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Storytel AB (STORY.B.SE)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Storytel's Q4 Report Presentation. [Operator Instructions]

Now, I will hand the conference over to the CEO, Johannes Larcher; and CFO, Peter Messner. Please go ahead.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Good morning, and welcome to Storytel's year-end 2023 report. I am Johannes Larcher, the CEO of Storytel and I am joined today by our CFO, Peter Messner. We are here on behalf of the entire Storytel team and we look forward to discuss our Q4 and full year results with you. Before we kick off, we want you to know that there will be ample time for your questions at the end of the presentation.

2023 was a very successful year for Storytel and we are pleased with the progress we have been able to make, both financially and operationally. Throughout the year, we follow the profitable growth strategy that we unveiled at our Capital Markets Day back in June and are pleased to see the impact it has had on our performance. We exceeded previously provided guidance for the year, and on the basis of this meaningful progress, feel optimistic about our outlook for 2024 and beyond.

Amongst the many changes and decisions that we made operationally in 2023, a few stand out as having made critical contributions to our progress and success. We launched updated packages and pricing across the Nordics in the early part of the year. This had a strong positive impact. Not only was ARPU up significantly SEK 130 in Q4 2023 versus SEK 122 a year earlier, but we also saw continued subscriber growth up 8% year-over-year and no negative impact on paid churn in the Nordics. In fact, churn has continued to develop positively and improved by 1.5 percentage points globally year-over-year.

Our marketing efficiency continued to improve in 2023. We spent significantly less of our total revenue on marketing in 2023 than we did in the year prior, but still drove a 10% global paid subscriber improvement. Our CLV/SAC ratio is the best measure of our marketing efficiency and it was up 25% year-over-year in the fourth quarter.

On the content side, we were pleased to see the benefits of our hybrid model of owning publishing houses and a market leading streaming service. We brought some fantastic writers to Norstedts and Gummerus this year, including the immensely popular Denise Rudberg and the acclaimed Finnish writer Seppo Jokinen and his Koskinen Crime series.

We also continued to invest in Storytel originals and owned IP through our delivery of 700 Storytel originals in 2023. Storytel content accounted for around 30% of total hours consumed in the year. Our distribution strategy started to gain momentum in 2023. We signed significant partnerships with KPN in the Netherlands, A1 and Yettel in Bulgaria, LG Uplus in South Korea and CBB Telenor in Denmark to name a few.

Our partnerships accounted for more than 10% of net paid subscriber additions in 2023, and there is more to come in 2024. On the innovation front, we are excited about our progress in leveraging generative AI in many areas of our business. From creation of content metadata and ad copy to better personalization of content recommendations. The industry-leading launch of our Voice Switcher feature and the introduction of synthetic narrators for an initial set of audiobooks in English and Polish with more languages launching this year.

The initial positive impact of generative AI on consumer engagement and our cost structure has impressed us and we will continue to strengthen this area in 2024. Lastly, 2023 saw us strengthen our group management team with the addition of Peter as our CFO, and Luis Duran, as our President of Streaming, as well as several other experienced leaders who all have made strong progress in their respective areas since joining. This includes Line Miller, our new CEO for People's in Denmark, who joined us from Politikens.

The operational progress we made throughout the year in the areas of marketing, content, distribution and technology translated into strong financial results in the fourth quarter. That capped off a successful year of transformation for Storytel.

Group revenue in Q4 amounted to almost SEK 1 billion, SEK 940 million, up 9% year-over-year from SEK 867 million in 2022. Our adjusted group gross profit margin improved by nearly 4 percentage points to almost 41%. We generated strong group EBITDA of SEK 86 million translating into a margin of 9.1% for the quarter. This is up from 6.1% in the year prior.

It is worth noting that our operating profit continues to improve and amounted to minus SEK 8 million for Q4. In our Streaming segment, we saw positive revenue, subscriber, ARPU and churn developments in Q4. Revenue improved by 16% year-over-year to SEK 858 million. In the Nordics, we grew by 15% year-over-year. Our subscriber base continued to grow despite lower relative marketing investment and reductions of our expansion market footprint.

