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# Storytel AB (STORY.B.SE)

Q1 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

**Peter Messner**

*Chief Financial Officer, Storytel AB*

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## OTHER PARTICIPANTS

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**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

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## MANAGEMENT DISCUSSION SECTION

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

Good morning, and welcome to Storytel's Interim Report for the First Quarter 2024. I am Johannes Larcher, the CEO of Storytel, and I'm joined today by our CFO, Peter Messner. We are here on behalf of the entire Storytel team and we look forward to discuss the results of Storytel's first quarter with you.

Before we kick off, we want you to know that there will be ample time for questions at the end of the presentation. In many ways, the first quarter of 2024 represents the completion of the transformation phase, my team and I have been working on since 2022. Having refocused the company on a strategy of profitable growth, we are now seeing that these efforts are bearing fruit. Our focus on the smaller number of geographic markets, higher marketing efficiency, more clearly articulated service differentiation and higher levels of operating efficiency continued to pay off in the first quarter. We are happy to report that subscriber and revenue growth has continued on a positive trajectory and that subscriber engagement and retention remain strong. But what stands out more than anything else in this quarter is the significantly improved level of profitability and operational cash flow.

In fact, as a result of disciplined execution, Storytel achieved the highest ever level of quarterly adjusted EBITDA in its history in this quarter, amounting to over SEK 100 million. In the Streaming business, this level of performance was enabled by further reductions in our cost of content, where a strong catalog of titles from our in-house publishers resonated well with our audiences and led to higher share of internal consumption.

We continued to optimize, [ph] CLD to SEK (00:02:13) and while our marketing team faced fierce competition from Nordic competitors, we were able to again acquire more subscribers with less marketing expenditure.

And of course, as you are aware, we also conducted an efficiency optimization early in the new year that resulted in a 13% head count reduction, which not only lowers our cost base but also made us more agile, collaborative and productive.

Our publishing houses benefited from revenue associated with a new distribution agreement with Nextory that started sometime in February and has ramped up since then. The higher level of internal consumption also benefited Norstedts, Gummerus, People's and Storyside. And at the same time we've had some nice wins in terms of our catalog acquiring, amongst others, worldwide exclusive rights to Björn Borg's autobiography, which will be published in 2025.

We also continue to innovate in the area of generative API and launched our VoiceSwitcher feature in Sweden. Working with the beloved narrator Stefan Sauk who cloned his voice for this project, the quality of synthetic voices and the popularity of this expanded level of choice with our subscribers has delighted us. We expect to launch VoiceSwitcher in additional languages soon.

Here are the highlights of our financial performance in the quarter. Group net sales grew by 12% year-over-year to SEK 892 million. Our gross margin expanded to 43.2%, up from 39.6% a year ago. Our adjusted EBITDA is up 167% year-over-year and reached SEK 104 million. This translates into an adjusted EBITDA margin of 11.7%. Operational cash flow was plus SEK 73 million, up substantially from around zero a year ago. Overall, these results are strong and continue the trend of continuous improvement of our financial performance where we balance growth and profitability.

In our Streaming business, revenue was up 13% year-over-year to SEK 837 million, growth came both from Nordic segments and Non-Nordic segments. Our average paying subscriber base reached almost 2.3 million subs, while quarter-over-quarter growth was particularly strong in the Non-Nordic segment where we added almost 50,000 new paid subscribers. Growth in the Nordics was a bit more modest, reflecting a highly competitive market environment. Year-over-year though, our subscriber base has grown by 215,000 subs with 63,000 of these coming from the Nordic markets. It's also worth mentioning that our US business Audiobooks.com had a good quarter and grew subscribers at a double digit rate despite more modest marketing investments.

In January, we announced the next phase in our efforts to achieve higher levels of efficiency and profitability. As part of this effort, we reduced our group-wide workforce by 13% and said goodbye to about approximately 80, Eight-Zero, full time employees. We believe that this reduction in force not only unlocks higher levels of efficiency, but also allows us to achieve higher levels of productivity, agility and collaboration across our team. Most of the changes have been implemented in the first quarter, but there is a tale that will be finalized in Q2 and we will reach full run rate effect of these changes in the second half of 2024. The related one-off costs were recognized in Q1. We will end the year with less than 540 FTEs down from over 800 FTEs in 2021 and nearly 700 FTEs a year ago.

Based on this solid first quarter, we, as a team, are optimistic about our outlook for the remainder of 2024. We are well-positioned for further growth and increased profitability. 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 we have an experienced team that has proven its ability to operate, innovate and deliver.

Based on these strengths and continued, focused and disciplined execution, we expect to grow 2024 group revenue by around 10%. In doing so, we also expect to deliver above 13% in adjusted EBITDA margin for the full year. And we expect our operational cash flow to be above 8% of revenue in 2024.

