

05-Aug-2022

Storytel AB (STORY.B.SE)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

OTHER PARTICIPANTS

Joachim Gunell

Analyst, DNB Markets

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Derek Laliberte

Analyst, ABG Sundal Collier AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Storytel Audiocast Teleconference Q2 2022. Throughout the call, all participants will be in listen-only mode, and afterwards, there'll be a question-and-answer session.

Today I am pleased to present Acting CEO, Ingrid Bojner, and Interim CFO, Susanne Ekblom. Please begin your meeting.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Thank you and welcome to our Q2 presentation. And so, let's start with some of the highlights of the past quarter. So, some of the key events, our entire organization has been really focused on implementing our four strategic pillars, including also rightsizing and to ensure we have a scalable operations going forward. We have also focused our investments into our priority markets, and I will come back to elaborate a little bit more on which they are and how we look at them.

Also, we have introduced a limited-on-time subscription Basic in most of our markets. This is to be certain that going forward, in a climate of uncertain economic outlook, there is also an alternative for our customers who might want to adjust their listening behavior and also still remain with Storytel. And it's also a good way to increase new customers wanting to test out the service. The audiobook trend is still strong across our markets. And so, we continue to see growth from this. We also have the general meeting and have committed to the Science Based Targets initiatives.

In terms of financial highlights, I'm happy to announce the 31% year-on-year growth in our quarterly streaming revenues on a [ph] group (00:02:01) net sales amounted to plus 28% over that quarter-to-quarter. And if we can also conclude that we have an EBITDA margin of positive 1.6% if we exclude the items that are non-comparable compared to past year.

So with that, I go into the next slide, showing a little bit long-term projection of our subscriber and revenue growth. And as you can see from this slide, we have a continuous CAGR of subscriber growth of around 36% since 2017 and streaming revenues follow suit. And what we can see also is that from the previous quarter, we now have our US market, Audiobooks.com, included in the numbers. And we also see that we are growing more in markets where the ARPU is slightly higher.

So with that, I conclude some of the highlights, and I will turn to Susanne to go through the numbers.

Susanne Maria Eklom

Interim Chief Financial Officer, Storytel AB

Thank you, Ingrid. So, let's have a look at our financials, starting with the P&L, excluding items affecting comparability. We have a solid quarter with net sales growing year-on-year by 28%. The gross margin is improving significantly compared to the second quarter last year. We can see the effect of our strategic shift, where we focus on priority markets, including recently acquired Audiobooks.com. The strategic shift also includes a change in how we organize the business, as we presented in the first quarter. More than 100 employees left Storytel this year, and our cost base has improved quarter-on-quarter.

We will continue to invest in marketing, but we focus on investing while we can maximize our returns according to our strategic shift. All in all, the result is clear. The EBITDA margin, excluding items affecting comparability, improved from a negative 4.4% margin in the first quarter to positive 1.6% in this quarter. This is an effect of our strategic shift.

Next slide, you find the reported figures, which include the items affecting comparability. In the first quarter, items affecting comparability was SEK 133.4 million, which related to our strategic shift and phase out in Russia. This quarter also includes effects related to our strategic shift and Russia, [ph] but with SEK 45.6 million (00:05:49). Bottom line, the reported EBITDA margin is improved. We have minus 0.7% compared to last year's minus 9.7%.

Moving on to the next slide, you find the balance sheet. Not much has changed quarter-on-quarter. Some FX effect is shown in intangible assets and in equity. The cash position is at the same level as in the previous quarter. However, this includes an additional use of SEK 150 million of the RCF, which was according to plan. This means that the cash level is at SEK 450 million, available RCF at SEK 250 million, in total, liquidity at SEK 700 million.

So let's have a look at the cash flow. Cash flow from operating activities is negative, however, trending in the right direction. Cash flow from investing activity is driven by our investments in content as well as our tech platforms, which continue to be important investments. All in all, I'm comfortable with the current financial position and improved profitability, which means that we are trending towards a full-year EBITDA target range.

With that, I hand over to you, Ingrid.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Thank you, Susanne. So, I wanted to come back to our strategic focus and really emphasize the four pillars of our strategic journey at Storytel. So, we are accelerating profitable growth and we are emphasizing profitable growth since we are focusing our investments and costs clearly towards the priority markets.

