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Storytel AB (STORY.B.SE)

Q3 2024 Earnings Call

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Chief Executive Officer, Storytel AB

Peter Messner

Chief Financial Officer, Storytel AB

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Analyst, Edison Investment Research Ltd.

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Storytel Q3 Report 2024. [Operator Instructions] Now, I will hand the conference over to the CEO, Bodil Eriksson Torp; and CFO, Peter Messner. Please go ahead.

Bodil Eriksson Torp

Chief Executive Officer, Storytel AB

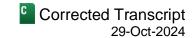
Hi and good morning, everyone, and welcome to Storytel Group's earnings call for the third quarter of 2024. I am Bodil Eriksson Torp, and I've been here as the CEO of Storytel Group since October 1. Joining me today is Peter Messner, our CFO.

I'm really glad to be here today. I've been working at Storytel now for four weeks, and it has been really exciting. I've spent my time on meeting our brilliant team and getting to know our business, and I would say that I'm really eager to get an even deeper understanding, especially when it comes to our customers and users in the different markets as well as our products.

I've spent over 25 years in the media industry, working with media groups like Bonnier and Aller. And mainly during all those years, I've been focused on driving growth for strong consumer brands with an emphasis on subscription-based models, combining content with excellent tech, and this is actually where I have my big passion. So, someone called me a subscriber hunter, and that's actually spot-on.

So, one of my big goal here is to capture everyone entering our amazing Storytel world and never ever let them go. Sales and marketing are also in my DNA. So, I'm really excited to continue our success to deliver even greater value to our customers and all our stakeholders. Thanks to the hard work done by our team here, the group has delivered the best quarterly financial performance ever with record-high revenues of SEK 954 million, with an adjusted EBITDA margin of 18.7%. We are so proud to present these results.

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And with that, I will hand over to Peter to talk about the details of our third quarter performance. So, let's move on, Peter.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much, Bodil, and welcome to this third quarter earnings call also from my end. Let's start with some operational highlights. Foremost, the profitability improvements we continuously see and report are the result of the disciplined strategy execution, balancing growth and profitability.

During this third quarter, our paying subscriber base grew by 10% to above 2.3 million paying subscribers and 40% of that growth was driven by our core Nordic markets. The size, and therefore, the growth of our subscriber base is however not the only focus. It's also the health of the subscriber base, and that is evidenced by the paid churn development, which continues to be on an all-time low. From a content cost perspective, the increased consumption of our own high-quality content from internal publishers again contributed to the improvements on gross margin level.

Following the introduction of new pricing plans and differentiated promotions in the Nordics in the second quarter, I'd like to particularly highlight our Finnish market, where we saw an outstanding success with our Premium for Life campaign, which also heavily contributed to the low churn. In total, we saw our subscriber base in Finland growing by 30% year-on-year during this quarter.

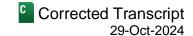
Our publishing houses continued to release bestseller lists and consumption-topping titles during the quarter, including another Storytel original from the Red Revenge series of Danish author Nis Jakob and Emelie Schepp's thriller Hundred Days in July published by Norstedts in Sweden to name just two of the highlights during this quarter. In September, Swedish crime author Sammy Jeridi signed a multi-book deal with Norstedts and Storytel, showcasing again the dynamic synergies between our streaming platform and the publishing houses within the group.

Let's turn to the financial highlights then. As Bodil mentioned earlier, Storytel Group again delivered the strongest ever financial results during this quarter. Group net sales increased by 7% or 8% at constant exchange rates to SEK 954 million. The adjusted gross profit margin improved by 4.6 percentage points year-on-year to 45.7%. Our EBITDA performance was particularly strong with adjusted EBITDA reaching SEK 178 million, which is up 76% year-on-year.

The record-high margin of 18.7% during the third quarter also reflects positive seasonality effects in the personnel cost base due to reversals of vacation accruals, as it is the main vacation period during the year. Else, however, the significant year-over-year improvement is driven by the increase in revenues and gross profit and also by the cost efficiency measures that the group has been taking since last year. All these operational and financial improvements are reflected in our operational cash flow, which was SEK 146 million, and in our adjusted operating profit which improved to SEK 105 million, which is a margin of 11%.

Let us turn to our segment performance then. Looking first at the operational performance in Streaming, which is our largest segment, we are again pleased with the very strong results. The total subscriber base grew by 10% year-on-year or 222,000 subscribers, up to an average number of subscribers of 2.36 million during the third quarter. More than 40% of that subscriber growth came from the Nordic markets, which contributed with an 8% growth, while the Non-Nordics core region grew 16% year-on-year and contributed 129,000 new subscribers year-on-year.

