capital Markets Day in January, we said we were not going to focus so much on expansion over 2020, but we couldn't resist to at least launch two countries at the end of the year. So, we successfully launched Belgium in late October, and that's really great to strengthen our bases in Europe and in the Benelux region. It's also great to see that this has been done entirely by our Storytel Netherlands team. So, it has been a fun challenge for them, as well as broadening the scope of the business in the Netherlands.

And then, we also launched Thailand at the end of the year, which has been a region where we've been in for a long time, actually producing a lot of audiobooks. So, that has been a little bit of a different expansion story, where we start by acquiring content and, of course, produce, and then when we feel ready, we launch for our consumers on the consumer side. And, yeah, next slide.

Also great to see that last year has been a positive year for our creative side of our business, working very closely with creators across the world to produce Storytel Original for audio-first audience, and very happy to see that one-third of our country has actually had one of the Storytel Originals as a top 10 list during – or number one title actually during December. And great to see also that we have tested some of the stories that we have developed, for example, Virus. It's a 7-season book that we have developed in Sweden, and then that has actually also now been translated into several languages, and it is now servicing other countries as well. Next slide.

I'm very super happy to announce our really first global Storytel Original and that we have been doing together with collaboration with very renowned best-selling author Camilla Läckberg, and as well, renowned actor Alexander Karim, who has also been an author lately. And it's really great to see that we will release this in June 15. We will translate it into 14 languages and go-live at least in six markets on that day. So, this is a big investment for us. [indiscernible] (00:10:54) new way for us to build stories across the world and find new collaborations to continue to invest in great stories. Next slide. Yes. So, Sofie?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

All right. So, I'm back. We already touched upon the forecast for Q1 2021 compared to Q1 2020, but let's just reiterate that. Subscriber base growth is 34% in our forecast and revenue growth 20%. But, just to emphasize again, the revenue growth would have been 27% if we use constant FX rates. So, we are suffering a little bit from the strengthened krona. Next slide, please.

So, our financial targets, 2020, yeah, just to show that we have a history of reaching our targets. We said that we would reach SEK 1.9 billion in Streaming revenues in 2020 which we achieved. We also achieved the 1.5 million paying subscriber mark in just a few weeks after year-end. So, I think we did pass on that as well. We also said that we wanted to turn at least one country profitable, and we saw that Netherlands became profitable in 2020. Our EBITDA range was minus 1% to minus 5% and we came in at minus 3.2%, so in the middle of that range. And as Ingrid said, we also launched in Belgium and Thailand.

So looking at the full year 2021 targets, we see continued growth. We want to grow our Streaming revenues to SEK 2.4 billion to SEK 2.5 billion, so at least 28% revenue growth. And in order to achieve that, we want to reach 2.1 million to 2.2 million paying subscribers but, of course, that will depend on what geographical mix we have and also subscriber mix since we have launched a few new subscription types during 2020.

More important as well is, of course, to become profitable in more countries, and we think we will reach that in Finland, Poland, and Russia for 2021, as Jonas also mentioned in the beginning. And we want to achieve this by improving our EBITDA margin basically, so coming in at 0% to minus 5% negative EBITDA margin. Also, we are preparing to launch many more markets. So, we want to be present in at least 25-plus markets.

And going into 2023 targets, we want to be present on 40-plus markets. We reiterate the targets that we announced on our Capital Markets Day. So, we're still convinced that we can reach 35% CAGR on the Streaming revenues which, of course, implicates that we will increase our growth rates in the coming years, and have around 40% CAGR on the paying subscribers. We also want to reach Streaming profitability on the local level within five years from launch and, as Jonas said, we have been successful in that in the past.

All right. So that was the end of the slideshow. So we will move into the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Derek Laliberte of ABG. Please go ahead. Your line is now open.

Derek Laliberte
Analyst, ABG Sundal Collier AB

Q

Yes. Good morning. I was wondering a bit about your path to reach the revenue target in 2023 implied by the 35% Streaming revenue CAGR target here. I mean, it's quite obvious – clear that since growth was below the average target rate in 2020, and now, [ph] you are guiding for about in (00:15:33) this year as well, it'd just be good to get some sort of specifics about what's expected to happen in 2022 and 2023 versus this year in your – from your point of view? Thank you.