We ended 2023 at over 2.2 million paid subscribers and for the first time, exceeded 1 million subscribers in our Non-Nordic segment. As I mentioned earlier, ARPU held strong in the fourth quarter despite the macroeconomic and competitive challenges we were presented with. And paid churn has continued its positive downward trajectory and remains at healthy levels. This is in large part thanks to continued strong subscriber engagement.

We recently crossed an important milestone where more than 1 million subscribers listened to at least 10 hours of content on Storytel every month, yet again proving that we deliver important enrichment and entertainment through our service and our content.

So, as you can see, we ended our year on a strong note. And with that, we were pleased to surpass our previous guidance for financial performance in 2023. Our organic streaming revenue growth rate, which takes into account exchange rate fluctuations, exceeded previous guidance of 11% by 1.5 percentage points. Our full year adjusted EBITDA margin, previously guided to about 6.4% came in at 7.1%. And with SEK 89 million of operational cash flow, we not only came in above breakeven, but also above updated guidance of SEK 80 million.

And with that, I hand it over to Peter for a deep dive into our financial statements.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much, Johannes, and I'm happy to walk through some further details on the group's financials. So, Storytel reports on three segments. It's two within our Streaming business, which are the Nordics and the Non-Nordics segments, and one within our content business, which we call Books and which is our publishers external business.

Books represented one-sixth of total group revenue this quarter. Starting with the Nordics Streaming segment, this represented almost 56% of total group revenue and grew by 15% to SEK 574 million. The adjusted gross margin increased both as compared to the previous year and also slightly still versus the previous quarter and was 42.4%. The improvement as compared to last year was mainly due to the price increases early in 2023, which is also why ARPU increased by 10% to SEK 162. ARPU was in line with the previous two quarters as well.

The average paying subscriber base increased by 51,000 as compared to last year and ended with an average of 1.183 million for the quarter. Our Non-Nordic segment grew revenues by 17% to SEK 285 million, with an adjusted gross margin of 45.8%. The ARPU was SEK 93 and in line with the previous quarters. And the average paying subscriber base increased by 114,000 as compared to last year to a bit over 1 million – 1,018,000 million. And as Johannes mentioned just before, that was the first time that we recorded more than a 1 million paying subscribers outside of our core Nordic segment.

That was also supported through the partnerships with telcos that we added during – in particularly the second half of the year, for instance, in the Netherlands, Bulgaria and South Korea.

Finally, our Books segment saw an expected external revenue decline of 11% versus last year due to prevailing market conditions in Sweden regarding physical book sale. However, increased its revenues by 22% versus the previous quarter. And in terms of group internal revenue saw a growth during the quarter of 27%. The adjusted gross margin increased versus last year and versus the previous quarter and was 55.5%.

Let's turn to the next slides for a closer look at the group's income statement. As Johannes outlined earlier, the net sales for the group grew by 9% year-on-year to SEK 946 million and that growth was driven by the solid performance in the Streaming segment, as I just talked about, which was in total, 16% or 14% at constant exchange rates year-on-year.

The adjusted gross profit grew by 20% as compared to the fourth quarter last year to SEK 387 million and that represented a gross profit margin of 40.9%. When taking a closer look at the group's cost structure, excluding the one-off items affecting comparability, the sales and marketing expenses increased with the seasonality versus the previous third quarter and grew overall 6% year-on-year, amounting to SEK 220 million.

Technology and development expenses totaled SEK 72 million, which was up 3% versus last year. And finally, the general and administrative expenses increased versus last year and the previous quarter due to increased centralization of certain functions and the management team, as part of the overall strategic change, that started in 2022 and also due to seasonality and vacation effects on personnel expenses as compared to the third quarter in the same year.

Further, certain adjustments on short-term and long-term incentive schemes were done during the final quarter that impacted the cost base. So, all in all, the adjusted operating profit improved by SEK 24 million as compared to last year and was minus SEK 8 million. And the adjusted EBITDA improved by 62% to SEK 86 million and represented an EBITDA margin of 9.1%.