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The ARPU, the average revenue per user, remained at a high level and organically decreased by 2% year-on-year or 4.4% when including the adverse currency exchange effects as a result of the expected stronger subscriber intake in our lower priced tiers. As mentioned earlier, we focus not only on the size, but also on the health and therefore the profitability of the subscriber base, which means all time a balancing of subscriber growth and ARPU. We managed this through the ratio of customer lifetime value to our subscriber acquisition costs, and our success is evidenced by the development of paid churn which continuously is at an all-time low.

When taking a closer look at the Streaming segment's financials then, we see that total net sales were up to SEK 852 million, which is a 5% increase year-on-year or 8% at constant exchange rates. Revenue in the Nordics region increased by 3% based on a subscriber increase of 8% and an ARPU decrease of 5%, which is also impacted by adverse currency effects. Revenue in the Non-Nordics core region increased by 16% based on a subscriber increase of 16% and a slight ARPU decrease a little bit below 1%.

Adjusted gross profit for the Streaming segment increased by 11% to SEK 354 million, with a margin of 41.6%, which is 2 percentage points higher than in the third quarter last year. The total operational expenses significantly decreased such as the general and administrative expenses which decreased by 59%, again including a positive seasonality effect on personnel expenses due to the reversal of vacation accruals during the summer. As a result, the adjusted EBITDA contribution from the Streaming segment increased by 56% to SEK 121 million and reflects a margin of 14.2%. And the adjusted operating profit contribution from the Streaming segment increased by 142% to SEK 90 million.

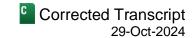
Let's then turn to the Publishing segment. The Publishing segment reflects the financials of all the publishing houses within the Storytel Group. This is Norstedts Publishing Group, Lind & Co., Gummerus, and People's, as well as our global digital audio publisher Storyside. The total net sales in the Publishing segment increased by 13% to SEK 285 million, out of which the external sales, which account for 54% of total sales, increased by 11% to SEK 154 million. And the group internal sales increased by 15% to SEK 131 million.

As you can see in the bottom left chart on this slide, the internal sales show a more stable and increasing development, while the increase in the external sales over time is subject to certain seasonality patterns also defined by the print sales. Adjusted gross profit increased by 52% to SEK 98 million, with a margin of 34.5%, which is 8.8 percentage points higher than in the third quarter last year. Adjusted EBITDA contribution from the Publishing segment was up 48% to SEK 87 million and reflects a margin of 30.5%. And the adjusted operating profit contribution from the Publishing segment was SEK 47 million, an increase by 141% year-on-year. Both the gross profit and the EBITDA margins follow certain seasonality patterns due to different gross profit margins in print sales versus digital sales and also effects from inventory write-downs. Overall, the increase in margins is not only the result of higher revenues, but in particularly also due to the many operational improvements that have been implemented since last year.

Let's take a look then at the group's cash flow statement, which shows really the results of the disciplined strategy execution and the past cost efficiency measures now. The cash flow from operating activities before changes in working capital increased by 88% to SEK 148 million where the change in working capital was SEK 45 million and explained by the seasonality on accrued expenses including royalty payments. The cash flow from investing activities reflects our investments into content, product and technology and was minus SEK 44 million, and the cash flow from financing activities was minus SEK 9 million. All in all, total group cash flow for the period was a positive SEK 140 million.

With that record-high cash flow generation, let's have a brief look at the group's balance sheet. There are overall no major movements on very much all of the asset lines in the balance sheet with total assets at roughly SEK 3

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billion and reflecting an equity to asset ratio of 43.9%. Cash and cash equivalents at the end of the period was at SEK 448 million. The only remaining financial debt is a revolving credit facility. Only after the end of the period we have extended the maturity of this revolving credit facility until April 2026, for which the related liabilities were still classified as current in the balance sheet as at the end of September. The new revolving credit facility is SEK 700 million, of which SEK 650 million are currently utilized.

How does this debt then translate into the group's leverage? Well, firstly, our operational cash flow, defined as EBITDA excluding any items affecting comparability less any operational capital expenditures, was on a record-high level with SEK 146 million or 15.3% of revenues. The net interest-bearing debt was SEK 202 million at the end of the period and represents a leverage ratio to the last 12 months of adjusted EBITDA of 0.4. As you can see, the Storytel Group has significantly deleveraged during the past 12 months down from a leverage ratio of 1.3 at the end of September last year.

Finally, so where do we stand regarding our financial guidance for this year based on this strong performance? As a recap, our previous strategic shift towards an increased focus on efficiencies and profitable growth, which was initiated in 2022 and reinforced this year, has led to significantly higher profitability while still maintaining solid growth. With the continued strong competition, particularly in our core Nordic markets, we have applied a fairly disciplined approach to marketing spend, and therefore we have chosen to revise our 2024 full-year revenue growth guidance to around 8%. At the same time, we now expect to be close or reach the previously outlined 2026 midterm targets of both adjusted EBITDA margin above 15% and operational cash flow above 10% of revenues already this year, which is more than two years ahead of plan.