And now for a deeper dive into our financial statements, here is Peter.

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## Peter Messner

*Chief Financial Officer, Storytel AB*

Thank you, Johannes, and very happy to walk through some further details on the group's financials. Starting with the segments, Storytel reports on three segments, 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 all of our publishers' external business. Books represents a stable one-sixth of total group revenues.

Starting with the Nordics Streaming segment, this represented almost 58% of total group revenue and grew by 13% to SEK 559 million. The adjusted gross margin increased both as compared to the previous year and also sequentially versus the previous quarter and was 45.2%. Improvement as compared to last year was largely due to the price increases early in 2023, which is also why ARPU increased by 7% to SEK 157 for the Nordics.

The average paying subscriber base increased by 6% or 63,000 to a total of SEK 1.188 million. Our Non-Nordics segments grew revenues likewise by 13% to SEK 278 million, with an adjusted gross margin of 48.3%. ARPU was SEK 87, a slight decrease of 2%. And that is the result of both the geographic mix and also certain foreign exchange impacts.

The average paying subscriber base in the Non-Nordics increased by 16% or 151,000 to a total of 1,067,000 continuing on a subscriber base of above 1 million outside of the Nordics. Storytels for Non-Nordic growth markets increased by 25%. And as Johannes mentioned before, the Audiobooks.com business saw double-digit growth in subscribers during the quarter and a very good quarter as well.

Finally, our Books segment saw a 1% increase in external revenue, driven by the increased digital sales. The group internal revenue growth during the quarter was 22% supporting our strategic execution on our winning publishers and the adjusted gross margin increased versus last year and sequentially versus the previous quarter and was 58.7%.

Let's turn to the next slide and have a closer look at the group's income statement then. As Johannes outlined earlier, net sales for the group grew by 12% to almost – a total of almost SEK 900 million, SEK 892 million. And that growth was driven by the solid performance in the Streaming segment, which was up 13% also at constant exchange rates.

Adjusted gross profit grew by 22% as compared to the first quarter last year to SEK 385 million and represented a gross profit margin of 43.2%. When taking a closer look at the group's cost structure, excluding any items affecting comparability, then we see that sales and marketing expenses amounted to SEK 212 million and increased by 3% year-on-year, which is much less than the revenue growth and decreased sequentially versus the previous quarter.

Technology and development expenses amounted to SEK 61 million and decreased by 13% year-on-year and sequentially, and general and administrative expenses amounted to SEK 80 million and decreased by 14% year-on-year and sequentially. Which all leads to an adjusted operating profit that improved by SEK 74 million as compared to last year and ended up being SEK 31 million.

The adjusted EBITDA improved to SEK 104 million and that represents a margin of 11.7%. During this first quarter, Storytel had items affecting the comparability year of SEK 55 million in total SEK 53 million of that affected EBITDA and out of that SEK 45 million relates to restructuring charges and additional SEK 10 million of expenses related to group's share based incentive schemes that are treated now as items affecting comparability.

Let's turn then to the balance sheet and the main developments there. The highlight changes on the balance sheet versus the one of December 2023, are that intangible assets very marginally increased by SEK 37 million as a net result of investments, amortization, FX effects and certain write-downs. Total assets amounted to SEK 3 billion and the equity-to-asset ratio was 42.9%.

During the quarter we repaid SEK 50 million in bank's debt and reduced financial debt overall to SEK 700 million. Those SEK 700 million consisted of SEK 650 million of a revolving credit facility and that one was reclassified as a non-current liability and additional SEK 50 million of a term loan, which is committed to be repaid by the end of June this year.

What we announced earlier with the Q4 report, we extended our revolving credit facility during February until April next year, and by that also reduced the total available facility by SEK 100 million to a total of SEK 750 million at otherwise unchanged terms.

Storytel has a leverage ratio of around 1 when comparing the net debt of approximately SEK 350 million with the last 12 months of adjusted EBITDA. And with that improved financial performance, the company is in a very good position to refinance its debt at favorable terms and we have started the related process discussions. Cash and cash equivalents at the end of the period were around SEK 350 million.

Turning to the next slide then and taking a look at our cash flows, we see the positive effects from our disciplined strategy execution and cost reduction that resulted in continued cash flow improvements. In the cash flow statement, adjustments for non-cash items are primarily driven by depreciation and amortization. Currency exchange movements and changes in provisions.

The cash flow from operating activities before changes in working capital increased from SEK 18 million last year to SEK 28 million. The change in working capital was the result of reorganizational effects that have been implemented in the last quarter of last year, seasonality in receivables and payables, as well as variable pay and holiday pay accruals that have been paid out and reversed during the quarter.