Then, of course, we are improving our product. We live for our customers and we live for them to consume on our platform. So, in order for them to enjoy the best time with Storytel, we want to have an excellent product that helps them spend time with us and also find the best stories and books to read and listen to.

Of course, the cornerstone is to have the right content in our service. So we developed a content powerhouse, owning book publishers as well as audio book publishing, as well as having relationships with all the different publishers all over the world, and improving that relationship in order to them to continue to be a positive trend in the book industry.

Last but not least, and this is where we have spent most of our time lately in Q2 and most of the efforts, and I would like to take the opportunity to thank the whole organization for really being swift at focusing and being agile in terms of restructuring. So, we are building a scalable organization and ensuring that we get the best out of everyone working at Storytel.

So, if we go into a little bit more on the focus on priority markets. I have previously said that it's about 10 markets and it's the Nordics, it's the US, and it's the four countries in main Europe, the Netherlands, Poland, Turkey and Bulgaria. This may shift from time to time, but right now those are our priority markets. And over this, we have 87% of our subscribers here, and 93% of our revenues. So, these are higher ARPU countries, as well as countries where the audiobook industry is strong and the consumer demand is there. So, this makes our investments into these markets more profitable, and that is also what is reflected in our report figures.

We are market leaders in seven out of these markets, and we still believe that there is more growth to come from these markets based on the fact that still the market penetration for audiobooks is still on the lower side. So, we just looked at how many of the population actually has a downloaded app in terms of streaming audiobooks, and it's about 25% collectively.

Moving on to the other three pillars to do a little bit of a deep dive to what has been going on during the quarter. As I previously announced, we have introduced a limited-on-time subscription to complement our unlimited offer and family offer. I think this is core of what we do. We need to be relevant to all types of consumer groups and, of course, also stay relevant in times when economic climate and uncertainty is higher. And this is something we will continue to develop over time.

What is also very important is, of course, that the time spent in our product, it's easy. It's fun. It's the right books, and everybody continues to come back to us. This, of course, enhances loyalty and improves the consumer sentiment towards Storytel. And I'm happy to see that our 2 million customers actually consumed 138 million hours during Q2 together with us at Storytel.

We have also about 1 million unique ISBNs in our service. And this is, of course, to enjoy audiobooks relevant to the local population in our local markets. And as we have stated before, 85% of all consumption goes towards a local author in local language. We are anticipating the launch on 1984, an audio drama based on Orwell's very famous book, and that will be released in several markets in August to improve our content catalog.

And last but not least, in terms of scalable organization, we have managed to do a strategic shift. We will continue with this, ensuring that we centralize key function, automate processes, and ensure that we focus and gear all our energy towards our priority markets. This also, as Susanne explained, has involved a restructuring of our organization and letting go of some employees during Q1, Q2.

To move further, I would like to revisit our target in terms of our full-year target for 2022 in terms of EBITDA margin. I believe that this strategic shift and the restructuring is well on track according to our plan, and we are tracking against the group overall EBITDA target. Accumulated, at this point, we are at minus 1.3% EBITDA. So, the range is between minus 3% and 0%.

And then for financial targets and outlook for quarter three, we are proposing a 27% to 29% growth, excluding Russia in our streaming revenues. And this is also then tracking towards the revenue growth, as we previously announced, around 30% to 34%. And there is no guidance on our EBITDA quarterly target.

With that, I'd like to conclude this presentation with our focus on our four pillars of our strategy, and really just to reiterate them: accelerate profitable growth, product leadership, content powerhouse, and scalable organization. And we are welcoming questions now, Susanne and me.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Joachim Gunell of DNB. Please go ahead. Your line is open.

Joachim Gunell

Analyst, DNB Markets

Q

Thank you very much and good morning. So starting off with how you view your customers behaving basically. So to what extent would you say that customers are churning based on inflationary concerns here? And perhaps you can comment a bit on how you or your view on this have changed over the past months and how this is reflected into the Q3 guidance.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. Thank you. In terms of churn, I am happy to say that our base of 2 million customers are continuously engaged with us, and we have not so far seen any negative effect in terms of churn behavior, and our metrics in terms of engagement look fairly stable. However, it is, of course, impossible to predict exactly how the economic outlook is going to look in terms of new customers and also, of course, customer behaviors. So what we have done is to introduce the basic offering, which we think is a way for our consumers to find an alternative way if they find themselves in more economic distress.