Bodil Eriksson Torp

Chief Executive Officer, Storytel AB

Thanks, Peter. This performance is a clear statement of the group's strong financial position, and I would say it also open up for many strategic opportunities. I will work closely with our team to review our business plans and evaluate the different possibilities that we foresee.

And with that, we conclude this presentation and open up for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Derek Laliberté from ABG Sundal Collier. Please go ahead.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Okay. Good morning and thank you. And also great to have you on the call, Bodil. I wondered if you could start out by maybe sharing some of your – I know it's early but some of your key observations perhaps after being on the inside, so to speak, for about a month now. Thank you.

Bodil Eriksson Torp

Chief Executive Officer, Storytel AB

Yes. Thank you. As I said, I'm really happy to be here and I've been here for four weeks now. So, of course, I'm deeply impressed about the work that has been done by the team here, all the strategy executions by combining a disciplined strategy for marketing investments and also the cost efficiency, but also securing the market positions within the different markets that we are in a leading position as well we are a challenger. That's really impressing work that has been done.

And so far, I would say, even though it's really early time, I'm really impressed by the highly skilled team that we have here within the company regardless of the different disciplines that goes into tech, product, marketing, publishing, and also finance, to mention some of the few. So, the company is in a really good position now. And, of course, my responsibility is to take it to the next level. But even though it's quite early stage.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Got it. Sounds great. If we could move to the Nordic Streaming area, it's very solid Intake in subscribers there during the summer. You mentioned that it's really strong with 30% growth in the Finland, but I wonder if you could break it down a little bit and explain what you – how the sort of individual Nordic markets perform there?

Peter Messner

Chief Financial Officer, Storytel AB

Yeah. Thank you, Derek, and welcome to our call and good morning. I mean, as you know, we're not breaking out the single countries, but it was worth to really highlight and mention the success in Finland, because you need to put that a little bit into the perspective of our expectations for this year and the overall intake and the balancing really between the profitability of the customer base, the health, and at the same time the growth outlook in the Nordics as well.

What we have been doing in – starting in Q2 really, as I mentioned on the operational highlights with the new pricing plans and in particularity for life campaigns, they are really a very important item in building up a subscriber base that has continuously a very low churn. You can understand that for life proposition for a consumer is very powerful, right? It comes at a certain short-term cost for us as an operator, because we obviously give for life at 50% discount. But it comes with a commitment of a consumer to really stay hopefully for the long term, and we have seen – it's still early on, but we have seen these positive developments in the continuously low churn, in fact, it's the lowest churn that we continuously have in our business.

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So the combination of exactly these pricing innovations with a very strong consumer proposition and the very low churn is exactly that balancing act between how much do you want to push subscriber growth in the short term at a higher ARPU or how sustainable and long-term thinking with maybe a short-term impact on that growth you have.

But Finland has shown – and we're the number two in Finland, as you know. Finland has shown that we gained market share with a 30% increase on subscriber growth. That was a clear sentiment that these pricing innovations and the campaigns that we have been running, Student for Life (sic) [Student Forever] (00:19:28) campaign and also a time-limited Premium for Life campaign, have really been successful. So, we look very forward to, and that overall supported not only but to a large extent the very strong intake of subscribers in Nordics during this quarter.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Okay. Thanks for the flavor. And on that note, with the different pricing and subscription packages here, how that is – has this Flex time-limited or the subscription performed. Are you seeing, for example, younger audiences coming in there because of the lower price point and the overall characteristics of that subscription?

Peter Messner

Chief Financial Officer, Storytel AB

I mean, that has been one of the reasons, obviously, to introduce the pricing and the way how we package that product. If you think back a few years and where we really come from in a time up until 2022 where we essentially had in the Nordics and overall an Unlimited plan only, we went – or the group went really into very differentiated pricing tiers. And one reason for that is not only the competitive part but it's, of course, also the segmentation of our consumers and really to respond to the various different...

[Technical Difficulty] (00:20:46-00:22:47)

Operator: The next question comes from Derek Laliberté from ABG Sundal Collier. Please go ahead.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Yes. Can you hear me now?

Peter Messner

Chief Financial Officer, Storytel AB

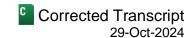
Hi, Derek. Yes. Something technically must have happened here with the provider. So I'm not sure how long you could really follow, but just let me know what kind of answer part you still got and otherwise I will simply repeat.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Oh, yeah. I think we're good on the subscription packages. Thanks for that. I was wondering if we could jump into – I know you're not commenting too deeply on the individual markets, so to speak, but looking at the Non-Nordics core Streaming segment here. I mean, I would have expected somewhat higher subscriber intake than what we've had here in Q2 and Q3. So, I'm wondering – it's still good growth but what's really going on there and is something holding this back or is it the price increases you rolled out, for example?

