30-Jul-2024

Storytel AB (STORY.B.SE)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: This call is being recorded. Your line is muted. Welcome to Storytel Q2 Report 2024. 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 the speakers, CEO, Johannes Larcher; and CFO, Peter Messner. Please go ahead.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

Welcome to Storytel Group's earnings call for the second quarter of 2024. My name is Johannes Larcher and I am Storytel's CEO. I am joined today by Peter Messner, our CFO.

We are very pleased with our performance in Q2. Thanks to the continued hard work by our entire team, we were able to achieve the best quarterly financial performance in the history of Storytel. And we are very proud to deliver these results at the end of a two-year transformation process that was intense and challenging but ultimately successful. As a group, we are today very well-positioned financially, operationally, strategically, and organizationally for the opportunities that lie ahead in the fast-growing audiobook sector, and the new challenges that no doubt will also be part of our future.

Behind our success over the past 24 months lies our hybrid strategy that combines Publishing and Streaming. We are convinced that this hybrid group strategy of being both publishers and direct-to-consumer distributors of content provides us with competitive advantages that can lead to superior performance. To reflect this strategy and the fact that we also operate our day-to-day business and organization according to this dual structure, we have, in the second quarter, updated our financial segment reporting, which now reflects our Publishing and Streaming business areas, and thus offers investors greater visibility, transparency, and understanding of our business.

In the second quarter, we were laser focused on continued and disciplined execution of our profitable growth strategy. We were able to meaningfully grow our subscriber base and crossed the 2.3 million paid subscriber milestone. At the same time, we remained disciplined on managing CLV/SAC to healthy levels and ensure that the quality of our base in terms of churn rates, engagements levels, and the ARPU remained excellent.

We also paid a lot of attention to the development of our gross margin in Q2. We are delighted that based on the quality of titles released by our publishing houses, the popularity of our in-house content is increasing amongst our audience with positive impact on our cost of content. Also a priority in Q2, we continue to tightly manage our entire cost structure, seeking additional efficiencies and savings throughout our organization.

In our efforts to further differentiate Storytel from alternative offers, the amount of original and exclusive content on our service has continued to grow. And we are very pleased with the standout performance some of these original and exclusive titles, such as My Brother in 75 Parts, have achieved. Original and exclusive content drives subscriber acquisition and increases audience engagement. And because this strategy is working for us, we will be doing even more in this area going forward.

It is also worth mentioning that we introduced approximately 6,000 podcasts to our service in Sweden this past quarter. These podcasts cover 90% of Sweden's most popular podcast content and are now available for free and without a subscription required on Storytel. We are doing this for two reasons: one, to keep our existing audiences listening on our service for even more hours every month by now allowing them to get all their favorite audio stories on Storytel instead of using a different podcast platform; and, two, to bring new listeners interested in podcasts into the Storytel ecosystem in the hope that eventually we can convince some of them to also become audiobook subscribers.

One of the most significant developments in the second quarter was, without doubt, the introduction of a new set of product packages, updated pricing, and innovative promotions in the Nordics. Let me spend a bit more time on that topic.

Our new subscription plans, the Flex Plan and Student Forever, along with the limited Premium for Life campaign in Finland, are tailored to better meet our users' needs and to enable them to stay engaged in our world of stories for even longer. Our users are both highly-engaged and loyal, and we aim to reward their commitment with these new packages while also strengthening our offer and the attractiveness towards new subscribers.

With the Flex Plan, subscribers can enjoy 20 hours of audiobooks per month with any unused hours automatically rolling over to the next month. Flex is offered at an attractive, competitive price point. For example, in Sweden, it retails from SEK 99 a month.

Our new Student Forever plan offers verified students in Sweden, Denmark, and Finland our premium 100 hours subscription package at half the price for as long as they maintain their uninterrupted subscription with us, even when they complete their studies.

Similarly, our seasonal Premium for Life summer campaign in Finland offered all new subscribers the premium 100 hours per month subscription at €10 per month, half the regular price. This offer was only available for a short period of time and sparked significant interest from Finnish consumers. We believe it will create a cohort of churn-resistant and profitable customers for Storytel Finland and will help improve our market position in the country.

While it is early days and we anticipate to innovate further on product and pricing later in the year, we are confident that these initiatives will drive higher subscriber acquisition, long-term engagement, and retention on our platform. We are encouraged by what we've seen in the data since these packages and promos went live, and we'll update on their performance later in the year.