Sofie Maria Zettergren
Chief Financial Officer, Storytel AB

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All right. So, yeah, I can start. That's a fair question. And, yeah, I mean, for 2020, we saw really strong growth in the Nordic region. As I talked about, the Swedish market is really growing the overall book sales. We want to continue to invest a lot in the Nordic region since we still see big potential and we want to continue to keep our strong market position that we have in these markets.

Looking at the other countries, I mean, as Jonas mentioned, the countries where we reached 50,000 subscriber mark and also the 100,000 subscriber mark, we see good momentum in and, we want to continue to invest in those countries that are currently in the West region and also Turkey in the East region. And then, looking – I mean, I think the Nordic and the West region will contribute most to the growth in 2021 at least and also in 2022. And then, the APAC and the East – and the LatAm region will contribute more from 2023 going forward.

Jonas, do you want to add?

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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Yeah. I mean, basically, when it comes down to how people will start signing up at the higher extent and to stay with the service at the higher extent, we see that we have really good momentum on the subscription side now. We launched a couple of new subscriptions in the past year and testing those out, and we'll them out more broadly during 2021 and we think that will have a good effect going forward.

We also see that working with achieving product leadership is going – moving forward, and then, in particular, looking at how we curate the content through our subscribers, ensuring a personalized experience and also ensuring that people start to get recommendations from each other, that's something that we have anticipated will also help to boost the loyalty in the service which will in turn also help us to grow more.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

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And perhaps just [ph] sum up or to finalize (00:18:00) that discussion, we have also been very successful in the past of increasing prices. And I mean, that is something that we work with continuously. I think we increased prices in 8 of our 20 plus markets in the last couple of years. So that's also one way to grow revenues, of course.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Okay. Thanks. That's very helpful information. [indiscernible] (00:18:27) to this year, I think, I mean, looking at your Q1 estimates here for the non-Nordics segment specifically, that growth rate in subscribers is still expected – you are still expecting that to be below 60%, so not really a pick up from H2 of last year? So from my point of view there, it looks like you really needed to accelerate growth here between Q2 and Q4. And I was wondering a bit what will drive this pick up, is it investments – more heavy investments or how does that look?

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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Yeah. I mean, it's been part of those elements I talked about before, but also, as you say, more heavily invest in marketing and ensuring that we're driving more impact to the service.

Derek Laliberte

Analyst, ABG Sundal Collier AB

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Got you. Okay. That's all for me now. Thank you.

Operator: Thank you. Our next question comes from the line of Joachim Gunell of DNB Markets. Please go ahead. Your line is open.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Thank you. So, to continue where Derek left off, but – I mean, as you alluded to, Jonas, you've run a couple of interesting experiments during the past quarters with some lower priced tiers in some markets. So, can you perhaps talk a bit more about learning from these, call it, experiments? I mean, if they're successful enough to expand to other regions?

Ingrid Bojner

Chief Commercial Officer, Storytel AB

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Yes. I think we are constantly – I would say that 2020 was a year of a lot of testing and also a lot of improvements, generally on our service in terms of everything from user experience, also from the offers that we have in the market. And we have a lot of learnings that we can draw from what we did during the Q3 and Q4. And we can see actually really great momentum, for example, in India, where we have launched a service that is much more targeted and localized in terms of the language it offers. So, we are positive that this is a trend that we will continue to do in that specific region and also in others.

And in addition then, we are looking into what we have tried, a different limited service. So, we cannot exactly say how we will do this, but I'm sure that this is really a way to go because we know that people want to test our service. We have seen that during last year, we had a fantastic intake, and lots of people testing our service. It is also a behavioral change that needs to happen, and then we want to support our customers to actually do that behavioral shift in the best way. So product market safety is, of course, key to how we do this in all our markets.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Understood. And to continue on Derek's question with accelerating growth from, say, Q2 throughout 2021, it seems that, okay, you are now more comfortable with CLV/SAC levels to invest more heavily, call it, can you just elaborate a bit more on what makes you more comfortable with CLV/SAC levels?