So, I mentioned a lot the nature of adjusted expenses and results. So let me talk about the one-off adjustments, which are write-downs and other items affecting comparability during the fourth quarter on the next slide. In total, Storytel recognized SEK 672 million of so-called items affecting comparability during the quarter. And that was the result of the further emphasis on profitability and reduced growth investments in certain non-Nordic markets, outside the growth focus.

SEK 465 million of these IACs relate to a non-cash impairment charge on goodwill that is attributed to Audiobooks.com. That is an asset that was acquired at the end of 2021. It's important to highlight here that the Audiobooks.com business is performing very well and expected to continue to do so in line with our strategy to focus on profitability rather than on high revenue growth in North America.

A further SEK 168 million of the items affecting comparability relates to non-cash write-downs, and those are mainly related to content assets and catalogs in some of our expansion markets. And finally SEK 39 million of the total amount of SEK 672 million IACs were charges in personnel and other operational expenditures, one-time in nature and relating to restructurings that has been done during the fourth quarter of last year.

Let's turn then to the next slide and the group's balance sheet. The highlights changes on the balance sheet versus end of September are that the intangible assets decreased by SEK 740 million and that is the net result of investments, amortization charges, currency effects and then the just previously mentioned write-downs and impairment charges of, in total, SEK 632 million.

The total assets as a consequence amounted to SEK 3.1 billion and the equity-to-asset ratio was 40.5% at the end of the fourth quarter. It's worth to highlight that during the quarter, SEK 100 million in bank debt have been repaid, which overall reduced the financial debt to SEK 750 million. And those SEK 750 million consists of SEK 650 million of utilized revolving credit facility, which was classified or reclassified, I should say, during the fourth quarter to a current liability and SEK 100 million of a term loan, which is committed to be repaid by the end of June this year.

The total cash and cash equivalents at the end of the period were SEK 436 million. Now, the reclassification of the revolving credit facility to current is going to be changed again to non-current because after the reporting period just now in early February, we extended and agreed with our banks to extend the RCF until April 2025. And we also agreed to reduce the total available facility by SEK 100 million to SEK 750 million, in total, at otherwise unchanged terms, which also provides a good opportunity for us to go into further refinancing discussions which we started.

Turning to the next slide and our cash flows, we see the positive effects from our strategic execution and delivery and cost reduction that resulted in continued solid profitability and cash flow improvements during the entire year of 2023. In the cash flow statement, the major adjustments for non-cash items are primarily in relation to depreciation and amortization.

And now in the fourth quarter, including the previously mentioned items affecting comparability in relation to the write-downs and impairment charges. Then, there are currency exchange movements as well as changes in certain provisions. The cash flow from operating activities increased to SEK 64 million, which was a significant improvement as compared to the minus SEK 20 million in the year before.

The cash flow from investing activities, which reflects primarily the investments into content catalogs but also product and technology, was minus SEK 47 million. And the cash flow from financing activities was minus SEK 105 million, which included and reflected the mentioned SEK 100 million of repayment and therefore outflow of bank debt during the quarter. So, all in all, total group cash flow for the period was minus SEK 88 million. And again, that considered and included the SEK 100 million of repayment of bank debt.

Finally, turning to our operational cash flow, which we define as EBITDA excluding items, affecting comparability less our operational capital expenditures. That operational cash flow was SEK 47 million as compared to SEK 12 million in the year before, which is a significant increase of 290%.

The group continues to invest, in particular, into content, but also into product and technology. The operational cash flow improved versus the last year by more than SEK 220 million. And for this year, 2024, as Johannes mentioned earlier, we target an operational cash flow of at least 7% of revenue.

And with that, I hand back to Johannes.

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Peter. A few weeks ago, we announced the next phase in our efforts to achieve higher levels of efficiency. As part of this effort, we are reducing our group-wide workforce by 13% or approximately 80 FTEs. We believe that this reduction in force will not only unlock higher levels of efficiency, but it will also allow us to achieve higher levels of productivity, agility and collaboration across our team.

These changes continue to be implemented in Q1 and will reach their full run rate effect in the second half of 2024. The related one-off costs will be recognized in Q1 and we will end the year with less than 540 FTEs down from over 800 FTEs in 2021 and nearly 700 FTEs a year ago.

