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Storytel AB (STORY.B.SE)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

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Susanne Maria Ekblom
Interim Chief Financial Officer, Storytel AB

OTHER PARTICIPANTS

Derek Laliberté
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Storytel Q1 Presentation for 2023. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions]

Now I will hand the conference over to CEO, Johannes Larcher; and Interim CFO, Susanne Ekblom. Please go ahead.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Thank you, and good morning. My name is Johannes Larcher, and I joined as CEO of Storytel in the fourth quarter of 2022. I am joined on today's call by Ms. Susanne Ekblom, Storytel's Interim CFO.

In our efforts to transform Storytel and improve its financial performance, operating efficiency and future growth prospects, we made solid progress in the first quarter of 2023. Streaming revenue was up 6.2% from Q1 2022 to SEK 742 million. Group net sales increased by 6.6% from Q1 2022 to SEK 796 million. Gross profit was SEK 316 million. And EBITDA, excluding IAC, was SEK 30.5 million, which equals 3.8% margin. Operational cash flow was slightly negative at minus SEK 7.9 million. And the average number of subscribers increased by 5,000 during the quarter.

We are pleased with the progress these numbers represent, but of course, we believe that over time as the changes we make are taking hold, our performance has room to improve both in terms of revenue growth and profitability. We are hard at work in a disciplined manner, building the foundation for this profitable growth.

In Q1, we completed the launch of our new pricing and packaging model in the three biggest Nordic markets, and I'm happy to say that this rollout has gone well. We also took steps to improve our content economics and bring more differentiated content to our subscribers. Our new partnerships team had some nice initial wins in Finland with Suomalainen Plus; in Bulgaria, with A1; and with Google and Apple, with whom we launched CarPlay this quarter.

We are almost done assembling our senior leadership team and look forward to Peter Messner, our incoming permanent CFO; and Oleg Nesterenko, our incoming Chief Marketing Officer, to join us soon. We are now putting the finishing touches on our growth strategy and look forward to share strategic and financial details with you at our upcoming Capital Markets Day to be held on June 13th in Stockholm.

As a brand, we enjoy a reputation for high quality that delivers great value to our subscribers. We believe that this reputation is well earned. Here's a few proof points regarding the impact we're having. Over 40% of our paying subscribers in the Nordics actively listen to at least 5 minutes of audio stories on Storytel every day. Almost 1 million paying subscribers now listen to more than 10 hours per month. 82% of our customers report that they read significantly more often since subscribing to Storytel. And over 200,000 votes were recently received for this year's Storytel Awards, Europe's largest popular choice audiobook awards event, representing a new high in the level of audience engagement, which was much appreciated by the authors, the narrators, producers and publishers represented on our service.

In Q1, we completed the launch of our new product tiers in Sweden, Finland and Denmark. We also adjusted our pricing in conjunction with the introduction of this modified offer structure. In each of these markets, we now offer free product tiers. Our basic tier provides access to casual listeners with a 20-hour per month time limit and at a low price. What you see on this slide is the Finnish pricing of €9.99 for basic per month. For more frequent listeners, we offer our premium tier. With that, listeners receive 100 hours of listening time per month for €14.99 per month.

We also remain committed to offer our unlimited tier with no restrictions to listening time at all. This tier is now priced at €22.99. It remains the most popular choice in the Nordics. Lastly, we've also restructured our family offer. Multiuser access for 100 hours per user per month now starts at €20.98 per month. With these restructured offers, we have a plan for every type of listener, and because our entry level tier is priced for high value and affordability, our addressable market in these three countries has been expanded.

The initial results from the introduction of these new tiers and our updated pricing are encouraging. Our Nordic ARPU has continued to improve and now stands at almost SEK 150. Our pay base development in the Nordics has been stable and should be seen in the context of a shift in our strategy to optimizing for value share and profitability rather than purely for subscriber growth.

In paid churn, as you can see, the new pricing and new tiers have not led to a spike in paid churn. We have actually made some progress over the past few years reducing paid churn. While we are encouraged by the long-term downward trend, there is more work to be done, and we are optimistic that we can realize that upside over time.