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Peter Messner

Chief Financial Officer, Storytel AB

Yeah, exactly. So, let me start with the final item that you mentioned. If you take a look at the ARPU development in the Non-Nordics core, you'd see a sequential improvement on the ARPU, which is the result of the price increases particularly in the Netherlands and in Poland. So that had an impact. And when you do price increases without adding other services or features, then of course, this is always a balancing game. We're testing a little bit the grounds how much of the price increase can you do without impacting the short-term churn profile and therefore the intake, right? So, there is an effect obviously on the subscriber base.

What we, however, also did during the third quarter, and we just launched this something like two weeks ago in the Netherlands, is we introduced new pricing tiers. The Netherlands and some of our outside of the core Nordic markets are not yet changed to our pricing tiers that we have here in the Nordics, which is a Basic or a Flex, a Premium and Unlimited, and Family plans. So we have introduced this in the Netherlands as well and planned for that introduction, and therefore it made sense to balance the various efforts and the promotions and the campaigns accordingly.

So the intake was stronger towards the end of the quarter, but the quarter averages, if you compare them to the second quarter averages, are impacted, so to say, by that. But it's a combination of the price increases that nevertheless increased the ARPU. The ARPU overall in Non-Nordics core declined by a little bit, but that is also impacted by the currency exchange effects.

Overall, the year-over-year increase in ARPU was a positive almost 2.5%. So, there's a very positive ARPU development. Subscriber intake, exactly as you say, a little bit slower, but intentionally because we have been balancing exactly these two items. But I would expect that to change now given what I just said, what we introduced in the Netherlands and what we continuously focus on in some of the other markets.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Thanks. That's great clarity. Can you say something in general on the pricing here? So overall, I mean, temporarily higher churn or slow intake, but price increases have been received pretty well, I would say, over the last couple of years or so. So, what's the plan there? Will you raise prices further?

Peter Messner

Chief Financial Officer, Storytel AB

I need to be very careful with an answer which you hopefully understand based on the sensitivity also towards our competitors. But as you said, the price increases that we did in the Nordics in the beginning of 2023 have been very well received. What happens, as you can understand, is that the composition of the consumer base in the various pricing tiers changes over time. When you have new intakes that may preferably join lower priced tiers than you had before, which is of course also reflected in the ARPU development in the Nordics over time.

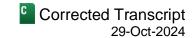
With price increases being now passed if we enter the next year two years ago, there may be an opportunity but I think it would be too early for us to really commit to anything. But pricing and overall packaging is always something strategically that you need to take a look at into your marketing mix, right? So it is something that every provider in that space has to take a look at.

Derek Laliberté

Analyst, ABG Sundal Collier AB



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Okay. Okay, perfect. And then finally for me now with the strong cash flows here and the balance sheet as well as you mentioned. When comes to M&A, is this something you're actively pursuing now? And if so, what type of targets are you primarily considering?

Peter Messner

Chief Financial Officer, Storytel AB

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I mean, exactly as you said, if we wouldn't do now any investments with the likely net cash position that we would achieve at one point in 2025, as Bodil mentioned earlier, this opens up for many different strategic opportunities and M&A is one of those opportunities in the toolbox that we would look at. We always have open ears and open eyes to see are there interesting targets, is there something that really fits in there. At the same time, this is the time of the year not only for budgeting but also for strategy revision. Since May, we have new board members, a new Chair. Bodil just entered four weeks ago. So we take a look, a very close look at our strategic plans and our business plans, and we will update the market if there is anything to update about. But the general answer is, of course, we will always take a look at especially because we are now in such a strong financial position to be able to really take a look at that.

Derek Laliberté

Analyst, ABG Sundal Collier AB

Okay. Great. Thank you.

Operator: The next question comes from Fiona Orford-Williams from Edison Group. Please go ahead.

Fiona Orford-Williams

Analyst, Edison Investment Research Ltd.

Good morning and thank you. I'm quite new to the story. So if the other analysts will forgive me if I [indiscernible] (00:29:14) little bit more basic. You're talking about a range of tiers. Can you just tell me a little bit more about how they vary? Is it by content? Is it by access? And then the objective of having those tiers is, are you trying to tempt people in the lowest prices and then manage them up through the tiers to become more profitable for you? Thank you.

Peter Messner

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Chief Financial Officer, Storytel AB

Yeah. Thanks, Fiona. I'll try to condense the answer and not to go...