Cash flow from investing activities reflects our investments into particularly content, but also products and technology and was minus SEK 38 million. Cash flow from financing activities was minus SEK 59 million and that includes the aforementioned SEK 50 million repayment of bank debt during the quarter. So all in all, total group cash flow for the period was minus SEK 97 million.

Finally turning to operational cash flow, which we define as EBITDA excluding any items affecting comparability less any operational capital expenditures. That operational cash flow was SEK 73 million as compared to barely a positive number last year.

The group continues to invest in particularly into content, products and technology. And the operational cash flow is continuously and significantly on higher levels since the third quarter last year and for 2024, we target an operational cash flow of above 8% of revenue.

And with that positive outlook, I hand back to you, Johannes.

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## Johannes B. Larcher

*Chief Executive Officer, Storytel AB*

Thank you, Peter. I recognize that there are upcoming changes to Storytel's board and that my announced departure as CEO later this year may lead to some questions, if major change might be expected. Clearly, as you

have seen reflected in the numbers, the business continues to perform very well and is getting stronger, bigger and more profitable every day. In many ways, Q1 was the strongest quarter ever in Storytel's history.

In terms of our strategy, it hasn't changed. We remain committed to balanced and profitable growth across our regions. We continue to expect approximately 10% in annual revenue growth from our Nordic markets and twice that from our Non-Nordic growth markets, the Netherlands, Poland, Turkey and Bulgaria.

In the United States with our Audiobooks.com brand, we plan for growth in the higher single digits. 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.

As far as outlook for the medium-term, i.e., the period until 2026, we maintain our previous guidance. We expect 2026 group revenue to be around SEK 4.5 billion. Our Streaming business will grow at roughly 10% to 12% annually between now and then. We expect to deliver significantly higher than 15% EBITDA margin in 2026 and we see the potential to run the business in steady state at over 20% EBITDA margin. Lastly, our operational cash flow will reach more than 10% by 2026.

To summarize the key messages from today, Storytel delivered strongly improved operational and financial performance in the first quarter and in many ways its best quarter in its history. The results highlight our ability to create healthy, profitable cash generation based on sustained subscriber growth, higher ARPU and close attention to managing our costs. Our first quarter has laid a solid foundation that will enable further growth of our top line and improved profitability going forward. We thus remain very optimistic about the company's prospects.

Our near-term guidance for 2024 remains unchanged. We will deliver group revenue growth of around 10%, this year. Our full year adjusted EBITDA margin will be higher than 13%, and our operational cash flow will be north of 8% in 2024.

Thank you for attending our call today. We will now open the session up for your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] The next question comes from Joachim Gunell from DNB Markets. Please go ahead.

**Joachim Gunell**

*Analyst, DNB Markets*

Q

Thank you. And good day. So I think that the gross margin this year was perhaps the main story in today's strong results, which [indiscernible] (00:20:53). So can you just comment a bit on where you are now in relation to the plan to raise the overall gross margin of the business in comparison to the plan that you laid out to the mid-2023, there was a 4 percentage point increase year-over-year. So what levers did you pull here and what levers are left to pull?

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah, great. Good to hear you, Joachim, and thank you for a thoughtful question. Let's start with the facts. Gross margin did expand from SEK 316 million in 2023 to SEK 385 million this year. So that is a change from 39.6% to 43.2%. So it's a strong improvement in gross margin. There are several factors that are driving our gross margin. And cost management obviously is a key part of that.

I'll start with higher marketing efficiency. We simply have harvested what I would call a large set of low hanging fruit in terms of improving the way we acquire and retain new subscribers. We're becoming more efficient. We are doing much more with the same amount of investment or lower investment than we did in the past. So marketing efficiency is going up and will continue to go up. We have a really strong team there now that is making progress every day.

We've also seen great potential in achieving lower content cost through investing in our own content and improve profitability over time. That's made we call this the internal of share of consumption and that has developed very, very favorably. That is primarily a function or an outcome of the fact that our publishing houses, whether that's Norstedts, Gummerus, People's or Storyside are producing incredibly successful and attractive content that consumers are compelled to consume. So we are [Technical Difficulty] (00:23:01-00:23:17)

**Peter Messner**

*Chief Financial Officer, Storytel AB*

A

I think, I will chip in. Hopefully, Johannes doesn't have too much of a technical issue there on his end. No, I mean the content costs Joachim are, of course, and have continuously being a focus area to see how can we really improve and obviously execute on our strategy of owning both a Streaming business for distribution, but also the publishing business for content creation for usage. We have seen as we commented, I believe in the CEO comments that our in-house publisher Storyside fully focusing on audiobook production only has seen its titles with a record engagement of our platform, which is of course the appreciation and the confirmation of while we know what kind of content is really highly attractive and what drives consumption engagement and then ultimately, of course, the subscriber growth here as well.