Operator: Thank you. And our next question comes from the line of Derek Laliberte of ABG. Please go ahead. Your line is open.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yes. Thank you for that, operator, and good morning, team. So, first, I'd like to ask on the non-Nordics segment here. And from which market or markets do you expect the biggest contributions to overall sales this year? And also, if you could perhaps comment on where you currently see particularly strong momentum among these priority markets and if there are any of those that currently aren't reaching your expectations? Thank you.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Thank you and good morning to you, too. So, if we should elaborate a little bit on our non-Nordic segment, what we are really doing is to focus our investments and engagement towards market with the higher ARPU and a stronger consumer sentiment. So, this means also that there – in some countries where we have lower ARPU and higher churn, some of these customers have churned out and been then instead other customers in markets such as the US and the other priority markets in Central Europe, as I mentioned earlier in the call. And so, this is where we see momentum, and I think we have a development of Audiobooks.com in the US that are definitely performing according to plan and slightly better.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Okay. Great. And then I was wondering if you could give sort of some more flavor on how this time-limited Basic offering has performed over the summer and also what you see for this category going forward. Is this mainly would you say if you – if this is mainly generating new subscribers or do you also see quite a bit of movement sort of from the unlimited offering to the Basic offering? If we could get some sort of figure on that, it would be very helpful.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. So, I think what we really want to offer our customers is a subscription that fits their needs and behavior. So, this is the way we look at the world, and there is no one subscription that is performing better than the other. We still have strong momentum in our unlimited product. And over the past years, I think this is the family product that really has reaped the most benefits since that was launched in 2018. So, I still see momentum in all our products. It is just that we really want to complement our offering and be sure that we can cover and welcome any type of customer to Storytel.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

All right, sounds good. And then I'd also like to follow up on, I mean, competition here. I mean, it's always been there and it's natural that it's increasing. But particularly, I was wondering if – I mean, how do you view, sort of, the outlook for your US business, Audiobooks.com, here in light of Spotify's as-stated ambitions within the audiobook segment?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yeah. So, as I said, I mean, our US business is developing according to plan and slightly better. When it comes to competition, I understand that competition wants to move into our category since we love storytelling in audiobooks and also we can see that different institutions are projecting continuous strong growth in this market, and so are we.

And so, I think what we can do to ensure that we stay competitive is to continue to make the right investments into our product to make it both easier and better to use our product and, of course, also to stay relevant on the content side. And I think together with our publishing houses, we are very close to the creator and author community and this is a strength of Storytel and of ours, as well as our long-standing relationship with publishers around the world. And on top of that, we have become a producer – one of the world's largest producer of audiobooks. And I think this is a strength that we will continue to leverage going forward.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Okay. That's very encouraging. And finally from my side partly based on Susanne's wording about the financing situation, I was also wondering how do you view the potential for continued M&A and the outlook for that, opportunities, et cetera? Thank you.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. So, our strategy has been based historically on both organic growth and M&A-driven growth. And I think this is continuously what we are looking at. And then the timing of this and the actual potential cases, it will, of course, be on a case-by-case situation. And so, I can't really comment any more details on that.

Derek Laliberte

Analyst, ABG Sundal Collier AB

Q

Yeah. That's understandable and very clear. Thanks. That's all for me. Have a great end to the summer. Bye-bye.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Thank you.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Thank you. Bye-bye.

Operator: Thank you. And our next question comes from the line of Dennis Berggren of Carnegie. Please go ahead. Your line is open.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Good morning, guys. So, starting off with Audiobooks.com that seems to be performing pretty well, at least, to my understanding. Have you made any sort of changes such as increased investment? And if so, in what and that has bolstered the company's growth? And, well, you could also please confirm if that's the case because based on app data, it seems like download growth trends has turned and it's actually improving.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. So, thank you and good morning. Yes, if we look at what we have done over the past quarters where we have had Audiobooks.com in our group, we have, of course, started to collaborate closely and leveraging all our knowledge on both sides of the pond, so to speak. So, there's a lot of best practice sharing going on between the two teams. And we are also looking into further developing our strategy and collaboration.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