Fiona Orford-Williams

Analyst, Edison Investment Research Ltd.

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Yeah.

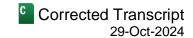
Peter Messner

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Chief Financial Officer, Storytel AB

...into too many details about that exactly as you said. But a little bit of history. So as I mentioned before when Derek was on the call, Storytel had in the core Nordic regions and generally speaking with the exclusion of our business with Audiobooks.com in North America really, which is a credit model similar to Audible, a subscription business with an unlimited tier. And unlimited means you pay a fixed amount per month as a consumer and you can use as many hours as you want listening to the content that you prefer. And content being books but even reading books, we have e-books, of course, in our platform as well. So when we started to differentiate, the

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different pricing tiers now differ in the price that you pay per month and what you get for the different pricing ranges is different hours for your subscription. So the Basic plan in the Nordics is general a 20-hour plan with the Flex element where the unused hours can be taken over and rolled over into the next month up to 100 hours. So you can save these hours if you want to listen to them later on.

Fiona Orford-Williams

Analyst, Edison Investment Research Ltd.

Yeah.

Peter Messner

Chief Financial Officer, Storytel AB

The middle package, so to say, is the Premium package where you get 100 hours and the Unlimited is still the unlimited hour pricing plan. Then there are family packages that particularly target. And the basic proposition here is obviously, well, why do you want to pay for Unlimited at a higher pricing tag if you are not interested to listen, let's say, more than two books per month. And 20 hours is roughly on average a two-book proposition. So it

addresses the needs of very different customer segments, and they are interested in reading books.

The upselling or the cross-selling that you referred to, that is not in our industry as sophisticated as you may think that it is coming from different other industries. It is more really a customer segmentation opportunity for selecting the right one. But, of course, there are these opportunities as well depending on certain campaigns that we would run during the year.

Fiona Orford-Williams

Analyst, Edison Investment Research Ltd.

Okay. That's very helpful. Thank you. And you were talking about this Premium for Life model that you have in Finland. Is that suitable for other markets? And are you intending to roll it out?

Peter Messner

Chief Financial Officer, Storytel AB

Yeah. So, the Premium for Life was a time-limited campaign. What we rolled out in general in the Nordics during the second quarter and continued into the third quarter was foremost a Student for Life (sic) [Student Forever] (00:32:14) campaign. And the idea behind that was students, reflecting young audiences in general, are little bit more price-sensitive, might be a little bit more casual in their usage of audiobooks with all the other content and all the other entertainment that they are consuming.

Fiona Orford-Williams

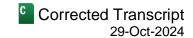
Analyst, Edison Investment Research Ltd.

Yeah.

Peter Messner Chief Financial Officer, Storytel AB

So we wanted to really create an offer that is very compelling for student, and Students for Life [Student Forever] (00:32:37) means a 50% discount on the Premium offer for life if you show that you are a student and have the correct accreditation and if you then stay with our service in an uninterrupted way for life.

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In addition to the Student for Life (sic) [Student Forever] (00:32:56) in Finland, we also launched a Premium for Life campaign for everyone. So not only students but for really everyone. It was a time-limited campaign, and in the same way a 50% discount on the premium tier if you continuously stay with service in an uninterrupted way. So that was the offering. It can be suitable in other markets. It depends a little bit on the competitive situation and where we stand. So we obviously take a very close look at what is happening competitively, what is the overall growth and the penetration in the respective market, and does it make sense from a timing perspective to really offer that. But it is based on the success that we had and again we had a 30% subscriber growth year-on-year in Finland. We're very pleased with these results, so we might consider that in other markets as well.

Fiona Orford-Williams Analyst, Edison Investment Research Ltd.	Q
Okay. Thanks very much. Very helpful.	
Operator: The next question comes from Joachim Gunell from DNB	Markets. Please go ahead.
Joachim Gunell Analyst, DNB Bank ASA (Sweden)	Q
Thank you. And welcome, Bodil. Now you are stuck with us, analysts	. So
Bodil Eriksson Torp Chief Executive Officer, Storytel AB	A
Yeah, sure. Thank you. I'm happy for that.	
Joachim Gunell Analyst, DNB Bank ASA (Sweden)	Q

...if you take – yeah, if you take a step back, I mean, you highlighted this also that the case in Storytel up until 2022 was about defensive growth, 2022 has been about the turnaround, and in the past two years we have seen a refocus and step change in profitability and cash flow. So any, call it, high-level thoughts from you with how you envision the story to unfold for Storytel over the coming three years? Is it more of the same or are there certain other aspects that attracted you to this role?

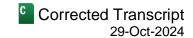
Bodil Eriksson Torp Chief Executive Officer, Storytel AB

Maybe I will disappoint you a little bit now, but I think it's way too early to actually point out the direction in this call for the upcoming three years. But I'm confident in the strategy that is running for the moment and all the teams that are working within the company with really high skills and putting out different questions, opportunities, and yeah, the plan forward.