The second quarter of 2024 delivered the strongest ever financial results in the history of the group. Net sales were up 9% year-over-year to SEK 924 million. Gross profit margin improved 5 percentage points year-over-year to 44.2%. Our EBITDA performance was very strong with adjusted EBITDA reaching SEK 128 million for the quarter. This is a 2.8x increase from Q2 of 2023. Our EBITDA margin also reached a record high level of almost 14% for the quarter. Operational cash flow, defined as EBITDA minus CapEx, reached SEK 87 million, and our adjusted operating profit improved from minus SEK 25 million in 2023 to positive SEK 62 million in Q2 of this year.

Looking at the performance of our Streaming segment for Q2, we are pleased with the strong results. Our subscriber base has continued to grow. The quarterly average number of subscribers reached 2.29 million, and we crossed the 2.3 million threshold during the quarter. This represents an increase of 230,000 subscribers year-over-year out of which more than a third came from the Nordics. In the Non-Nordics Core segment, we grew even faster and added 154,000 new subscribers, an increase of 21%.

ARPU has remained stable with a minor decrease of 2% year-over-year. As we optimize our business for growth and profitability, we make real-time decisions that balance subscriber growth and ARPU, and we are pleased with the ARPU levels we saw in Q2. As mentioned, our focus is on developing not just a large but also a healthy and profitable subscriber base. And therefore, we carefully manage customer lifetime value versus subscriber acquisition costs. We feel good about how our base is developing. This is also evidenced by our paid churn development where we reached another all-time low level in Q2.

In terms of engagement, the key measure of long-term success in Streaming, we closely track frequency and length of listening. And in these areas, we are also at historic high levels. In fact, our subscriber base today is larger and healthier than it has ever been.

I'm now going to hand the mic to Peter Messner for a more detailed discussion of our financial performance.

Peter Messner

Chief Financial Officer, Storytel AB

Thank you very much, Johannes. And I'm happy to walk through some further details now on the group's financials.

As Johannes just mentioned, Storytel adjusted its segment reporting this quarter to better reflect the strategy and dual structure of our two business areas, Streaming and Publishing. All the segment financials on this and on the next slide and in the report are adjusted, which means they exclude any items affecting comparability. Let's start with the Streaming segment, that's the segment reflecting the financials of all audiobook and e-book streaming services operated under the brands, Storytel, Mofibo, and Audiobooks.com.

Geographically, Storytel provides KPIs for three regions: the Nordics, which are the markets in Sweden, Denmark, Norway, Finland and Iceland; Non-Nordics Core, which consists of the Netherlands, Poland, Bulgaria, Turkey, and all of the operations of Audiobooks.com; and then the Rest of the World region, which are all remaining former expansion markets.

The total net sales in the Streaming segment increased by 8% to SEK 834 million. The revenue in the Nordics region as a contribution here increased by 5%, which was based on a subscriber increase of 7% and a slight ARPU decrease of 2% year-on-year whereas ARPU increased versus the first quarter this year. The revenue contribution from the Non-Nordics Core region increased by 20% and was based on a very strong subscriber increase of 21% and an ARPU decrease of 1% year-over-year whereas ARPU increased versus the first quarter this year. And finally, the revenue from Rest of the World region decreased slightly by 2% based on a subscriber decrease of 3% and a flat ARPU development year-on-year.

The adjusted gross profit for the Streaming segment increased by 13% to SEK 347 million, reflecting a gross profit margin of 41.6%, which was 2 percentage points higher than in the second quarter last year. Operational expenses, overall, significantly decreased such as the general and administrative expenses, which decreased by 51%, which led to a significant increase in adjusted EBITDA contribution from the Streaming segment of SEK 96 million, an increase of 69% as compared to the second quarter last year and reflecting a margin of 11.5%, which was up 4.2 percentage points from last year. Finally, the adjusted operating profit contribution from the Streaming segment increased by almost 200% to SEK 67 million.

Let's turn to the next slide and the Publishing segments then, which reflects the financials of all our publishing houses within the group. That is Norstedts Publishing Group, Lind & Co., Gummerus, and People's, as well as our global digital audio publisher, Storyside. The Publishing segment further also includes external sales from content productions.