Ingrid Bojner

Chief Commercial Officer, Storytel AB

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Well, it's constantly improving our attribution model and learning from how our customers behave and, of course also, improving on our brand and our communication and campaign. So, I think it's the range of different aspects. If you have been following us closely over the year, you have probably seen a significant shift in how we communicate, the tone of voice, and also the expression and that is now flooded over, of course, in all types of communication. We also have enough communication in our apps today in a much better way. So, I think all of this actually makes our CLV/SAC improve in a sense and/or at least it gives us much more confidence that we know we are on the right track.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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And [indiscernible] (00:23:06) to the customer experience, I mean, we can see good traction on improvements on [indiscernible] (00:23:12), we can improvements on also the Dow, the usage, how much people use the service when they get in, and that translates into a better customer lifetime and higher revenues. So I think we are very positive about those developments, and I think that's really what's going to make the difference in increasing the growth rate going forward.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

Understood. And so – but in terms of, call it, the churn or customer retention development throughout 2020, I mean, you talked about non-Nordic markets being a bit more – or new subscribers there being a bit more, say, uncertain in terms of how we can forecast it, but you feel more comfortable about the engagement in these markets now, if I understand you correct.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

A

I mean, we have many more tools in our toolbox now. So, we have, I think, talked about all the different subscription models that some we can talk about, some we can't talk about. But, we are rolling those out more broadly now and that means that, a customer comes in, doesn't only have an unlimited and often quite expensive service to sign up to, but they can also [indiscernible] (00:24:25) sign up to a lower price model and, therefore, stay longer.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

[ph] Noted it up (00:24:33). And just final from me, if you just look at the competitive landscape, I mean, can you just talk a bit about what you consider that's the real competition for you guys, and then [indiscernible] (00:24:45) other audiobook services, or say, perhaps new larger market entrants with bundling options, et cetera?

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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Yeah. I mean, when we started many years ago, we always looked at, how we would fare in the audiobook market? We compared ourselves to CD audiobooks and tried to kind of win the audiobook market. Now, we can see that we are in this segment that's really totally taken over the audiobook market and we no longer look at the audiobook market, that's a market – that's a overall book market, and that's what we see from the statistics in Sweden, for instance, when audiobooks are more than 50% of the overall book market or fiction books.

And it doesn't really stop there, because we need to ensure that the book stays relevant, we need to ensure that other entertainment formats do not succeed more than we succeed with books. We believe that books has very good role in society today that it provides much more colorful mindset, not just the black and white mindset that we oftentimes see now, you have more time to think and more time to use your imagination when you listen to books, and that's really the agenda that we're pushing forward in terms of customer experience. And I think that's a real competition to ensure that that stays.

Then, we've been very good, I think, at working collaboratively. We can see that the Swedish book market now thrives, because we haven't worked collaboratively with our competition. We're still market leaders and we still succeed. But, we can also see other services succeeding well in this market. And there's no problem with that, because the big challenge is really to ensure that the book stays relevant and that the book markets are healthy.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Q

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

Operator: Thank you. Our next question comes from the line of Oscar Erixon of Carnegie. Please go ahead. Your line is now open.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Thank you. Good morning, guys. And very nice to have you back, Sofie, as well. So, a couple of questions for me, although some have already been asked. But, your internal focus here in 2020, are there any – is there any one or two things that you would point out that you have done? And also, do you feel that like anything important is missing [indiscernible] (00:27:17) geographical expansion? And finally there, have you felt that your product offering has been trailing local competitors in any sense? Thank you.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

A

Yeah. That's a great question. And looking at the internal perspective, we feel that the organization, Storytel, the decision making processes and our focus on the right KPIs, and the things that really drive the business is something that we have really set a scene for in 2020. I'm starting to see great results for now, where we have an organization and people working in the company that are much more results and focus driven than we have been any time before. I think that's a key parameter.

And looking at what the customer sees externally, I mean, we have a wonderful content production machinery that runs out in 28 different languages now and we learn a lot from that. We can see, as Ingrid talked about, that we are now capable of launching Storytel Originals globally, and we haven't had that capability before. We have a very good communications team that are helpful in making that happen and making the media pick up the launches. So, I think there's a lot that's happened on that term.