My team and I are optimistic about our outlook for 2024. We are well-positioned for further growth and increased profitability in a fast-growing market. We have a large, loyal and highly engaged subscriber base. We have a unique and defensible hybrid business model that combines Streaming and publishing. We have best-in-class products and technology. We have an effective and efficient marketing strategy. And last but not the least, we have an experienced team that has proven its ability to operate, innovate and deliver.

Based on these strengths, we expect to grow 2024 group revenue by around 10%. We expect to deliver at least 12% EBITDA margin for the full year. And we expect our operational cash flow to be above 7% in 2024. You will probably remember that we previously didn't expect to reach 12% EBITDA margin until 2026.

Based on the progress we have made operationally and financially in 2023, we now believe that we can deliver this level of profitability and the ensuing operational cash flow much earlier than expected. This is testament to our confidence in our ability to operate the business successfully following our profitable growth strategy and that we can continue to grow our top line even as we deliver higher profitability earlier.

We have also updated our mid-term financial targets. We now expect to achieve approximately SEK 4.5 billion in 2026 revenue. This is slightly more modest than previous guidance and primarily reflects a lower level of investment in our expansion markets.

We believe that our focus on building sustainable, scaled and defensible businesses in our 10 core markets is the right one given the competitive and market environment. And we are thus optimizing the business somewhat more for profitability than growth in the medium term.

Our annual compounded growth rate in Streaming revenue is expected to be between 10% and 12% from 2024 to 2026. We also expect to be above 15% in EBITDA margin by 2026. Our long-term ambition is to reach EBITDA margins of 20% or higher and we aim to deliver more than 10% in operational cash flow in 2026.

To express the same information differently, we expect to deliver almost SEK 700 million in EBITDA and over SEK 450 million in operational cash flow by 2026. Our strategy hasn't changed. We remain committed to balanced and profitable growth across our regions. We continue to expect approximately 10% annual revenue growth from our Nordic and North American markets and twice that from the Netherlands, Poland, Turkey and Bulgaria.

With regards to expansion markets, we are maintaining our business in these markets at current levels and do not foresee significant revenue growth there from 2024 to 2026. It is important to mention, though, that these markets are no longer receiving significant investment dollars and that they are in their totality expected to be breakeven or better in 2024. And depending on market and competitive developments, we reserve the right to potentially reaccelerate investment and growth in these markets in the future.

Before we now open the floor to your questions, please let me summarize the key takeaways of what we have discussed today. Storytel has seen strong and sustained improvements in our operational and financial performance throughout 2023 as a direct result of a highly disciplined execution of the profitable growth strategy we're committed to.

We have delivered financial results that highlight the profitability and cash generation power of our model based on a growing base of subscribers, higher ARPU, excellent engagement and churn performance and disciplined management of costs at all levels. We have upgraded our mid-term financial targets, accelerating profitability and cash generation significantly while maintaining healthy revenue growth.

And we are optimistic that 2024 will be another strong year for Storytel reflected in our new 2024 guidance of around 10% group revenue growth, full year EBITDA margins of at least 12%, and operational cash flow of at least 7%. On behalf of the entire Storytel team, thank you very much for joining us today.

And now, over to 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

Q

Okay. Thank you very much and good morning. I was wondering if you could give some flavor on the performance of your respective markets in the Nordic segment, please.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

So, I'll start off, Peter will fill in. Look, I think in the Nordic markets, we remain the market leader in the Nordics, and that did not change in Q4 or in Q3 or in 2023 as a whole. Let's first look at subscribers. We grew subscribers by about 5% in the Nordics in the fourth quarter of last year. We ended at almost 1.2 million paid subscribers. And that was pretty darn good given the competitive environment.

As you know, there's fierce competition from players like BookBeat and Nextory and. And heavy discounting and promotions that are in the market for consumers. So 5% subscriber growth in average subscribers for the fourth quarter was pretty, pretty good.