But perhaps most importantly, we are blessed with an incredibly loyal base of subscribers. Today, in the Nordics, almost 50% of all paid subscribers have been with us for over three years and roughly a quarter of all subscribers have been with us for more than five years. With ARPU growing, pay base and churn stable and our favorable cohort mix, we are pleased with the performance and economics of our Nordics business and we are encouraged by the early results of the introduction of our new offers and prices.

I'm now going to hand over to Ms. Ekblom to talk more about the financial performance in Q1.

Susanne Maria Ekblom
Interim Chief Financial Officer, Storytel AB

Thank you, Johannes. Let's have a look at our financials, starting with the sales split in the quarter. In this picture, we see the split between our different segments. The Streaming segments are our largest part, representing 85.1% in the quarter, and the Books part is 14.9%. In the Streaming segments, we continue to see good development with our updated tier pricing in the Nordics and we are growing revenues according to plan. Our total Streaming revenue has grown by 6.2%, and 9.2% if we exclude Russia, driven by the Nordics. The subscriber base continues to grow during Q1 by 5,000 in total, minus 7000 in the Nordics and plus 12,000 in the Non-Nordics.

Let's have a look at our financials, starting with the P&L. Net sales for the group grew by 6.6%, driven by solid growth in the Streaming business, according to our top markets. First quarter sales are lower compared to the fourth quarter mainly due to the seasonality lower activity in the Books segment. Gross profit increased to SEK 316 million and the gross margin to 39.6% and improved of 2.5 percentage point compared to Q4 and 1 percentage point compared to the corresponding quarter last year. The improvement versus Q1 last year is mainly driven by higher gross margin in the Nordics Streaming business. EBITDA improved to SEK 30.5 million and the EBITDA margin to 3.8%.

And in this slide, we see the Q1 2022 (sic) [2023] (00:09:50) adjusted for items affecting comparability. Sales and marketing expenses are significantly lower compared to year ago due to the strategic shift initiated in the spring last year. We continue to invest when we see a good return of investment. Technology and development expenses are higher, fully explained by lower share of capitalized expenses. General and administration expenses increased year-on-year mainly due to a reevaluation of the long-term investment program and higher consultants cost. Net financial items increased mainly due to higher interest rate.

Moving on to the balance sheet. The main changes during the quarter is related to the debt changes. The SEK 500 million bridge loan was replaced by a SEK 200 million loan at the end of the first quarter. A further SEK 100 million of the RCF was utilized in the first quarter.

Looking at the noncurrent liabilities, that include the debt of SEK 750 million, and the current liabilities include the debt of SEK 150 million. We have a solid financial position at the end of the quarter, with available funds of SEK 690 million, including the unused RCF at SEK 150 million.

Moving on to the profitability and cash flow. Our EBITDA was SEK 30.5 million in the quarter. The cash flow from operating activities before changes in working capital was SEK 17.8 million, adding the positive change in working capital of SEK 3.9 million. Cash flow from operating activities increased to SEK 21.7 million.

Looking at our operational cash flow, we continue to invest in tech, content and in story side, and our operational CapEx was SEK 38.3 million. This gives a slightly negative operational cash flow of SEK 7.9 million in the quarter. The target is positive operational cash flow for the full year 2023, and we do not foresee any additional capital needs.

With that, I hand over to Johannes for a strategic update.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Susanne. In 2023, we continue to focus on a disciplined process of transformation step by step to maintain our profitable growth and lay the foundation for further acceleration. We have four priorities for the year.

Priority one is content. In this area, we have three objectives; get better at matching the right audio story with the right customer every time; expand the amount and quality of content on our service that can only be found on Storytel; and improve our content economics to reduce the percentage of revenues we pay for our content.

Priority two is to master the digital playbook. Here we aim to become significantly more efficient at acquiring, engaging and retaining the right kind of subscribers, ultimately driving lower SAC and higher LTV. We do so by building a stronger marketing practice and by investing in our mar-tech stack to enable higher efficiency and effectiveness of our marketing spend.