And then on the customer side, I've said before, there's more subscription options to choose from. There's more payment alternatives to choose from. And there's a better welcoming. When you enter the app and start using it, you have a better chance now than you ever been before in finding the right content for yourself and come back day after day after day.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Perfect. Thank you. And sequentially here in Q4, we see quite significantly increased marketing in the non-Nordics, [ph] I suspect largely (00:29:13) from the contribution margin, are we seeing clearly improved LTV/SAC compared to Q3 and improved momentum or you are sort of expecting a lower return than you did in Q3? And I guess, an add-on question to that is, do you have a sort of updated view on COVID-19 impacts, positive or negative? Thank you.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

A

Yeah. Thank you. Very interesting question in regards to our non-Nordics, yes. I think we have to talk about the fact that the non-Nordics now comprises of 16 – 18 markets. So, it's a wide variety, obviously, and they are in very different stages. Some are very early. I mean, in Thailand, we just explained, we just started. And there are others that started a year or two ago. And then we, of course, have some markets where we've been in for quite some time. So, I think it's a mix and it's difficult to tell exactly on a mix. What we have been doing and what we are better and better at, I think we are adjusting to where we see this brand's momentum, and this is something that we're continuously working with.

And some markets may have suffered a little bit more due to the COVID situation last year that none of us could have expected or anticipated, and then there are some other markets that are actually thriving in the sense that people are really wanting and desiring more things to do on their lockdown period. So, then we have better momentum in these markets and obviously, we also then diversify our marketing investments, as well as content investment in a smarter way. So that is something we will see continuously going forward.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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Yeah. And the exact answer to your question about CLV/SAC is basically, we see...

Ingrid Bojner

Chief Commercial Officer, Storytel AB

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Yeah. Positive...

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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...positive development as a whole...

Ingrid Bojner

Chief Commercial Officer, Storytel AB

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Yeah.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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...outside of the Nordic.

Ingrid Bojner

Chief Commercial Officer, Storytel AB

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Yeah. Absolutely.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Great. Very clear. And then on the targets, historically, you have largely delivered very well on targets. Given the momentum you had in H2 last year and Q1 here at the start, are you confident on your 2021 and your long-term targets?

And another question, could guiding on [indiscernible] (00:31:52) alternative going forward?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

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Yeah. I mean, thank you for that, Oscar. And yes, we are very keen on reaching our goals. And as you said, historically, we have been very good in reaching what we have said that we would reach, and there's no exception this year. I mean, we feel strongly about our targets for 2021. Then, of course, it's becoming more and more tricky, of course, to do the forecast when we are in 20-plus market with high-ARPU countries, mid-ARPU countries, and low-ARPU countries.

We also have new subscription modes that we roll out, and then, as you mentioned, we had seen an exceptionally strong Swedish krona this year. So, of course, that makes it a little bit more difficult to forecast. But, when we forecast, we look at the FX rates that we currently have in our budget and we are not forecasting how the Swedish krona, if it will become stronger or weaker. But, yeah, just to answer your question, yes, we feel confident with them, there are some uncertainties right now.

Oscar Erixon

Analyst, Carnegie Investment Bank AB

Q

Perfect. And final question from me. Could you give an update on how your price increases during 2020 has been received in terms of churn? I know you talked previously about that, not impacting churn that much?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

Yes. So, price increases is obviously another instrument for our growth and we have actually seeing quite positive results from our price increases in general. Already this year we have done two price increases, one in Norway and one on Iceland. And we believe in not doing radical price increases, but rather following the different markets we are in. And as we are improving our service, we are also improving the size of our catalogue and the way we invest in content. We think it's fair to increase prices and follow that in a smart way.

And when it comes to churn, I think when you do a price increase, there might be an immediate effect that you wake up somebody who maybe did forget – forgot about their subscription, but that is such a small part of our portfolio. So that doesn't really give us any long-term implications.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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And all our price increases so far has been clearly not positive for us.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

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Yes. If you look at the...

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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Yeah.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

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...yeah. Bottom line.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

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And we have the – I mean, we have the family subscription now which we didn't have a couple years ago, that we can really say that those customers get enormously high value for money. And there are great opportunities also to get good value for money there even with slightly higher additions when we add more customers. And that's something we've seen in – as you said Iceland and Norway and probably we'll see in more markets.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yes.

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Oscar Erixon

Analyst, Carnegie Investment Bank AB

That's very helpful. Thank you very much. That's it for me.

Q

Operator: Thank you. Our next question comes from the line of Stefan Wård of Pareto Securities. Please go ahead. Your line is now open.