**Joachim Gunell**

*Analyst, DNB Markets*

Q

Thanks Peter for chipping in. But – so you were out with some reclassified definition of EBITDA here recently to factor in the Nordics and JV as well. So I mean in Q1 delivering the adjusted EBITDA margin today we did, today we know that seasonally you will get – I mean in Q3 you also have the full benefit of, call it, workforce rationalization here, the latter part of the year, can you just comment a bit about your line of sight and how confident you are on meeting that 13% plus target for the full year.

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**Peter Messner**

*Chief Financial Officer, Storytel AB*

A

Yeah, we are very confident with that target to deliver above 13% in adjusted EBITDA margin for the year. So I think there is no question around that when it comes to this item. As Johannes mentioned before as well on the execution of what we have announced earlier this year and the reduction in workforce and seeing then to full effect, we obviously do not stop there. We have continuously executed during the last couple of quarters on the various items that affect how efficient we can run the business. It is the marketing efficiency obviously, that is a huge part of the equation, how to attract the new subscribers and how efficient we can actually be in the markets that we are in. Also to make sure that we find the high value subscribers and can sustain ARPU levels to the extent that is possible, if you consider then the geographic mix that we have.

So that will continue because there is always ways how we can improve that is ingrained in our culture and the way how we are working. And the same has been true obviously for the other ways how we are working. So we reiterate it and we are quite confident to deliver above 13% of adjusted EBITDA margin for this year.

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**Joachim Gunell**

*Analyst, DNB Markets*

Q

Thank you. And when it comes to differentiation, you – I think Johannes commented [indiscernible] (00:26:24) that you will look at some new pricing and new packages and new offerings, you at least start with that type of ambition for latter part of year. So can you say anything about what we can expect when it comes to the further differentiation of the service?

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**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. I'm sorry. Apparently I dropped off mid-sentence. Hopefully this won't be the case now. So thank you for that question, Joachim. Differentiation – service differentiation remains a priority for the company. It happens on multiple levels, and I think we're making good progress on all three. The first thing we do about service differentiation is around content, original exclusive content that is only available on Storytel.

I'll give you the example of a title we released in Denmark in the first quarter called [indiscernible] (00:27:17). I think you can guess what this story is about. It was an incredibly successful original that we launched, and it was our highest ever Storytel original when it came to first book picked which is an indicator of attraction. So this book was a highly subscriber attractive book.

We also today actually launch and I'm very excited about this our first major Norstedts's original on Storytel, we are releasing a audiobook only of the famous [indiscernible] (00:27:55) one of our most popular offers at Norstedts.

The audiobook exclusive is called Her Last Step and I think you can check it out on the service today. So we're doing a lot around original and exclusive content to differentiate the service.



The second thing we are doing is about features, VoiceSwitcher was recently launched in Sweden. You heard about this in collaboration with Stefan Sauk, who allowed his voice to be cloned. This has gone very, very well. It is a very popular feature. When it is available on a book, consumers really embrace it and enjoy it. We've been surprised by how much positive reception we've been able to generate for VoiceSwitcher. And you can expect a lot more in the months and years to come out of the application of generative AI to our value chain and production and distribution of audiobooks.

Now, you asked Joachim specifically about what we're doing around pricing and packaging and promotions. And yes, we did hint in our letter that there is more to come. What I can tell you is that we are at the moment actively preparing for the introduction of new pricing packages and offers for our Streaming service that will roll out later this year. Our goal with these new packages and prices is always to make the service more attractive to our users and to make sure that we have the right plan available that fits the right audiobook, use cases and needs preferences of the right target segment.

So you will see changes to price. You will see some new product features, package features that are innovative, that don't exist in the Nordic market as of today. And for the details, unfortunately, you'll have to wait a little bit longer. But things are happening and we'll have more to say about this not too far in the future.

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### Joachim Gunell

*Analyst, DNB Markets*



That's clear. And just a final one from my end, you commented about this in your end statement there Johannes. But I mean, from an operational standpoint, you are much leaner and leaner today, in Storytel you are executing ahead of plan. But I think that I mean investors and also analysts we are somewhat puzzled about the ongoing ownership changes and also to the leadership team here. So what's your message to make us more calm about the ongoing changes and that they won't become a significant speedbump here for the remainder of the year?