Priority three is to take a prioritized and differentiated approach to our geographic footprint. Our core profitable markets; the Nordics, Netherlands, Poland, Bulgaria, Turkey and the United States, represent the vast majority of our business and remain the focus of our efforts. Almost all our content marketing and personnel investments are centered on these 10 countries. We foresee even higher levels of discipline regarding the expansion of our service into markets beyond these 10 countries and have made significant progress articulating the details of this strategy since my arrival.

Priority four is to create an organization and culture that best support our mission and strategy. The talent that makes up the Storytel team is at the core of everything we do and everything we aspire to achieve, and we are taking steps to ensure we remain known as a great place to work that attracts and retains the best talent, not just in the context of the Nordics, but wherever we operate. We are focused on HR efficiency and see positive trends in terms of personnel costs over time, but we are also focused on attracting world-class talent to the company that knows what good looks like and is ready to deliver results.

My focus since joining last fall has been on making systematic progress step by step against these four priorities so that the quality of our execution and our efficiency can increase. While I am convinced that we are taking all the right steps to enable accelerated growth in 2024 and beyond, it is also clear that this transformation is hard work and won't be completed overnight. We very much look forward to present our midterm profitable growth plan in much more detail at our Capital Markets Day in June.

Now, a quick word on content. We had some very successful launches of Storytel Originals in the first quarter. Eliten, Irina och jag and Inari Fernández's new original were top sellers in Denmark, Sweden and Finland, respectively. The 2023 Storytel Awards reached new levels of participation this year and were much appreciated by our listeners and the creative community.

Importantly, we also renegotiated several large content distribution agreements with important publishing partners recently. I'm pleased to say that we are achieving improved content economics through these deal renewals. Driving content costs as percent of revenue down continuously is an important point of leverage in our unit economics and journey towards improved profitability.

Our new partnerships team is off to a good start in 2023. We are now merging the acquired subscribers of Suomalainen Plus into the Storytel Finland, improving our position in the competitive Finnish market. In Bulgaria, we recently signed a distribution agreement with leading telco, A1, opening up a new channel to reach additional audiences in this important growth market.

We also launched CarPlay on both Google and Apple. There's hardly a better time to listen to audiobooks than during car journeys, and we are pleased to have now made it even easier to enjoy Storytel in your vehicle. We're also rolling out in-app purchase on Google in Sweden and on Audiobooks.com in the United States, removing friction from the process of signing up for Storytel and making it easier for evermore customers to try our service.

With Apple, as part of our overall App Store optimization strategy, we've started rollout of a new placement deal that allows us to reach more high-value customers for better visibility in the App Store. The pipeline beyond these deals remains strong, and we are very happy with the reception we received from telcos, device OEMs and other potential partners.

We increasingly think of our geographical footprint in two segments and four regions. In the Nordics, our focus is on achieving a higher share of value in the market. We believe that as the market expands further, subscriber growth is still possible. However, as a premium brand and market leader, we are focused more on the share of the overall value in the market and our profitability rather than purely focusing on subscriber growth.

In that context, we recently launched our new product tiers and increased prices. We're also taking a more disciplined approach to promotions and free trial lengths. In our growth markets; the Netherlands, Poland, Turkey, Bulgaria, we are buoyed by expanding market penetration of audiobooks and see continued strong potential for subscriber growth. We remain committed to invest in these growth markets and are leveraging partnership deals as a key component of that growth.

In the United States, where Audiobooks.com continues to be a strong financial performer for us, we're optimizing our organic performance by making incremental changes to our go-to-market strategy and tactics. Our goal is to maximize cash flow from the United States business, and we are also exploring if we can leverage AB.com's platform and capabilities in our expansion strategy.

In our other markets, we are reassessing our strategy. We believe that the right answer likely involves investment into a smaller set of countries where we see a combination of attractive market characteristics and a high potential for us to participate successfully, coupled with a cost-efficient go-to-market approach and significant contributions from distribution partners.