All right. And then, on the Nordics here in Q2, streaming revenues were a bit short on your forecast. What's your view on the current development and what Nordic markets are doing better and are there any market that have lost more pace?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. So, we are more certain about the development in the Nordics at this point because we are already into the higher season of trending in terms of many subscriber in the Nordics enjoy Storytel during the summer and try to test it out, whereas Europe is a little bit further behind in terms of vacation and less of a seasonality effect.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

All right. And by – on a country level, are you – would you possibly add some comments around the development?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

No, I think we want to continue to stay cautious and positive. So the non-Nordic segment is projected to grow by approximately 100% from year to year in Q3. So I think this is where we're guiding.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Got it. And then, finally from my side, and this is just to be clear, is the communicated target based on recorded or adjusted EBITDA? And then also related, based on structuring, I think you were pretty clear mentioning that you're well on track, but are all measures now taken and implemented? Should we expect any spillover effect also in Q3?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. So one of the big things none of us anticipated this year was, of course, the geopolitical situation that we have in the world and in Europe specifically with war in Ukraine, which is very sad to comment on. And, of course, our EBITDA target is not including any effects of such incomparable measures.

I think in terms of our Russian operation, it should be now all those write-downs should have been made in Q2. And we will, of course, stay very close to the economic development as we were discussing a little bit earlier in the call. But at this point, we have done a big restructuring in the organization and closed that in Q2. But we will continue to monitor this and continue to do most of our investments towards our priority markets.

Dennis Berggren

Analyst, Carnegie Investment Bank AB

Q

Of course. Got it. Very clear. Thanks again.

Operator: Thank you. We currently have one further question, at least. [Operator Instructions] And our next question comes from the line of Joachim Gunell at DNB. Please go ahead. Your line is open.

Joachim Gunell

Analyst, DNB Markets

Q

Thank you very much. I managed to hit mute earlier. So, hi again. But just to follow up with one more. With the ambition here to turn EBITDA breakeven over the coming quarters, when would you expect this to basically translate into sustainable, call it, positive free cash flows? And if you just then comment a bit on the, call it, puts and takes around that and also what the free cash flow profile is in your priority markets, say, excluding the tail of, yeah, non-prioritized markets.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. Thank you. I understood there was something before with the muted but – because it went silent. So, commenting on our EBITDA target, we have a group target level of 0% to minus 3%. What we really focus on, since we are a subscription business, is making sure that our investments are really done within a good return on investments. So it's, of course, also important to stay close to the different markets and mainly the priority markets and adjust accordingly during the year. And this is what we will continue to monitor with the different type of [indiscernible] (00:29:39) measures that we are looking into in order to make sure that we have a healthy combination of revenue and profits.

And I don't think we should comment anything more on the cash acquisitions. Susanne made it very clear what our liquidity position is at this moment. I don't know if you, Susanne, want anything?

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

No. No, I don't actually have anything to add. We are moving to our targets, EBITDA, minus 3% to 0%. And, of course, the strategic shift will have a continued effect on the EBITDA margin and in the end, of course, at the cash flow as well.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yes. Thank you.

Joachim Gunell

Analyst, DNB Markets

Q

Understood. Understood. And just finally, touching a bit on what Derek alluded to, but focusing on your priority markets, excluding the US. I mean, the competitors are also adjusting their strategies, prioritizing profitability ahead of growth. To what extent is that impacting the competitive dynamics for a market leader like you?

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

I think that we will stick to our strategy, of course, and I think the strategy that we are on is the right one in terms of focusing on where we have already a market-leading position and where we have a strong consumer sentiment. And this is an industry – one has to acknowledge that this is still an industry that is in its early stage. So, there will be competition, and there will be other players wanting to be in this business, and it sort of makes all of us better at the end of the day. And what we need to do is, of course, to ensure that the customers feel that they get the most out of our service in comparison and also continue to stay loyal, and that we do with our product development, of course, and investments into content.

Joachim Gunell

Analyst, DNB Markets

Q

Understood. That's all for me then. Have a great summer, Ingrid and Susanne.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Thank you so much.

Susanne Maria Ekblom

Interim Chief Financial Officer, Storytel AB

A

Thank you.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

A

Yeah. Thank you.

Operator: Thank you. And as there are no further questions at this time, I'll hand the floor back to our speakers.

Ingrid Bojner

Interim Chief Executive Officer, Storytel AB

Yes. So, thank you so much for listening in on this in Stockholm summary day and looking forward to continue our dialogue when we report on the Q3. Thank you all.

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