Total net sales in the Publishing segment increased by 16% to SEK 263 million of which the external sales increased by 13% to SEK 141 million and the group internal sales increased by 18% to SEK 122 million. As can be seen in the bottom-left chart here on this slide, the internal sales show a more stable and increasing development while the increase in external sales, over time, is subject to certain seasonality patterns, in particularly, in print sales. Adjusted gross profit increased by 97% to SEK 82 million, reflecting a gross profit margin of 31.3%, which was 13 percentage points higher than in the second quarter last year.

As in the Streaming segment, the total operating expenses in the Publishing segment significantly decreased, which led to an increase in adjusted EBITDA contribution from the Publishing segment of SEK 61 million. That is an increase of more than 200% as compared to the second quarter last year and reflects a margin of 23%. Both the gross profit and as the result also the EBITDA margins follow certain seasonality patterns due to different gross profit margins in external print versus digital sales and also inventory write-downs over time. Overall, the increase in margins are the result of the many operational improvements that have been done in our publishing houses since last year. The operating profit as a result from the Publishing segment turned positive as compared to last year and was now SEK 27 million. Let's turn to the next slide and a closer look at the total group's income statement.

As Johannes outlined earlier, net sales for the group grew by 9% year-on-year to SEK 924 million. And as just talked about, the growth was driven by the solid performance in both the Streaming and the Publishing segments. The adjusted gross profit grew by 22% as compared to the second quarter last year to SEK 409 million, which is a gross profit margin of 44.2%. It's worth to highlight the group's higher gross profit margin as compared to the individual gross profit margins of the two segments, reflecting the synergetic advantage and the value of owning and operating both streaming and publishing businesses in the group.

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 216 million and stayed more or less flat year-on-year, which reflects the increased marketing efficiency in the Streaming segment and the cost efficiency measures taken in the Publishing segment.

Technology and development expenses of SEK 54 million as well as the general and administrative expenses of SEK 77 million decreased by 15% and 10%, respectively. And those reflecting the cost optimization measures that have been taken in the group since the third quarter last year.

The adjusted operating profit improved significantly and turned positive to SEK 62 million. Adjusted EBITDA improved by 178% to SEK 128 million and represented an EBITDA margin of 13.8%, which is up 8.4 percentage points from last year.

The items affecting comparability during the second quarter amounted to minus SEK 15.5 million in total of which minus SEK 17.3 million affected EBITDA. Of that amount, minus SEK 9 million relate to the divestment of the Finnish publisher, Aula & Co., and minus SEK 6.4 million related to the group's share-based incentive schemes. There was a positive amount, SEK 1.7 million, affecting the operating profit that related to an adjustment of IAC for depreciation that was done in the first quarter of this year. The IACs during the second quarter last year were minus SEK 4.2 million as a comparison and related to the group's share-based incentive schemes.

Let's go to the next slide and the group's cash flow statements then where we see improved cash flow generation as a result of the disciplined strategy execution and cost reduction measures. In the cash flow statements, the adjustments from noncash items primarily relate to depreciation and amortization, currency exchange movements, and changes in provisions. The cash flow from operating activities before changes in working capital increased by more than 300% to SEK 106 million. The change in working capital was minus SEK 29 million and an effect of the reorganization that was rolled out in the first quarter this year, as well as usual seasonality on receivables and payables.

The cash flow from investing activities reflects our investments into content, product, and technology, and was minus SEK 44 million. And the cash flow from financing activities was minus SEK 66 million, including a SEK 50 million repayment of a term loan, which is now fully repaid. All in all, total group cash flow for the period was minus SEK 32 million, again, including the SEK 50 million repayment of the term loan.

With that improved cash flow generation, let's turn to the group's balance sheet, which shows a solid and overall improved financial position. There are no major movements in the intangible assets as compared to the previous quarter, which are fairly stable now at SEK 1.9 billion. Cash and cash equivalents were SEK 315 million and total assets amounted to SEK 2.9 billion and the equity to asset ratio was 44.7% and slightly improved versus the 42.9% at the end of March this year.

As mentioned before, during the quarter, SEK 50 million of a term loan was repaid, which is, by now, fully repaid, which reduced financial debt to SEK 650 million. Those SEK 650 million relate to the group's revolving credit facility, and that was reclassified during that quarter from noncurrent to current. In February this year, Storytel extended this RCF until the 2nd April next year, 2025, and also reduced the total available facility to SEK 750 million. We have commenced negotiations with financial institutions in order to refinance the existing RCF.