The organizational transformation of Storytel is now almost complete. We've reorganized in a matrix structure that provides better balance between global functions and local execution. We are adding Oleg Nesterenko, our new Chief Marketing Officer, and Peter Messner, our new permanent CFO, to the team shortly. I am thus almost done assembling my senior leadership team, and I believe you will be impressed by the level of quality, subject matter expertise and leadership now present on our team when you meet them at Capital Markets Day in June.

In terms of current trading as we head towards the summer, I can say the following. We see continued growth in the popularity of non-music audio entertainment in all our markets. Audio stories and spoken word formats resonate strongly with audiences old and new. And as a leader in this segment, we are grateful to have that wind in our sails.

At this point, we have not seen any negative impacts on our business from the economic pressures on disposable incomes. We realize that consumers are being pinched by rising energy costs, higher interest rates, elevated food costs and other inflationary pressures. However, we have not seen any spikes in churn rates or any concerning signs on the subscriber acquisition side.

We believe that our strong lineup of content, our high brand awareness and reputation for quality, together with our different product tiers that respond well to price elasticities, provide us with, if not immunity, then a strong measure of insulation from these consumer-related concerns. Meanwhile, we're making progress on our journey, as we've pointed out, on partnerships, content economics, Storytel Originals, and building the operational foundation of our business for the years to come.

Now, in terms of guidance, we are reiterating our previous guidance for full year 2023. Organic Streaming revenue growth will be in line with previous year, which was 11%. Full year EBITDA margin is expected to be better than the previous year, which came in at 2.9%. We expect to breakeven operational cash flow, and we do not foresee a need to raise additional capital.

Before we open up for your questions, let me stress again that we are leaders in a fast growing and attractive market that we are making good progress on our efforts to create the foundation for accelerated profitable growth and that we look forward to share our plans and midterm financial targets in more detail at our upcoming Capital Markets Day on June 13.

With that, thank you for your attention, and let's open the session for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next (sic) [first] (00:24:24) question comes from Derek Laliberté from ABG Sundal Collier. Please go ahead.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Thank you for that. And good morning. So, I think my first question is around the gross margin, which was really impressive in the Streaming Nordics segment, I think, at an all-time high level even. Could you elaborate a bit on the underlying drivers behind this? Is it all due to these renegotiated agreements that you mentioned, or is there something else in there as well?

Susanne Maria Ekblom
Interim Chief Financial Officer, Storytel AB

A

Thank you for that. Yes, we are happy to see a good development in the gross margin. And it's a combination of different kind of activities that we are driving both internally and also a good negotiation with others.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Part of the answer here has to do with [indiscernible] (00:25:20), Derek, we are obviously getting more and more sophisticated at increasing the internal share of content, which helps and has a positive impact on gross margin, but also the trend line in terms of driving costs for content down as a percent of revenue is very encouraging. We expect further progress along that line. And in combination with that and some other activities that we can't talk about, I think gross margin is on a good path.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Indeed, it sounds very encouraging. And I'm looking at your – the Streaming Non-Nordics segment, here you showed I think a really encouraging signs in terms of subscriber additions here in the quarter. So, I wanted to ask, looking for the remainder of the year here, I think in order for you to reach your guidance, that subscriber growth would need to accelerate even further. So, could you say something about where this should growth, within the Non-Nordic segment, where that should come from a geographical perspective, what type of activities you're planning, et cetera.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Of course. Derek, we're dealing with very different starting points in our four different geographic segments. In the Nordics, highly penetrated market, very mature, very competitive, these markets increasingly are all about differentiation of our service versus our competitors in terms of content offers, features, functionalities, et cetera. And they're all about driving profitable growth and extracting more profit from these markets. So, we are less focused on increasing subscriber growth. Don't get me wrong, we like subscriber growth even in the Nordics and we think there is room for that in the next few quarters, but more importantly, we're focused on the profitability of these markets and on the profitability of our customers. So, when we talk about price increases and new product tiers and also how we acquire customers, we not only look for volume and pure subscriber growth, we look for highly profitable subscriber growth.