So, as we said before, both Peter and I, that we are in the moment where we revise our business plans, looking into the strategies, and also thinking about how we can accelerate our business in the long-term, of course, to a business that we really can see that we are growing, but also remain the profitability level and are – I think, I mean, the company is really doing well and the teams are – the efforts are good in different perspectives.

But as always in all companies, there are room for improvement, of course. I mean, I have my background also in – when it comes to marketing and sales. So, of course, it's interesting to look into how we can accelerate our sales within the different countries. But regarding the upcoming three years, I will wait a little bit more before I

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state the plan for that. So - but I will come back soon to you and answer a little bit more specific in those questions.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Thank you. And Peter, so from the Capital Markets Day material in 2023, you provided a bridge on how you will deliver 12% EBITDA margins by 2026. I mean, from the optics of it, it will look like roughly 3 percentage points then will stem from gross margin improvements basically. And now, not even 1.5 years after this, you have already improved the gross margin by some 4 percentage points and are by 2024 at your - I mean, at a higher target here, so on a EBITDA level. So, just help us a bit with how we should think here. How much more is there room to improve the gross margin from these levels? And the current progress, is that the best kind of indicator for your long-term profitability potential?

Peter Messner

Chief Financial Officer, Storytel AB

Yeah. Thanks, Joachim, for that, I mean, there is – I think we indicated this previously as well. We are working a lot on the various elements, and it has been a balancing act. You can be a growth company and then you disregard a little bit the profitability. You can do the other way around and not focus a lot on the growth and push a lot your profitability. And the middle path is the more difficult one that we chose to do, because we like to be very ambitious, right. So, it is a profitable growth strategy here.

And the profitability comes really through all the various measures. We have focused a lot on our own content, and that is really the synergetic reason why we have both a Streaming and a Publishing segment, and in the Publishing segment, the various publishing houses in our business, because we are creating content and then we are distributing content. So, the focus on content creation, the focus on high-quality content that really attracts and engages our audience, that is one of the key drivers here, which we might have underestimated, to be honest, how great that content actually is that can drive our internal consumption, and by that, improve our margin.

How much more is possible there? I would leave that question a little bit open, because it's also a – it must be an intentional decision of how much do we actually want to do there, because there's always a trade-off between how far you want to go and what that means as an effect on royalty payments in the end potentially as well. On marketing efficiency, we put a lot of focus on that with the team in the last two years, and we have gained a lot of grounds and overall on the cost base as well. So, you can always expect, as every other company, what Bodil just mentioned, there's always room for improvement, because there will be new technologies, there will be process improvements based on how we can further optimize certain steps. We can simplify certain procedures.

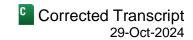
So, there's always a possibility to improve the profitability margin. And then, there will be a trade-off as a balancing act and as part of the strategy that we are revising of how much more do we want to invest in growth and do we want that to cost us a little bit on the profitability or not. And that we will update the market on. But I think it's fair to say, from where we are right now, you shouldn't expect major deviations. We have already achieved two out of three mid-term targets. We are still on a path to deliver all the mid-term targets if we want that, and that we will update the market when the time is right.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

Okay. And finally, so we're two years now in from the consolidation of Audiobooks.com almost. I mean, it appears to be performing actually quite well on a standalone basis. But just comment a bit on, I mean, if there are any

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synergies at all when it comes to the offering, the technical platform, the payment solution, et cetera, or is it perhaps time to review the industrial logic of running this business as a part of Storytel? Have you come any closer to some sort of integration is the real question here?

Peter Messner

Chief Financial Officer, Storytel AB

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Yeah. Also here, I think it's the same answer. We will take a look at all kinds of things as part of our strategy process, including what kind of positioning do we see and do we want to continue on with Audiobooks.com. It's now three years into consolidation. So, the business was acquired at the end of 2021. The closing was early 2022. So, it's the third full year. And I think it's fair to say that in the beginning of that period, the company followed – the company meaning the group followed a strategy of keeping exactly that very high profitability-contributing business in the shape that it is.

We have seen a great development during this year. We have upgraded our own budget in the US with Audiobooks.com twice during the year. We had the highest – as we mentioned, I think, in the second quarter call, we had the highest subscriber numbers during the second quarter with an intake. The contribution that Audiobooks.com has to the group is above average from a cash flow or from an EBITDA perspective. So, it is a very valuable asset that we have here, and we will take a closer look, as we will take a closer look at everything in our group as part of our general business plan revision and strategy process.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

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Great. Can I just squeeze in a quick follow-up here? So, you commented a bit on the several strategic opportunities, as you say, entering [ph] that test (00:42:14) territory into next year. So, I know it's a board question. But from a CFO standpoint, Peter, can you comment a bit on what's your preferences when it comes to the best possible uses of capital here, if it is to pay down debt and the RCF or [ph] reinstate (00:42:30) dividend, buybacks or actually pursue M&A?