Turning to my final slide then, which shows the significant improvements in the group's operational cash flow and leverage ratio. The operational cash flow is defined as EBITDA excluding any items affecting comparability less any operational capital expenditures, and was SEK 87 million or 9.4% of revenues as compared to SEK 1 million in the second quarter last year. As mentioned before, these operational capital expenditures reflect investments into, in particularly, content but also product and technology. Our net interest-bearing debt was SEK 335 million at the end of the period and represents a leverage ratio, as compared to the last 12 months of adjusted EBITDA, of 0.8.

Storytel has significantly de-leveraged during the past 12 months, more than halving its leverage ratio from 1.9 at the end of June last year to the 0.8 now. During those 12 months, a total of SEK 250 million in bank debt has been repaid of which SEK 200 million related to a term loan that is fully repaid.

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

Johannes B. Larcher

Chief Executive Officer, Storytel AB

Thank you, Peter.

As you know, this is my last earnings call as CEO of Storyteller Group, as I prepare for my exit in September. From October 1, Bodil Ericsson Torp will be leading Storytel as our new CEO, and I wish her all the best as she prepares to take the business forward. I will be actively assisting with Bodil's onboarding and the transition of responsibilities.

As I look back on my time at Storytel Group, it is clear what incredible transformation this company has undergone. And I feel very grateful and fortunate to have been part of this journey together with the entire Storytel team. Over the last two years, we have continued to grow our subscriber base and revenue while also achieving significantly higher levels of profitability, and we are now profitable on the bottom line.

This success is mainly driven by the following. One, much deeper collaboration between our publishing houses and our streaming service as part of our hybrid group strategy. Two, implementation of a highly successful streaming strategy that is centered on service differentiation, marketing excellence, user-centric innovation, and higher operating efficiency.

As a result of these initiatives, the company is now a healthy and profitable business in excellent condition. Compared to when I started, we have 13% higher in terms of paid subscribers and 18% higher in terms of group revenue. Adjusted EBITDA has increased by a factor of 10x during this time, and EBIT and profit are now firmly in the black. I am very proud of our team. Without whose hard work, great skill, resilience, and dedication to our mission, these results would not have been possible. I look forward to cheer them on from the sideline as they accomplish amazing things together with Bodil going forward, and the company embarks on its next phase.

Finally, no earnings call would be complete without a quick comment regarding guidance and midterm financial targets. Our solid second quarter results mean that we are tracking well year-to-date relative to our guidance, which remains unchanged for 2024. With continued disciplined execution of our strategy, we expect to grow 2024 group revenue by around 10% to deliver above 13% in adjusted EBITDA margin for the full year and operational cash flow of above 8% of revenue in 2024.

Regarding our midterm outlook for the period until 2026, we likewise maintain our previous guidance. We expect 2026 group revenue to be around SEK 4.5 billion driven by our Streaming business, which we expect to grow at roughly 10% to 12% annually. We expect to deliver significantly higher than 15% EBITDA margin and see the business running in steady-state at 20% or more EBITDA margin. Lastly, our operational cash flow will reach more than 10% of revenue by 2026.

And with that, thank you and over to you for your questions and comments.

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

Thank you and good morning. So, I'd like to ask on the Nordic Streaming business area, whether you could give some flavor or break down what is driving the subscriber growth here of 7%. If we perhaps could get some idea, which markets are driving the growth or perhaps which customer or subscription packages that primarily are driving this. Thank you.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you, Derek. I'm going to start, and Peter may add on. We had indeed good growth in the Nordic Streaming segment, over 80,000 paid subscriber additions net year-over-year. And this is a result of many, many different things, but I want to highlight a few of them.

First of all, as you know, we have innovated quite significantly regarding our packages, our pricing, and our promotions, and we are certainly not done with that. But what we've done so far has resonated very well. It's a bit early to talk about the specific impact of the most recent wave of new packages, pricing, and promotions. But I can give you a sense and flavor, for example, that in Finland where we launched a quite innovative and exciting promotion this summer called the Premium for Life promotion, we've seen a really strong response from Finnish audiences to that. It's such a good deal to lock in your subscription with Storytel at half the price of the regular premium package, €10 a month.