In terms of financial performance for the Nordics. We saw significant increases in ARPU last year and we're very pleased with those. And in the context of the overall environment in the Nordics, where interest rates remain high, inflation remains high, we're very pleased with what we're seeing in terms of the loyalty of our subscriber base, the engagement levels in our subscriber base.

So, I am very happy with where we are at in the Nordics. We are remaining – we remain the market leaders in terms of share of revenue in the Nordics, and indeed have managed to resume growth in our subscriber base as well. Peter, do you want to add to that?

Peter Messner
Chief Financial Officer, Storytel AB

A

I think that summarizes the key things. I think it's important maybe to add that in terms of the subscriber growth that we have seen in the Nordics, we have seen very positive developments essentially in all our key markets there, right. And not having seen any deterioration of the ARPU, in particular, as I mentioned earlier during the slides. We essentially stayed on these levels for the past two quarters now, which makes us extremely positive now starting into 2024. So, it was overall a very good and a very balanced development in the entire Nordics.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Great. And I agree, the performance was impressive. So I wanted to ask also, because you've reached a new distribution agreement with Nextory here. Just wondering what made this possible after this sort of prolonged breakup that you've had? And what financial effect should we expect from this?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah, thank you. And obviously a very appropriate question. So as you know, we were previously partnered with Nextory for distribution of our Storytel Group content, and that agreement ended in 2022. We were unfortunately not able to reach agreement on new terms at that point. And at that choice, Nextory filed a complaint against us with the Swedish Competition Authority.

That made it much harder for us to actually come to a new agreement. But I'm very pleased with where we have ended up. I can't go into the details of the economic impact, but it is a strong agreement that will benefit both Storytel Books and our in-house publisher story side.

Most of our content will return to Nextory or has already returned to Nextory. We reserved certain content for ourselves that will not be available on Nextory. I think that's important to us in terms of building a differentiated content offer to our subscribers. It's also a simpler agreement. We now have one agreement for the entire group instead of six agreements for each individual publisher.

So we are very bullish that this is a good balance deal that provides us with incremental EBITDA, especially on the Storytel Books side. And will help us reach the very ambitious goals we have for this year that are reflected in our guidance.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Perfect. I appreciate the clarity there. And then I wanted to ask, I mean, it was quite clear in your announcement in January and today that you've decided to focus even less on these additional expansion markets. But just, I mean, you mentioned you're monitoring then and reserving the right to perhaps pursue one or more of them. I mean, even if you can't name any specific ones, [indiscernible] (00:29:11) a bit more on or general thinking here, what would be required and sort of what markets are perhaps of interest to add to the core markets to really go after?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. Yeah. Look, I think it's very important that these markets are not a drag on our business. I think that's the most important thing I want to get across, that these markets are breakeven or slightly better, and therefore, account for a reasonable part of our subscriber base, our revenue base.

And while we have ceased operations in several markets, we are still present in multiple countries around the globe. These include markets like South Korea. It includes the Middle East. It include Mexico and other countries. Look, we think that through organic and largely self-funded marketing efforts, combined with partnerships and a very disciplined focus on efficiency, we can maintain the revenue contribution and EBITDA contribution of these expansion markets without requiring net investment going forward.

Now, we, of course, believe that in the future these markets will also accelerate their embrace of what is a super attractive entertainment and enrichment product, Audiobooks. And we want to be ready to get on that wave if and when it happens and when market and competitive conditions improve.

So, think of this as basically hitting the pause button without really having a negative impact on our overall group performance and preserving the growth opportunity and the potential to reignite investment and acceleration of growth and profitability in these markets down the road.

So that's how we think about it. We're not giving up. These markets are not a drag on our business. What we're doing is responsibly placing them on hold, if you so want, with the option of quickly reigniting growth if we so choose, in the future.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

All right. That makes sense. And then, finally, I wanted to follow-up. I also appreciate the update on AI here that you talked about. Just wondering what to expect there. When will this sort of be a meaningful component, I guess, in producing for examples Nordic language audiobooks for you?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. So, thank you. I get very excited talking about AI, so I hope we don't run out of time. But I will say this, AI applies to many, many parts of our business. Of course, the most visible and flashy application of generative AI on Storytel's business is within the Voice Switcher and the synthetic voices that we're using in narration.

