



Interim Report

January - March 2018
Storytel AB (publ)



Highlights from q1 2018 report

- ❑ Subscriber base up 51% Y/Y to 577 900, on track to reach 800 000 in 2018
- ❑ Streaming sales up 43% Y/Y to 222 MSEK, on track to reach 1 000 MSEK in 2018
- ❑ International streaming sales now 45%, on track to surpass 50% in 2018
- ❑ Storytel launched in Iceland during Q1 and after end of quarter in UAE and Turkey
- ❑ E-book reading device (Storytel Reader) to be launched before summer

Key numbers for Streaming and Print Publishing

Currency: thousand SEK	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Streaming Total						Forecast ¹
Revenue	155 660	167 008	197 881	209 225	222 133	236 000
Contribution Profit ²	32 133	27 847	27 784	30 277	24 079	
Contribution Margin	20,6%	16,7%	14,0%	14,5%	10,8%	
Paying Subscribers	381 200	423 200	503 900	533 400	577 900	620 000
ARPU ³ (SEK/Month)	136	132	131	131	128	127
Streaming Sweden						
Revenue	96 177	101 365	113 709	118 038	122 046	125 000
Contribution Profit	32 678	31 257	32 872	38 501	43 067	
Contribution Margin	34,0%	30,8%	28,9%	32,6%	35,3%	
Paying Subscribers	241 400	255 800	282 300	292 700	305 100	314 000
ARPU (SEK/Month)	133	132	134	134	133	133
Streaming International⁴						
Revenue	59 483	65 643	84 172	91 187	100 087	111 000
Contribution Profit	-545	-3 410	-5 088	-8 224	-18 988	
Contribution Margin	-0,9%	-5,2%	-6,0%	-9,0%	-19,0%	
Paying Subscribers	139 800	167 400	221 600	240 700	272 800	306 000
ARPU (SEK/Month)	142	131	127	126	122	121
Print Publishing⁵						
Revenue	104 137	111 969	132 619	173 832	106 312	
Contribution Profit ⁶	37 543	37 840	47 905	66 854	39 223	
Contribution Margin	36,1%	33,8%	36,1%	38,5%	36,9%	

¹ Forecast is an approximation based on information available at time of reporting.

² Contribution Profit is defined as streaming revenue minus costs for content (licensed content and in-house productions) and marketing.

³ ARPU = Average Revenue Per User (Subscriber) per month

⁴ Storytel Norway included in figures @ 100%. In the consolidated group accounts Norway is reported according to the principle of proportional consolidation.

⁵ Print Publishing refers to physical books. People's Press is included in the group from Q2, 2017 — in this table it is included in each quarter, in an attempt to show comparisons. In Group Accounts all acquisitions are included from the acquisition date. Internal transactions have been redacted. Barnens bokklubb not included in table.

⁶ Contribution Profit is defined as revenue minus cost per sold unit, distribution costs, and sales and marketing costs.



Comments from the CEO

Dear shareholder, Storytel is continuing to ride on a strong audio wave that is turning world citizens into a digitised subscription loving audience thirsting for stories. We like that development and intend to keep expanding our service to all corners of the globe, hopefully helping make the world a better entertained and more peaceful place. Some highlights from our 1st quarter 2018:

Subscriber growth continues to be strong, up 51% Y/Y to an average of 577 900 paying subscribers in the quarter, slightly exceeding both our Swedish and international forecasts. Swedish subscribers totaled an average of 305 100, up 26% Y/Y. International subscribers totaled an average of 272 800, up 95% Y/Y.

Streaming revenues came in at 222 MSEK, up 43% Y/Y. Swedish revenues grew to 122 MSEK, up 27% Y/Y. International streaming came in at 100 MSEK for the quarter, up 68% Y/Y. International streaming revenues accounted for 45% of total revenues, well on track to make up the majority of our streaming business by the end of 2018.

Our ARPU (Average Revenue Per Subscriber Month) was 128 SEK/Month for the quarter, down from 136 SEK/Month in Q1 2017. Our ARPU remained stable in Sweden around 133 SEK/Month, but declined in International markets to 122 SEK/Month due to higher growth in lower priced markets like Russia and the Netherlands. As a comparison, in Q1 2018 The ARPU for Netflix was 10.1 USD/Month (89 SEK/Month) and for Spotify it was 4.7 EUR/Month (50 SEK/Month).