Peter Messner

Chief Financial Officer, Storytel AB



It's not about what I [indiscernible] (00:42:36) in my role really prefer here, Joachim. It's really taking a closer look at exactly what you mentioned. I mean, you can continue deleveraging, but we're already at a leverage of 0.4, which is fairly low and reflects the health from a balance sheet perspective. So, that opens up the opportunity to do more. M&A could be one thing, and M&A could be very different things as well.

You can think of IP. You can think of content acquisitions. You can think of consolidation in the market. You can think of publishers. You can think of all kinds of things, right. So, the toolbox that we can apply and potential targets could be quite many-fold. And it is that process that we have with our board of directors to decide the balancing in particularly from a long-term, and therefore, from a sustainable strategic development perspective what is the best thing to do. But it's independent of what I personally would want or would not want to do.

Joachim Gunell

Analyst, DNB Bank ASA (Sweden)

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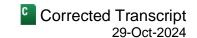
It always worth a shot. Thank you.

Peter Messner

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Chief Financial Officer, Storytel AB

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That's appreciated. Thank you, Joachim.

Operator: [Operator Instructions] The next question comes from Stefan Ward from Pareto Securities. Please go ahead.

Stefan Wård

Analyst, Pareto Securities AB

Hello, and happy to read the report today. Really strong performance. So, congratulations and well done on that. I'd like to ask a few follow-up questions on the OpEx side. There's a very substantial decrease in the G&A costs, especially on an annual basis, not so much on a sequential basis. But can you describe if there's more room to do on the G&A? It seems like that's where most of the OpEx leverage – or operating leverage has come from. And also if you could describe a little bit about how the efficiency improvement in sales and marketing has materialized, what you've done that and what to expect for sales and marketing going forward would be helpful. Thank you.

Peter Messner

Chief Financial Officer, Storytel AB

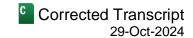
Yeah. Hi, Stefan. Well, as I mentioned on the G&A costs in particular, so if you think back of how we updated the market with various cost efficiency measures, we have started to make organizational changes in particularly on – in our content and Publishing side here in Sweden towards the end of last year, Q3 executing starting, implemented Q4 last year, and then major operational restructurings at the beginning of this year with an overall 13% head count reduction. A lot of that is now fully built into the cost base that was implemented during the first quarter. Then, you still had certain effects during the second quarter, and you had the run-rate effects now fully implemented in the third quarter. So, that explains a fair deal.

What you also have in the third quarter, and I mentioned it on the slide set in the presentation earlier, that the way how we are handling our personnel expenses from a vacation accrual perspective is that we are accruing the vacation pay, and then when vacation is taken – and from a Swedish and Scandinavian perspective, the huge vacation time is during the summer – then you have a reversal of these accruals, which have a positive impact on your margin or on the cost base first and then on the margin. So, that is not necessarily now reflecting in the third quarter from a run-rate perspective, because you should reflect that correction going up a little bit from a cost perspective into the fourth quarter. But overall year-on-year, nevertheless, you have a significant reduction in our operating cost.

On the marketing and on the marketing efficiency side, exactly as you said, and as we updated, I believe, the market since – since I came in from the second quarter earnings call last year, there have been a lot of low-hanging fruits that obviously have been taken. There have been a lot of continuous improvements in the overall marketing way. And the marketing efficiency, you need to think of subscriber acquisition cost and the way how we define at what point in time in what market and what channel are we acquiring customers, how much does that cost and how much in particularly does it relate to the customer lifetime value that we can expect from such subscribers. And that's a balancing act that I referred to earlier as well, especially when we do certain campaigns like the for Life campaigns.

Then, it has a certain short-term impact, but it has a very positive long-term impact as well in terms of the lower churn and the health of the subscriber base. So, there is always room for improvement and continuous fine-tuning in all of these measures, also taking a look at how the world is continuously developing. And what I mean by that is how different media channels are evolving, what the competitive environment is, how we focus or refocus

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maybe on certain consumer segments within our overall segmentation strategy. So, there's always something that we will be able to do. But I would not expect necessarily from a CFO perspective, the huge chunks that we have seen in the last two years, because these were really the more disruptive changes as part the transformation, and now it's really going to be more fine-tuning,

Stefan Wård

Analyst, Pareto Securities AB

Perfect. Thank you very much, Peter, for that clarification. I would also like sort of an update educational-wise on how the Publishing segment is functioning now with Storyside having – being moved to this segment for a few quarters, because it changed the gross margin profile quite a lot, and the overall profitability has surprised at least me on the positive side. So, can you just sort of describe how this business looks like now? Any level of detail is appreciated, please.