We are in the early stages of this. In fact, you will soon, in the next few months hear about a rollout of a new language of Voice Switcher. And I'm very excited about that one because the quality is amazing. And what we are learning so far from our experiments with several dozen titles that have been put life on our services, that consumers embrace the choice, the additional choice of how they enjoy our content. It engages them. They like it. We've gotten good feedback on the quality of the synthetic narration and we have learned more, of course, about the cost impact.

And we are very impressed by how dramatically more affordable it is for us to produce an audiobook through generative AI compared to a human narration. So, look, we are rolling this out in a measured way, responsibly, carefully, and will accelerate based on the success we find. But I think it's fair to say that by the end of this year, we will still be in the several hundred total titles that are generated by synthetic voices through our Voice Switcher feature.

There are other applications of AI across the business. For example, generation of metadata, ad copy, book covers and images that we use to merchandise our content on the app that we are also implementing. But the most visible and where we're really cutting edge vis-à-vis competitors is the Voice Switcher and the synthetic voices. So, very positive initial steps, but that's just what they are. They are initial steps.

Derek Laliberté
Analyst, ABG Sundal Collier AB

Q

Okay. Thank you very much. Those are all my questions.

Operator: The next question comes from Joachim Gunell from DNB Markets. Please go ahead.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Thank you. Good day, Johannes and Peter. So, you've all basically started to build credentials for your, not only meeting but beating your short-term guidance. So can you just talk a bit about to what extent there is conservatism baked into that 2024 outlook? And also what dramatically has shifted to make you more positive on the profitability already now versus the more back-end heavy margin projection that you've pointed [indiscernible] (00:34:25).

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

I'll go first and Peter will build. We are very confident about 2024. We believe that the new guidance we have given around 10% revenue growth and above 12% EBITDA margin is attainable and realistic. And you can bet that as a team, we have set our ambition significantly higher than that.

And yes, you are right. We always try to – we always try to exceed guidance. That is what Peter and I have committed to. So, we are hard at work translating this into a very positive results for 2024 and hopefully will do better than guidance. We'll see.

But look what has shifted. I think the strategy hasn't shifted. I tried to explain this in the presentation that we remain committed to disciplined execution of profitable growth strategy. Honestly, 2023 went a lot better than we had hoped for internally. And based on that, we are able to deliver higher level of profitability as earlier. And we recognize that we reduced our revenue growth ambitions slightly for the mid-term targets until 2026. And that primarily relates to what we are doing in the expansion markets that Derek just asked about.

So it's not a fundamental change in strategy. I think, for us, as a group, it is very important to be healthy, to be profitable, to be resilient. And given the market and competitive conditions, the management team and the board felt that we should emphasize a little bit more towards profitability earlier and in terms of growth, still maintain very healthy growth. But maybe a little bit more moderated and limited than previously guided. So that's how I look at it. On the dial, we're dialing, maybe one tap to the left towards more profitability whilst still maintaining great revenue growth. Peter?

Peter Messner
Chief Financial Officer, Storytel AB

A

Yes. Thank you, Johannes. [ph] And naturally, I'd (00:36:35) have to slow down a little bit, my CEO, when it comes to the over exaggeration of well, we have high ambitions internally. Of course, we always have high ambitions internally. But I don't want you, Joachim, to interpret this immediately as we are extremely conservative with that external guidance.

There are still lots of challenges and a lot of hard work that we'll have to go into that. As you are fully aware, we have done the price increases earlier last year. There will be certain challenges along the road in terms of the sustainability and the growth prospect for the second half in this year compared to the previous year.

So, we have a lot of things in store, but it's not a walk in the park, so to say. So we are very confident and I can definitely reiterate that we are very confident to deliver on that target for the year. But you shouldn't interpret that as highly conservative.

When it comes to the cost side of things. So that's the revenue part of the equation obviously as well. When It comes to the cost side of things, we have started to show these results and particularly in marketing efficiencies and other cost efficiencies during the last year. So, we are obviously continuing that journey and with the reduction in workforce that we announced now in January, we'll have that fully implemented during the second quarter [indiscernible] (00:37:55) run rate will be fully into store in the second half of the year – in the beginning of the second half of the year already as well.