Stefan Wård

Analyst, Pareto Securities AB

Thank you. I'd like to start with a follow-up on the forecast – 2023 forecast. It implied that you will reach Streaming sales of about SEK 4.5 billion and then we can add the print to that, so you will have top line in excess of SEK 5 billion by 2023. Could you please describe a little bit also [indiscernible] (00:35:54) of the markets and the footprint will – you will have been present more than five years by the end of 2023. So this sort of indicates that you could see quite nice development of the EBITDA over these three years. If you could help with any comments on this and how the scalability on the sort of cost side of the contribution margin, what we can expect there? Thank you.

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Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yeah. I mean, one very important target for us is to turn markets into profitability after five years. And as we already mentioned, we expect three more markets to reach that stage during 2021. And then more countries as you say will follow during the next couple of years. But then as we also communicated on our Capital Markets Day and that we still believe firmly in that we will prioritize growth before profitability if we see improved CLV/SAC ratio. So, of course, EBITDA or the EBIT might be even more important to look at now when we capitalize our intangible assets. I mean, that will depend on the mix of countries that we go into.

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And if we see good momentum in these new markets, we want to, of course, continue to invest in both content production and marketing. So it's difficult to say exactly when we will reach profitability on an EBITDA group level, more importantly for us is to see that we can really turn more market into profitability and also improve EBITDA levels in these markets to the levels that we see now in the profitable markets in the Nordic region.

Stefan Wård

Analyst, Pareto Securities AB

Okay. Thank you. Can you give some guidance then on CapEx levels for the coming, say, couple of years? Meaning capitalized content cost per annum.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yeah. I mean, as you saw in the report, you can see it on a separate line in the P&L. We invested SEK 240 million in both content production and R&D. And that weighted more heavily towards the content investments. So I mean, I think it's fair to say that we will continue to invest in the same pace that we are currently investing in and then we

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will add more markets to that. So, the total amount will increase, but as a percentage of revenue, I think you could, yeah, estimate sort of the same levels that we are at today.

Stefan Wård

Analyst, Pareto Securities AB

Percentage of revenues.

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Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yes.

A

Stefan Wård

Analyst, Pareto Securities AB

Okay. Thank you. Then turning into the new subscription offering in India, a bit interested there. If it's only your own content, it's 100% Storytel content in the, for instance, [indiscernible] (00:39:07) offering. And how is the margin structure for that type of offering?

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yes. So, you were asking just – sorry, the line is a little bit tough here hear. So, the last sentence you were saying you asked about what is our share of the content and then I didn't hear the last sentence.

A

Stefan Wård

Analyst, Pareto Securities AB

How the profitability looks for that type of offering. I mean, it's such a low price level compared with the unlimited offering. So, I'm just trying to figure out if it's – what the margin could be for that offering.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Yes. So when we explore different type of price models, we obviously also calculate profitability levels that we think are descent in terms of how we would like to offer it to the market. So, it's a combination – every price decision is a combination of, of course, the cost and margin perspective, but of course also on the market – a product market fit level.

A

When it comes to India, one has to understand the dynamics of an Indian market where we have the plus 20 local different languages and different people in different regions speak those different languages. So, we obviously want to cater to those individuals that have a native language preference. So, I think that's what we are diluting to with these limited languages selections.

And yes, the catalog that we have invested in is a lot of our own content.

Stefan Wård

Analyst, Pareto Securities AB

Okay. Thank you. Can you also give a little bit of color on what we can expect for the Middle East offering? How up and running is that Kitab Sawti acquisition, I'm thinking of it but also interested in the iCast in Israel, what we can expect for 2021 and onwards?

Q

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

A

Yeah. I mean, it's – we see good traction in the Middle East, that's I think what we can say. And our challenge now is to ensure that we can localize the offerings for the different countries, and we also expect to launch Israel shortly. And I think that that will be a very, very exciting market. I mean, if we – I think [indiscernible] (00:42:17) before. I think it's a sweet spot of the type of market we want to launch which is quite high ARPU, reasonably sized country, we can expect good word of mouth traction and we also have a very, very strong catalog, proprietary catalog where we can expect to have good margins as well. So, it's super exciting. But I think we'll get back to that as the market starts to become bigger and we can talk more about how successful we are.

Stefan Wård

Analyst, Pareto Securities AB

Q

Great. Thanks. The last question is also just any color on developments in South – or Latin America would be greatly appreciated. I'm thinking of Brazil, Mexico, Colombia, for instance.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

No, I mean, I don't think we can comment any specifics more than I think you are right there. South America is suffering quite a lot during the COVID or corona situation. So, obviously also some macroeconomic affect us as well. However, we see a really strong focus on nice entertainment and of course continue to invest in our own catalog to ensure a good local fit in that region. So we believe long-term in the region and continue to invest.