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### Johannes B. Larcher

*Chief Executive Officer, Storytel AB*



Yeah, I don't think you should be concerned. I mean, as usual, there is a process every year in a Swedish public company where the board gets reconstituted. We have some changes to the board. Some board members are no longer available. We have announced a new slate of incoming or proposed directors, hopefully next week at the AGM that will be confirmed and we will have a new Chairwoman and several new directors on the board. I think this is a normal process. I wouldn't read anything into that change.

Regarding my own self and I am not irreplaceable, I completely understand that. I want to be very humble about my contribution to what the team has achieved here. So look, for me two years, it feels like we've achieved a lot together and have really turned the company into a positive direction, away from a path that could have led to the brink, towards a path where we now have options on where we want to take the company strategically because we are profitable, we are stable and we are growing.

So it feels a little bit like the end of an era. And when I started thinking about this and when I started considering my own personal reasons and priorities, I came to the conclusion that this might just be a great time to hand over leadership to a new and even more talented leader. So that dialogue with the board started a few months ago. It was a very productive, friendly dialogue. My commitment to the company is that I will stay fully active until the fall of this year. I will do my very best to help the new board find its footing and hopefully help transition to the new CEO as they come in.

So I'm not going anywhere. I am actively working on this business every day until a new leader steps in. And I think we've set this business up for great potential success going forward. So I would not lose my hair if I had any over these developments. I think it's normal course of business and things will be just fine.

**Joachim Gunell**

*Analyst, DNB Markets*

Q

Perfect. Thank you very much, Johannes and Peter and have a great day.

**Peter Messner**

*Chief Financial Officer, Storytel AB*

A

Thank you.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Thank you.

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

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Yeah. Thank you and good morning and thanks for all the great answers so far. And also the details about the board and management developments of late. I was just wondering, Johannes, I mean get a follow up a bit more on your reason to step down at this point, because, I mean, you obviously have assured you and the team are lot here in a relatively short period of time. But I think most of us expected you to stay on for a bit longer.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Thank you, Derek, for your question. And thank you for the kind sentiment it expresses. I've had a lot of fun at Storytel and still have a lot of fun in Storytel. And I'm very proud of what we have achieved as a team. I have personal reasons that played into my decision quite a bit. Personal reasons typically fall into three categories. It's either a new job, it's a family issue, or it's a health issue. I can assure you that I am not going anywhere else to a new job. I have nothing lined up and no intention to do anything very quickly. And I hope you understand I'm not going to comment more on whether it's health related or family related, but that's really what the core of the personal motivation is to do this now.

I remain a small shareholder in the company. I have an incentive to see this company succeed. I have over a short-term incentive that I'd like to see come through in 2024, and I have a long-term incentive that could be quite valuable. So I am going to do everything I can to help this company succeed.

And as for myself, I will be just fine. I admit it, it was a little bit more challenging to be in Sweden, away from my family for extended periods of time. And I think one of the benefits I look forward to is to spend more time with my wife and kids and dog back into the United States.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Really appreciate the color on that, Johannes. Thank you. And then two, wanted to follow-up on the differentiation aspect here, I think this is really interesting. And you mentioned there are several aspects to this as well. I mean, are you seeing – I mean, the Nordics delivered, I think, a really strong result here in the quarter typically [indiscernible] (00:36:00) but you still managed to increase the subscriber base. I mean, are you seeing any signs or how many customer service or anything, I mean, what the company or I mean, rather the customers appreciate the most about your offering specifically, is it the new AI voice just driving things or is it the content and exclusive content, et cetera or the app functionality, et cetera?

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**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. I mean a great question. So when we survey our customers and talk about Storytel with them, one of the highest appreciated components of the experience is obviously our content lineup. And there it is not only the volume and the level of completeness of catalog that we offer. We are very broad and very deep when it comes to covering available audiobooks.

It is also the quality of the content. And then I think increasingly as we invest more and feature and promote more, the original stories that are only available on Storytel that has an impact, that is starting to really resonate with our customers that Storytel is more than just a bunch of audiobooks assembled from all kinds of licensors and slabbed together and put on an app, they actually curate. They actually create content on their own that I can't find anywhere else.

So I do think that, it's taken a while, but we are now seeing very, very prominent authors like [indiscernible] (00:37:40) launched original exclusive content on Storytel only. And that will make a difference. So that plays a big role.

In terms of features in the app. Look, we are best-in-class and all the surveys and market research, we do show that we are by a good distance actually ahead of the competition when it comes to ease of use, ubiquity, of availability of our service on different platforms that matter to users. There is sense that we have started to innovate again, and that is driven by things like VoiceSwitcher, which is not available on our competitors.

Whether this will become a mainstream feature used by the majority of our subscribers, only time will tell. But the initial feedback we're getting on VoiceSwitcher, especially when it comes with a prominent voice that is – that belongs to a beloved actor or personality is very, very good. And so I think the differentiation side on the pricing and product, we have been on the back foot. We have not been as innovative and maybe experimental and aggressive as we should have been.