The subscriber growth mainly will come out of the second segment, which is our growth market; the Netherlands, Poland, Bulgaria, Turkey, these are much less penetrated markets when it comes to audiobook penetration. And we see a lot of headroom for penetration to increase over the years to come. And that will fuel subscriber growth for Storytel and other market participants in these countries. So, subscriber growth there will be stronger than in the Nordics. And over time, we hope that these growth markets will mature and become just as profitable and attractive as our core markets in the Nordics as well.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Great. Thanks for that color. And on the partnerships there, if I may ask also, you mentioned some about this already, but do you have some, what's like, target for this partnership franchise in terms of, like, share of subscriber additions or something [ph] in this new markets, is it a (00:28:33) substantial one or is it more of an extra add on?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Great question. We are excited about the opportunities the partnerships team is unlocking. We have to keep in mind this is a new team that just got to work at the beginning of the year. They're already scoring some early points and putting them on the scoreboard for us with A1, the largest telco in Bulgaria; with Suomalainen Plus in Finland. And there's a lot of room left, by the way, improving our relationships with Apple and Google and getting more value out of that partnership. So, it's early days. We have high hopes and expectations. Obviously, part of the attraction for the partnership road is that from a subscriber acquisition standpoint, partnerships can be very attractive, but you also have to balance that with typically audiences that are acquired that have less favorable lifetime characteristics and ARPU characteristics.

So, we have modest goals for this year, as this is the first year, the team is really active. We will see how that goes. We don't break those goals out publicly, I apologize, but they are rather more modest for 2023. And as we learn more, I think we'll lean more into the partnerships team in 2024 going forward, especially as we get into this further afield expansion markets where partnering with large telcos and e-commerce players provides a very meaningful, high potential way of accessing large potential [ph] faces (00:30:07) of subscribers. So, a mixed answer there. I know I'm not directly answering what you wanted, but I think we're off to a good start.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

No, that sounds that sounds great and would be definitely interesting to follow. And lastly, if I could come back to the Nordics here, I mean, you actually did lose some subscribers here on a sequential basis on the contrary. So, I was wondering what's your assessment of the underlying drivers behind this, especially as you mentioned there, there was basically no macro impact here and this multitier new offering I don't know has to do with that or why are they churning on a net basis?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. Thank you. Look, out of a base of well over 1 million Nordic subscribers, we think lost 5,000. So, it's a minuscule amount in percentage. This was an unusual quarter. We obviously launched a whole new set of products and tiers and we increased our pricing substantially. And that led to a little bit more churn than usual, of course. The Nordic market is also very, very competitive. And we are taking a very disciplined approach to not necessarily going into a race to the bottom when it comes to value. We've been disciplined about moderating the length of our free trials that we offer. We've been disciplined about the kind of promotional offers we bring to market. We are the premium player, and it all comes back to value. We are focused on profitability and value. Focusing purely on subscriber growth may have made sense in the business in the Nordics several years ago, but today, it's about value share. And I think what you're seeing with this tiny decrease in paid subscribers in Q1 in the Nordics is a reflection of that strategy, which we firmly believe is the right path forward.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Right. Understand. Thanks for that color. That was all for me.

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

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Well, listen, guys, I appreciate you being on the call today. I hope it was interesting. I think we are on a really good path with this company. As I said, it's hard work. It's taking time. It's not overnight. But we have committed to the right thing, and that is to grow the company profitably over time in a self-sufficient way, without needing to raise any additional capital. And I believe while we are not satisfied with the level of profitability and growth that this quarter represents, we do know that there's a lot more of that kind of stuff to unlock.

We really look forward to see you at the Capital Markets Day on June 13 in Stockholm. We will tell you a lot more about our vision, about our plans and how to realize that vision, and about the team that is making it all happen. So, thank you for today. See you on the 13th of June.