Contribution margin (sales minus cost for content and marketing) was 10.8% in streaming. In Sweden, contribution margin development was positive at 35.3%. International contribution margin was -19%, in line with our aggressive roll-out strategy, with heavy content and marketing investments on our newly launched markets.

Our Q2 2018 forecast is 620 000 paying subscribers, up 47% Y/Y, and 236 MSEK in streaming revenues, up 41% Y/Y. Operating profit guidance remains 10% negative EBITDA-margin as communicated in earlier reports.

This year we have already launched our service in Iceland, the UAE (United Arab Emirates) and Turkey. Last year we launched in Russia, Spain and India. These six markets are all in their early stages and our primary focus is on building a strong catalogue that drives customer engagement and loyalty. In 2018 our target is to grow by 250 000 subscribers to 800 000 subscribers at year closing.

Poland and Finland was launched two years ago and these markets have been initially challenging content-wise, but are now in a good shape, and we are therefore ramping up our

marketing investments. The Netherlands is a market we have been operating in for five years and is now generating substantial growth. Our Dutch subscriber base is growing rapidly and our new Dutch country manager is ready to take Storytel Netherlands to its next growth phase.

With a growing subscriber base, engagement and loyalty become increasingly important for sustained growth. In a recent customer survey, our Net Promoter Score came in above 35 which is a solid result. We have clear market leading positions in Sweden, Denmark and Norway and we expect that significant part of the growth in 2018 growth will come from these markets.

Storytel has always been designed as a mobile first service with an on demand subscription model. We have benefited immensely from the mobile ecosystems created by Apple and Google, as well as the subscription economy led by Netflix and Spotify. Creating a more personalised user experience is now a focus for our intelligence, technology and content teams and exciting innovations will reach our customers in the fall.

Content is king, and we see a clear correlation between a strong local content catalogue and our customers engagement rates which transforms into loyal subscribers with attractive life time values. Our commitment to investing heavily in local content remains strong, as it not only creates loyal customers but also raises barriers for future entrants in each local market. With a proprietary catalogue in more than 15 languages we are well-positioned to serve the global community with stories in our subscriber's languages wherever they are in the world.

Storytel has transformed audiobook consumption in Scandinavia, driving reading and creating book consumers who would otherwise not be reached. Families unite via our stories the same way they gathered around the fireplace in ancient times. After 15 years of steady decline, we can now confirm that the Swedish book market is growing again, thanks to the streamed audiobook. This proves that Storytel is good for the book industry as a whole.

As we announced on the morning of May 15th, before the summer vacations we will start shipping our very own e-book reading device, Storytel Reader, to customers in Sweden, Denmark and Finland, with more markets to follow in time. Our entire e-book catalogue will be available on Storytel Reader. With Storytel Reader and a Storytel subscription, e-book reading will become much more accessible and enjoyable, hereby attracting new readers and improving loyalty for existing subscribers.

Organizational Overview

Storytel consists of two divisions, Streaming and Print Publishing. The Streaming division offers a subscription service for audiobooks and e-books under the brand names Storytel and Mofibo in Sweden, Denmark, Norway, Finland, The Netherlands, Poland, Russia, Spain, India, Iceland. New additions as of Q2 2018 are the United Arab Emirates and Turkey. The Streaming division also publishes audiobooks mainly through the legal entity and imprint Storyside. Storyside produces and publishes titles under different imprints, such as Storytel Original (series-format), Storytel Dox (journalistic works) and Storytel Brief (summaries of non-fiction literature). The Print Publishing division is comprised of the publishers Norstedts, Massolit, Kontentan, Telegram and Danish People's Press (adult trade); as well as Rabén & Sjögren and B. Wahlströms Bokförlag (children's and young adult) and Norstedts Kartor (maps).

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

Financial information

Accounting principles

Storytel Group and its parent company comply with the Swedish law regarding yearly statements of accounts, as well as BFNAR 2012:1 (Swedish Accounting Standards Board standard 2012:1) concerning annual statements of accounts and group accounts at the K3 tier.