Remember, before I came in about two, two-and-a-half years ago, we haven't had a single product in every country and it was the limited service, right. And then we launched in the wake of other players in the market, starting to innovate around packaging our basic and our premium service tiers in some countries. And that was good and it has really helped the business. It has driven ARPU increases, it has brought new audiences and segments into the service, but we can't stop there. We are still disadvantaged. I mean we gave you an example, in Sweden, our basic product compared to BookBeat's basic product, I think we have something like a 30% price disadvantage.

That's not a good thing when you're competing for a casual, younger segment with higher price elasticity. So I think you will see in the next few months, as Luis and his team launch these new packages and prices, that we are not only matching what the competition has been doing, we are actually introducing new components and dimensions of packages that no one else has available in the region.

And from – why are we doing that? We expect that this will help bring new customers into our service, will increase engagement and retention, and create some extremely churn resistant cohorts. And it will allow us to take share from others and at this point BookBeat and Nextory. So we have a whole plan lined up for the summer and I think we'll be very exciting to see what happens when we roll that out.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Definitely sounds so exciting. Thank you. And a follow-up on the Nordics there in light of all the competition you mentioned, I mean, can you say anything about what's your main concern relating to competition in the Nordics going forward there?

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

[indiscernible] (00:41:01).

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

The pricing or maybe somebody coming in with a different offering or some consolidation in the market they wouldn't be part of or...

[indiscernible] (00:41:18)

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. I am not super concerned or losing sleep over the existing set of competitors in the market. I mean, we are by far the largest player in the Nordics. We have competed with BookBeat and Nextory for a long time and very effectively I believe. We will continue to do that. I'm very confident in that. I think what all of us are waiting for is whether Spotify will actually make a move in the Nordics or not. They have started to launch their audiobook service in English speaking countries. As we know, they have experimented with different ways of doing that, and I don't think they have quite settled on what the preferred way of bringing audiobooks to their subscribers might be.

Just recently saw that they are launching a separate audiobook tier in the United States, separate from their music and podcasting tier and that's the way I interpret it's basically a reflection of their inability to make the unit economics work if you include audiobooks at 15 hour level into your music service. The margins just don't add up for them.

So they may make a move in the Nordics, we are observing that. We have our thoughts on how to prepare for that, and we are getting ready and hardening the target if you so want. But yes, that is probably the single dimension of competition where it could have an impact given that Spotify is so extremely popular and has millions of paid subscribers in the Nordics, some of which overlap with our own subscribers.

So we keep a close eye on it. And we will see ultimately if they launch, whether the benefits of such a launch, basically expanding the addressable market and bringing audiobooks to more and more subscribers in the market will outweigh or not outweigh the disadvantages.

But overall, competition wise, we've competed with big global players for many, many years. We saw Audible try and move into the Nordic market a while ago and leave, we are quite comfortable competing with those guys. And I think we have all the ingredients in place to continue doing so well.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Okay. Great. And then just on [indiscernible] (00:43:41) I might have missed something in my own calculations there, but on the ARPU development here for both the Nordics and Non-Nordics, I mean it's not a major change but it's been relatively flat for three quarters here heading into Q1 and it is up year-over-year because of partly the pricing...

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yes.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

...what is driving the sequential decrease there, is it -how much is say FX and how much is the mix in the subscriptions?

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. Yeah. Thank you. Great question. And I think Peter should weigh in as well, but I'll give you my view. The slight easing of ARPU that you see in this quarter is as expected. Here is what's happening. The main driver behind us is that new subscribers are primarily from countries and they opt primarily for subscription plans that have lower ARPU. We've introduced lower ARPU plans, our basic plan is SEK 129 in Sweden for example. And as new consumers come in, some of them choose these lower ARPU plans instead of the higher priced SEK 229 unlimited plan.

And then, of course, as we acquire more and more customers outside the Nordics, that means also that our average ARPU drops because our ARPU in these markets is lower. There is impact from FX and there is impact from inflation, especially in Turkey that we are dealing with. But that's basically the key message here directed to shift, the mix in the base of subscribers has started to shift a little bit towards those more efficiently priced, affordably priced, lower end plans with limited consumption of hours. Peter, do you want to comment a bit more on ARPU development?

**Peter Messner**

*Chief Financial Officer, Storytel AB*

A

I think these are the key highlights, Derek, that Johannes, mentioned here. The FX effects were negligible for the Nordics during the first quarter. If you compare year-over-year, it was a little bit different as compared to the final quarter of last year in terms of the development towards the Swedish SEK. But year-over-year there was not really anything that was of a major significance. In the Non-Nordics, it was a little bit different.