Stefan Wård

Analyst, Pareto Securities AB

Q

Okay. Thanks. That's all for me. Thank you.

Operator: Thank you. Our next question comes from the line of Hjalmar Ahlberg of Kepler Cheuvreux. Please go ahead. Your line is now open.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Thank you for taking my question. On the target both for 2021 and also 2023 discuss a bit of the mix in the non-Nordics will be, but could you say anything about I mean, the share of different countries or different markets don't know [indiscernible] (00:44:34) but it's like the top three of the Nordics is that 50% of the total or can you give any input on the mix in the Nordics?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

I mean, what we can say if you look at the Q4 report, the Nordic region still stands for almost 80% of the total revenue and we still see good growth. And since we are early in any of our markets, we will continue to see Nordic as a really strong segment going forward.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Got it. But you can say anything on the non-Nordic, I mean, in fact if the top three markets is that a large part of the total in the Nordics or is it a bigger split between the different markets in the non-Nordics?

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

A

I mean, we can say that you saw on my – the slide I showed before on the market that bridged 50,000 subscribers most quickly that gives you some flavor that markets we are seeing great growth on markets like Russia, Turkey, Poland, Netherlands. Those are top our non-Nordic markets, and we're quite bullish about all those markets in coming years.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Got it. And then maybe you have discussed it a little bit but maybe on – you said that later in this 2021-2023 period, you have – you expect more growth in the emerging markets, so to say. What is the biggest challenge to reach this growth in this market? Is it content or is it that you have to find the right marketing methods or anything you can put on there?

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

A

I mean, the challenge is and remains for most markets to develop awareness about the audiobook as a product, as a subscription product. And I think that's really where our marketing comes in. The word of mouth generated some delivering a really good service that includes strong content, that's relevant to people, and that people can read about outside Storytel. I think it's a mix of all those different things, and also ensuring that we have a good price point that people can relate to in comparison with other types of entertainment services.

I think the book reading remains strong. It has to be said all over again. I think looking at the physical books will exist still grows actually on some markets and ensures that we have a [indiscernible] (00:46:11) community and the publishing community that keeps investing and keeps generating great stories, and we're there to ensure that people choose that above other entertainment forms. I think we're doing that successfully. But Storytel is very long-term growth story, and we have a target set 10 years from now to grow to SEK 30 billion and that's a big ask. But we can say that we have a very good market position on the fast-growing market. And I think that's what really, really matters for us to set a target on the long term. But of course, we need to deliver in the short term. We've done that historically. We've hit all our targets so far. We don't plan to miss the target for 2021. But I have to admit that this is a challenging target. It will be reached only to ensure that we can improve the user experience and keep pushing out really the strong [ph] pipe (00:47:08) that brings in more people to the service.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Q

Thanks. And maybe a question on this new historical global regional content. Will this be important you think in more mature market or is it something that is important to have in new markets as well, and do you competition doing this as well or is this something that is unique for your thinking?

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

A

I think the fact that we will translate this into 14 different languages is something we believe that this is equally strong in all our markets. As Jonas just pointed out, I think that really telling the story about how a digitally reading the book can be as an experience for you. That's our story that we want to tell. And the best way to tell that story

is through awesome and great content that has been done by great creators. So, I think that's the way to reach everyone in every country of the world in every type of language. So, yeah, we believe that this will be strong in many markets or in all of our markets, but in different ways.

Hjalmar Ahlberg

Analyst, Kepler Cheuvreux SA (Sweden)

Okay. That's it for me. Thanks.

Q

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Thank you.

A

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

Thank you. Are we approaching the end of the session or do we have more questions?

A

Operator: We currently have no further questions.

Per Jonas Tellander

Chief Executive Officer & Independent Director, Storytel AB

Great. So, thank you so much for amazing questions. Thank you for tuning in. Really happy to have these calls and to have this communication with you. And as always, Sofie, our CFO, is available for analysts to discuss what we report and what we target. But thank you for tuning in and thank you for believing in the book market and in audiobooks and Storytel.

Sofie Maria Zettergren

Chief Financial Officer, Storytel AB

Thank you.

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