The registered parent company is Storytel AB (publicly traded). Storytel A.S. (Norway) is 50% owned by Cappelen Damm and is reported here according to the principle of proportional consolidation. Wholly owned subsidiaries are included in the yearly statement of accounts from their time of registration or acquisition.

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

Statement of operations (TSEK)

	Jan - March Group		Jan - March Parent Company	
	2018	2017	2018	2017
Operating Revenue				
Net Turnover	312 163	231 129	767	647
Change in inventory during production	2 398	-3 367	-	-
Sum of profits/losses from associated companies	-	-672	-	-
Other revenue	5 841	3 718	-	95
Total Group revenue	320 402	230 808	767	742
Operating expenses				
Unit-sale costs	-190 201	-133 979	-	-
Other external costs	-104 034	-55 728	-619	-430
Staffing costs	-60 986	-43 148	-1 029	-679
Earnings before depreciation	-34 820	-2 046	-881	-367
Depreciation	-15 451	-10 909	-	-
Earnings before financial items	-50 271	-12 955	-881	-367
Profits from associated companies	12	3 776	-	-
Profits from group companies	-	-	-	-
Net financial items	-3 632	-3 057	-503	-650
Earnings before taxes	-53 891	-12 236	-1 384	-1 017
Group contributions	-	-	-	-
Deferred taxes	2 803	789	-	-
Taxes on year's profits	-311	-253	-	-
Earnings/losses for period	-51 400	-11 699	- 1 384	- 1 017

Balance Sheet (TSEK)

	Group		Parent Company	
	31 mars 2018	31 dec 2017	31 mars 2018	31 dec 2017
Assets				
Intangible assets	297 884	304 393	--	-
Tangible assets	4 023	3 588	-	-
Non-current financial assets	25 016	23 948	868 619	868 619
Inventory	71 217	65 631		-
Current receivables	282 608	300 887	130 334	95 974
Liquid assets and short-term investments	209 300	250 974	70 558	111 169
Total assets	890 048	949 421	1 069 511	1 075 762
Equity and liabilities				
Share-capital	25 759	25 759	25 759	25 759
Other Equity, including current year's profits/losses	276 063	317 814	946 635	948 019
Provisions	56 788	61 892	-	-
Long-term liabilities	120 967	127 962	76 000	101 000
Short-term liabilities	410 471	415 994	21 117	984
Total Equity and liabilities	890 048	949 421	1 069 511	1 075 762

Cash-Flow statement (TSEK), Group

	2018-03-31	2017-12-31
Net earning/losses after financial items	-53 891	-82 963
Adjustments for items not included in cash-flow	12 006	65 076
Taxes, paid	-2 382	-10 660
Cash-flow from operations, before changes in working capital	-44 267	-28 547
Cash-flow from changes in working capital	16 680	44 179
Cash-flow from operating business	-27 587	15 632
Cash-flow from investment activities	-2 019	-70 464
Cash-flow from financial operations	-11 615	176 028
Cash-flow, current year	-41 221	121 196
Available funds, beginning of period	249 130	129 561
Translation differences in available funds	1 391	-1 625
Available funds, end of period	209 300	249 132

Revenue and profits for the period (compared to Q1 2017)

Net turnover for the group in Q1, 2018 totalled 312 163 (231 129) TSEK. Total revenue for the group in Q1, 2018 ended at 320 402 (230 808) TSEK. Within the Streaming division, Sweden accounted for approximately 54,9% (61,8%) and markets outside of Sweden for approximately 45,1% (38,2%). Storytel A.S in Norway is a Joint Venture together with Cappelen Damm and is reported according to the principle of proportional consolidation. The table on page two includes all subscribers and revenue in Norway, listed under Streaming, other markets, which is why revenue listed in the table on page two are higher than on the consolidated statement of accounts, in order to provide a more accurate sense of revenue per

subscriber. Compared to Q4 revenue is down, driven by the large fluctuations in the Print Publishing division where Christmas sale makes up a large part of yearly sales. Streaming revenue ended at 222 133 TSEK, in line with our forecasted yearly Streaming revenue 1 000 000 TSEK.