The Polish zloty had quite some movement against the SEK and the other way around the Turkish lira, as Johannes also mentioned now, and that is then just reflected in depending on how the subscriber growth and the attraction of new subscribers and that overall mix, how that's developed apparently with very different ARPU levels in different countries.

That's more the case for the Non-Nordics as compared to the Nordics. But other than that, it is these key items that Johannes just mentioned. Yes.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Thank you for that. And just finally on the VoiceSwitcher. Since yeah, very exciting, I was wondering if you could comment on the development going forward? I think [indiscernible] (00:46:56) books or something for Stefan Sauk. What sort of – what will accelerate the development and what type of impact should we expect over the coming one or two years here?

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. Great, great question, we are obviously super excited about this. I want to make clear one thing, though, that when we talk about AI at Storytel VoiceSwitcher, which is just the tip of the spear, it is the sexy, shiny thing that has been exposed to the consumer. But we are in a process of applying or starting to apply, in some cases artificial intelligence to the entire value chain of our business, whether that is the creation of metadata, the optimization of marketing materials and copy, whether it is the creation of book covers. There are so many opportunities for us to leverage TAI to become more efficient and become more effective.

But back to VoiceSwitcher, we are continuing to expand VoiceSwitcher. We will launch more books in languages that we have already launched and we will launch additional languages in the course of this year. We are working on that. We are doing it in a very measured way. We want to learn and analyze the data as we go along. So I'm not going to go on record and give you a specific number of languages or books that we're going to be at the end of the year. But we are going to increase the level of titles that are available through VoiceSwitcher in synthetic voice. And we are going to continue what have turned out to be a quite successful approach of taking a very well-known popular voice and making that available as one of the voice choices in VoiceSwitcher. So Stefan Sauk, as I mentioned, super popular when he is available the vast majority of subscribers, choose his voice over the other synthetic voices. So I think that tells us that even in this new AI world, the personality of the star still matters.

And you can expect that we will be looking for other opportunities to work with additional prominent voice talent and convince them that participating in VoiceSwitcher is actually good for them. So that's where we are. We are super excited, but this is very early days and I don't want anyone to think that this is going to be a massive tens of thousands of titles effort by next year. That's not yet going to happen, we're going to go very gradually, as we understand better the benefits of this new toy and tool.

**Derek Laliberté**

*Analyst, ABG Sundal Collier AB*

Q

Okay. Thank you. That was awesome. Have a great day.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Thank you.

**Operator:** The next question comes from Stefan Wård from Pareto Securities. Please go ahead.

**Stefan Wård**

*Analyst, Pareto Securities AB*

Q

Hi, Johannes and Peter. First, Johannes, very sad to see that you're leaving. I think you've done a really good job with the company during your tenure and hope to stay in touch basically. So with that, I'd like to have a few questions here. One is, when I look at the progress of the US business, I mean, it looks increasingly odd to have the US as part of the strategy. I mean, the cash flow in the rest of the business has improved quite significantly and you don't seem to have any major growth ambition in the US. Can you describe a little bit on how we should look on that asset and also comment on how the market conditions are for that type of assets if you were to sell it?

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Yeah. Thank you for your kind words, Stefan and I am equally sad to be moving on, but look forward to stay in touch, of course. On the US business, great question, and I'm glad you're asking it. We actually had a very, very strong performance in the first quarter in the US business. We saw subscriber growth north of 10% with at the same time reduced investment in marketing. And there's a logical explanation for that. We've recently made Audiobook.com available on Apple's iOS and on Google Play. So we're now on the most important app stores in the US with this service.

And we've also significantly increased marketing efficiency and put in better marketing practices in that business. So we've seen good growth. And I will say this, the US business is relatively small, but it is quite profitable. And then you look at its contribution to our 2023 EBITDA, for example, it accounts for a quite disproportionately high level of EBITDA in the overall picture. So we like the US business, we think it's doing well and it's actually getting stronger. We are seeing that the addressable market for audiobooks in the US is expanding, thanks to Storytel, as Spotify entering the audiobook market, we see that we are performing better and are able to be on the right platforms with the right offer.

So we have a certain degree of optimism for our US business that it can grow and still be very profitable at the same time. So there's nothing wrong there. If anything, the question will be, should we invest more in this business? Is it worthy of additional investment and maybe delayed gratification in terms of profitability a little bit because the potential is there, the team is good. And I am a fan of this business and I think it's a valuable part of the overall Storytel story.

**Stefan Wård**

*Analyst, Pareto Securities AB*

Q

That's good to hear. Interesting you won't give me any details on the margin in the US, I guess, or [indiscernible] (00:53:32) today.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

I'm afraid I won't. No.