Peter Messner

Chief Financial Officer, Storytel AB

Yeah. It's always great that we can surprise you, Stefan. I know that's not so easy actually. So, that's – I take that really as a compliment. So, when we introduced the new segment financials and the segmentation in the way how we show the operating segments in the second quarter, what we said back then was that we followed the way how we already have been operating. So, there was a little bit of a lag, how we updated our segment financials and the overall operating segments in the external report as compared to how, under the previous CEO, we already started to work with the segments anyway.

And as I briefly mentioned as a reminder in the presentation, the Publishing segment reflects all the financials, and therefore, the operations of all the various publishing houses. So, it is our more traditional print publishing houses like Norstedts Publishing Group. It is Lind & Co. It is Gummerus and it is People's. And then, it is also Storyside, which is a purely digital audio publisher. And the way how we run them is, of course, in both a collaborative way, but also in an independent way, because they still have their very own value propositions either out there to the market based on their imprints, the way how they work with the authors, but also how they focus on, and that could be different genres and different formats.

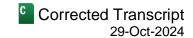
So, there's a very distinct leadership per publisher, but nevertheless a collaboration in terms of what do we want to achieve from a group level. And then, on top of that Publishing segment and that set-up, you obviously have that collaboration with the Streaming segment, because roughly half of the Publishing segment's revenues come from internal sales within the Storytel Group. So, that is exactly that synergetic value. If you take a look at the gross margin profile in Streaming and the gross margin profile in Publishing, and then at the gross margin profile of the entire group, that gross profit margin in the group is higher than the single one. So, one plus one is three in that respect because of the synergetic nature that we have of our internal publishers and the way how we can use that high-quality content in distribution.

Stefan Wård

Analyst, Pareto Securities AB

No, that's a great description. Thank you very much for that. I have a question also regarding the Netherlands. Spotify has launched there. Have you signed a content deal with them or can you give any insights to how they have secured content for that market? And what has been the sort of initial impression from that? I know it's early days, but if you have anything to say would be helpful.

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Peter Messner

Chief Financial Officer, Storytel AB

Yeah. It is indeed early days. So, I cannot comment too much on that. We actually started – I mentioned it, I think, on the question from Derek in relation to our subscriber development in the Non-Nordics core markets, where the Netherlands is one of the key markets, right. Roughly a week, a week and a half before Spotify launched, we actually launched our own new pricing tiers. So, we previously only had an Unlimited product offering in the Netherlands, and we differentiated that in alignment or similar to what we have here in the Nordics, which is a basic flex introduction, a little bit different from the number of hours that you can consume, a Premium, an Unlimited, and also the Family packages.

So, as we started very close to when then Spotify started with their launch, it's very difficult actually to extract now certain developments because they are interfering with each other. We're not licensing any content to Spotify in the Netherlands. That is fair to say. Other than that, it's too early. We have totally expected that Spotify would launch in the Netherlands. They not only launched there. They also launched in the other Benelux countries and in France. But from our core market overlap, so to say, only the Netherlands is really relevant for ourselves to look into.

If I compare to what happened in the fourth quarter of last year when Spotify launched in the US, and we have now almost a year of data for our Audiobooks.com development, then I'm actually very positive looking forward to the overall category of Audiobooks being lifted by yet another very big player entering the market and doing a lot of promotion for Audiobooks as well.

I think we mentioned that several times. We have seen a lot of tailwinds in the US because of Spotify's entry. They have essentially made the cake much, much bigger by converting their own music listeners to also listening to Audiobooks, and that is a very positive impact on that entire industry. So, something similar I'm very much looking forward to in the Netherlands as well. But again, it's a little bit early days to share any more conclusions out of that.

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Analyst, Pareto Securities AB

Okay. Thank you very much. Great numbers. Thanks a lot.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you, Stefan.

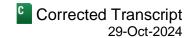
Operator: There are no more questions at this time. So, I hand the conference back to the speakers for any closing comments.

Bodil Eriksson Torp

Chief Executive Officer, Storytel AB

Yes. Thank you so much for relevant and good questions. And thank you, Peter, for really interesting and detailed answers in many of the questions. Of course, I'm looking forward to the next chapter here, and hopefully, I could also join with a bit more of answers to the questions on the next call. During the time, I will work on and together with our dedicated team here at Storytel and also our board of directors. I'm quite confident that we have all the

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driving forces to continue our success. So, I'm really looking forward to it. Thank you for joining us today, and we're looking forward to meeting you soon again.

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