So that is an comparable easy execution on that. But it is always the balancing act of where do we need to do what in terms of the overall market composition. Maybe a final word on the expansion markets. They are expected to be very positively contributing during this year. And as Johannes rightly said, we are preserving exactly these opportunities depending on market conditions. And that can happen in some markets even earlier than in other markets.

But again, very confident when it comes to our guidance for this year. But kindly don't interpret that as extremely conservative.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

I think that is clear. Thank you. But you provided this very distinct and clear playbook for how to basically deliver on your short-term ambitions in conjunction with the CMD. What – from your vantage point, what you highlight as your main priorities to execute on the 2024 ambitions?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. I'm happy to do that. And please, someone is not on mute. If you wouldn't mind please muting. That would be great. Thank you so much. A couple of things. So, obviously, we already talked about Nextory and that is obviously a positive impact on revenue and EBITDA that we expect in this year.

But in addition to that, there are many, many initiatives that are well underway throughout the company that will help us drive top line growth and increased margin growth as well. To name a few, marketing efficiency. It remains a big opportunity for us. We have captured already significant low-hanging fruit when it comes to making every marketing dollar that we invest go a lot further.

As a percent of total revenue in the group, our marketing investment over the last two years has come down significantly. We don't necessarily foresee that continuing, but we are at the right level and we are getting more value out of every dollar we invest in marketing. So Oleg and the marketing team are hard at work continuing in that journey.

The next point I would turn towards is our progress in terms of responsibly managing content costs. Content is obviously our biggest cost driver on our income statement and we spent a significant majority of our total revenue on content. We have made great progress actually in 2023, bringing that content cost into a better territory. That's a function of many, many individual tactics from renegotiation of key agreements that were priced to favorably for our partners to getting smarter about which content to put in front of which consumer exactly at what time.

So, a lot of opportunities there also around our group content, which is obviously economically incredibly efficient for us. We are continuing with investment in original and exclusive content. And all that leads us to a better position in terms of our overall cost structure.

And then the third one I would quickly mention is the efficiency initiatives. As I mentioned, the company has gone from over 800 people at the beginning of 2022 to now 540 people or lower in 2024. So, we have made significant progress there. And not only has it created significant impact on our cost structure and our EBITDA. But I think it's also made us more agile, more focused, more collaborative.

So, strong progress there. There are many, many more initiatives underway. I can't go into detail on this call onto all of them, but these are the main ones, marketing efficiency, content costs, operational efficiency initiatives that make us very confident that we can indeed achieve the guidance that we've given.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

Perfect. And just a question on the fact that you highlighted organic growth or constant currency growth excluding audiobooks here as well as Russia. You haven't done this before from what I can recall. So to what extent is this considered multi-quarter?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

No, that has – thank you for bringing that up, Joachim. We actually did that on every quarter and that is a legacy effect of a guidance that was given in the beginning of last year when it comes to the organic revenue growth in Streaming. As a reminder the acquisition of Audiobooks was only completed in early 2022, so it had an impact on the organic growth of full year 2023 as compared to 2022.

And the same is true for the exit in Russia, which was effectuated between Q1 and Q2 2022. So, the previous guidance that existed from the beginning of 2023 had that mentioned and highlighted in terms of organic growth. And that is why we followed up until the end of the year. You will not obviously see that going forward because by now Russia is a non-existing market for us and Audiobooks is fully organic in its development.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

All right. And then just finally then, can you just quantify the one-off charges here to expect in the Q1 results?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. So we're not fully done in that process, as we announced three weeks ago, there are still some discussions going on. But you should expect on the overall personnel expenses something in the area of between SEK 40 million and SEK 50 million as one-off charges that we will consider as an item affecting comparability during the first quarter as a result of severance and related cost.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

Very clear. Thank you both for today.

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Thank you.

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

I want to thank everyone for giving us your time this morning and the questions you asked. We enjoyed it. And have a great rest of today. Thank you.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you.