**Stefan Wård**

*Analyst, Pareto Securities AB*

Q

Okay. Fair enough.

**Johannes B. Larcher**  
*Chief Executive Officer, Storytel AB*

A

Sorry.

**Stefan Wård**  
*Analyst, Pareto Securities AB*

Q

Yeah, no problem. Any sort of color on the specific development in the Netherlands and Poland would be of interest. Could you give a market share perhaps or subscriber growth or profit margins, anything to become more comfortable with the prospects of these two markets would be helpful for me? Thanks.

**Johannes B. Larcher**  
*Chief Executive Officer, Storytel AB*

A

Peter, I don't think we break these out separately from our Non-Nordics markets. I will say that when I think about our four European growth markets, Netherlands, Poland, Turkey and Bulgaria, I am very pleased with the growth we have been able to unlock. The growth level is very, very high in Non-Nordics, and that is a result of different factors. It really depends market by market. I will see, for example, that in Bulgaria we have grown substantially and just recently crossed a very important subscriber threshold number where we are for the first time in the six figures in that market.

And part of that is driven because our partnerships with telcos in Bulgaria have worked out really, really well. We are – there, we have been able to really crack the code on how to work with these large telco partners and penetrate their subscriber basis with this incremental add on offer, so deft that.

In Poland look I think we're doing well we're not the number one player or not the number two player, we're number two and number three player but....

**Peter Messner**  
*Chief Financial Officer, Storytel AB*

A

Yeah. I think I will chip in again. But whatever Johannes wanted to say, which I cannot read his mind. But we have good progress in Poland when it overall comes also to the subscriber growth. As Johannes mentioned, Bulgaria is probably the smallest when it comes to that milestone achievement, the smallest of the four markets, although has a very interesting and very high subscriber growth in this group of these four markets, the top growth markets here in Europe.

So, I mean, overall, we are extremely satisfied with the developments that we see in all of these four markets. They have their slightly different trajectories, because [indiscernible] (00:56:19) very different, competitive environments are a little bit different. Our partnerships with the kind of telcos are a little bit different. We have one in Netherlands as well and two in Bulgaria, as Johannes mentioned. So it's a very positive development. As we said overall in this group of four, 25% subscriber growth year-on-year and we had this sequentially now for a few quarters.

**Stefan Wård**  
*Analyst, Pareto Securities AB*

Q

Thank you. That's very helpful. And then maybe I can shift over to a question regarding the balance sheet. It sounds like you feel quite confident in the strength of the balance sheet, outlook for the cash flow, it looks like you will go into net cash by early next year [ph] at least (00:57:03). What can you guide there and how will you sort of



run debt side of – will you amortize everything away as soon as possible or how will you think about using the balance sheet in the business going forward.

**Peter Messner**

*Chief Financial Officer, Storytel AB*

A

Yeah, that will be a discussion obviously also with our new board of directors that will constitute itself next week and then going forward with the discussions that we have there. As I said in the presentation, if you take a look at our net debt position now, we have a net interest-bearing debt of SEK 700 million and the cash balance – cash and cash equivalents of half of that.

So the net debt is SEK 350 million-ish and the last 12 months of EBITDA are like that. Our EBITDA is supposed to grow obviously, so we should end up at the leverage ratio below 1, everything else equal and no other measures being taken, right. I don't see – personally, I don't see a reason to fully amortize the debt we are in a very good situation. We have very positive and favorable banks that support us on that journey. So we have a lot of flexibility, I think, to deal with that question when there is the time ripe for really addressing it properly. But that will be a forward discussion obviously with our board of directors and gaining more insight and guidance there as well.

**Stefan Wård**

*Analyst, Pareto Securities AB*

Q

Okay. That's very helpful. I think that's all for me for now. Yeah, thanks a lot.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

A

Thank you, Stefan.

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

**Peter Messner**

*Chief Financial Officer, Storytel AB*

There are no written questions as we see from our platform in the webcast. So I think, Johannes we can share some final comments and wrap up.

**Johannes B. Larcher**

*Chief Executive Officer, Storytel AB*

Yes. Thank you, indeed. We are very pleased with this quarter. It really is the culmination of a two-year journey, and I can't wait to see where we and whoever follows me in the CEO role takes this business next. It's a wonderful business that serves a really great mission and adds so much value to consumers' lives in so many places. So I feel stronger and more optimistic about Storytel today than I've ever before, and hopefully we'll still have an opportunity to talk to you again at our Q2 earnings at the end of July. But this was solid, great quarter and on we go. Thank you very much for dialing in today, and thank you for all your questions.

**Peter Messner**

*Chief Financial Officer, Storytel AB*

Thank you.

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