Unit-sale costs for the group in Q1, 2018 totalled 190 201 TSEK (133 979) TSEK. Unit-sale costs include costs for producing audiobooks, cost of goods sold for physical books, warehouse and distribution costs, as well as royalty payments to other publishers and rights owners. Gross Margin ended at 40,6% (42%). Gross Margin was slightly higher in the Print Publishing division than the Streaming division. Streaming makes up a larger part of total turnover in Q1 2018 than in Q1 2017.

Other external costs for the group in Q1, 2018 totalled 104 034 TSEK (55 728) TSEK. Marketing costs were the largest driver of the increase, in line with our aggressive roll-out strategy, with heavy content and marketing investments on our newly launched markets. By Q1, 2018 Storytel had launched its service in ten markets (as compared to six markets during Q1, 2017) which requires greater investments in marketing. Other significant cost items included office leases, IT related services and costs, and consultants.

Staffing costs for the group in Q1, 2018 totalled 60 986 (43 148) TSEK. Staffing costs within the Print Publishing division were at a stable level, while Streaming has experienced increased costs in order to meet the needs of our pace of expansion. During late 2017 and continuing in 2018 Storytel has invested in global functions to support all markets, and also increased staffing in local markets to meet our target of producing 5 000 audiobooks during 2018 and to market the service in each market with support from our global functions teams.

Earnings before depreciation (EBITDA) in the group in Q1, 2018 totalled -34 820 TSEK (-2 046) TSEK. This is in line with our expectations of -10% EBITDA for the full year 2018. Contribution margin for Sweden was higher than forecast in Q1, 2018 while contribution margin for markets outside Sweden follows expected trend, driven by marketing and content costs incurred in connection with the nine countries Storytel now operates in outside of Sweden. Marketing costs are normally higher the first few years and our newest markets such as Russia and Spain have a higher marketing cost relative sales compared to more mature markets. Also Content costs are higher as a percentage of revenues in early years as the catalogue is built up. Print Publishing showed a modest profit during Q1, 2018 and performed according to plan or even slightly better than expected since Q1 normally is a weaker quarter.

Depreciation primarily includes depreciation attributable to goodwill and other extra value identified in connection with acquisitions. The largest asset items here are still connected to

the acquisition of Norstedts and Mofibo, and People's Press. Other depreciation primarily concern the purchasing and development of IT-systems.

Financial items included both interest income and interest expenses, as well as realized and unrealized exchange differences. Interest costs from bank loans totaled app. 2 MSEK for Q1, 2018.

Earnings per share, after taxes, in Q1, 2018 totalled – 1,0 SEK, calculated as earnings for the period after taxes, divided by the average number of shares during the period.

Group: Financial position and cash flow as of March 31st, 2018 (compared to Dec. 31st 2017)

At the end of the period, the group had 209 300 (250 974) TSEK in liquid assets. Solvency was 33.9% (36.2%). Equity totaled 301 822 (343 573) TSEK. The movement from Q4 2017 is explained by current period's earnings/losses and translation gains or losses on consolidation.

Non-current liabilities to loaning institutions totaled 120 967 (127 962) TSEK. The portion that will be amortized during the next twelve months is considered short-term liabilities and totals app. 42 267 MSEK.

Number of shares and Share-Capital (as of March 31st 2018)

There were 51 517 307 registered shares in issuance at the end of the period, divided between 635 A-shares and 51 516 672 B-shares. Share-capital totaled 25 758 653,5 SEK as of December 31st, 2017.

Post-period activity

On April 16th Storytel went live with its service in the United Arab Emirates and on May 3rd in Turkey.

On May 14th Storytel announced that an e-book reader will be launched before the summer. The reader will be sold and distributed in Sweden, Denmark and Finland, with more markets to follow in time.

Date of next report

The interim report for January - June will be released on August 15, 2018

Stockholm May 15th, 2018

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Chairman of the Board

Jonas Tellander
Board member and CEO

Jonas Sjögren
Board member

Nils Janse
Board member

Stefan Tegenfalk
Board member

Ingrid Bojner
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