And this has allowed us to make significant traction in terms of subscriber numbers and market share in Finland since then. But this does not, and I want to be clear, this does not come at the expense of profitability on a per customer level. We are very encouraged how churn-resistant this cohort of promo subscribers in Finland so far has been, and we expect that to continue.

So, the growth in the Nordics clearly has something to do with packages, pricing, and promotions. It also has something to do with our service and content differentiation. We have done very well with original and exclusive content that you can only find on Storytel and nowhere else. For example, in Denmark, we launched a original audiobook this past quarter called My Brother in 75 Parts. This was the single highest driver of subscriber acquisition in Denmark in the quarter.

In Sweden, we launched the first of what will hopefully be many original books from Denise Rudberg, the acclaimed author called Her Last Step. That was very, very successful in terms of acquisition and consumption or engagement for existing subscribers as well.

So, it's becoming clear to consumers that Storytel is the place to go where you find exciting audio stories of highest quality that can't be found anywhere else. And that, too, helps us grow in the market relative to our competitors.

And then, the third thing I would say is that we are, from a marketing efficiency standpoint, making great strides. We have gotten so much better in terms of our digital marketing efforts. We're running very sophisticated CRM and media mix technology models by now that allow us to really balance CLV/SAC to healthy levels.

So, I am encouraged by what we have seen in terms of Nordic subscriber growth and revenue growth, and I think there's more to come there. Will it be easy? No, it won't be easy. This is a maturing market in the Nordics. We are in a very strong position. I think we'll do well, but we'll need to stay on our toes.

Peter, anything you want to add?

Peter Messner
Chief Financial Officer, Storytel AB
A

Yeah. The only thing to add, Derek, I think, is exactly as Johannes pointed out, that there is a strong correlation between what we have been doing in terms of the prices, the packaging, and the innovation on the Flex product, on the Student Forever product in particularly in Finland, and the numbers in the subs that we see that came in, especially towards the end of the quarter as well, when we – in that second half of the quarter past, the 2.3 million threshold. So, that was particularly standing out. I think if you take a look at the entire Nordics are the two markets with Finland and Sweden when it comes to absolute numbers. And there is a correlation with what we have been doing and innovating on the products.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Okay. All sounds very good. I really appreciate the color there. And just to continue on the Nordics there, I was wondering if you could give some indication how the business has performed so far in the summer here in the third quarter, I mean, given that the summer months are quite crucial for the annual intake from a seasonality perspective.

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. I think you'll understand that we can't really say much. I mean, we're one month into the third quarter, and obviously we'll be reporting back at the end of October how it went. But we're encouraged with the momentum we have going into the summer, and that has continued in the month of July as well. I don't think we can say much more than that.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

That's understandable. And quickly, if you could also comment on the performance in the Non-Nordics Core part of the Streaming business area. I mean, is it the same markets as before driving growth or are there any changes worth highlighting there in terms of the development, please?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

There's two things worth highlighting. One is the very, very significant growth that these Non-Nordics Core markets delivered to us year-over-year, 154,000 additional subscribers with strong ARPU. This was very positive, and it was expected, and a result of a deliberate strategy choice to focus capital allocation and investment on these Non-Nordics Core markets. As you know, there are five markets in that mix, Netherlands, Poland, Bulgaria, Turkey, and the United States through Audiobooks.com.

I think the one thing I would highlight is we're not going to go into specifics of which markets are working better than others. But one thing I want to highlight is that Audiobooks.com had a very strong quarter. It is actually at an all-time subscriber high and continues to perform very profitably for us. I mentioned this because many questions we get have to do with Spotify and their launch of an audiobook streaming service in the United States. This has certainly not hurt us directly. If anything, I believe it has helped us by expanding the appeal of the category.

So, we're very pleased with Audiobooks.com. But the other markets in the segment have performed well, and we'll continue to stay focus for investment and growth going forward.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Okay. Great. And then, I'd also like to ask on the Publishing segment here, I mean, you delivered a really impressive result in the quarter. I do know that you made a lot of efficiency improvements, etcetera, here, but also the top line was very strong. So, I was wondering if you could break down what's behind this strong growth and what type of contributions you're perhaps [indiscernible] (00:32:15) from Nextory since being fully active I think since February or is it mainly the sort of the new titles that you mentioned earlier that also support in driving the strong top line growth.

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. Thank you. We agree with your assessment of the performance. I think there's many factors that go into that performance. We've had a strong set of titles coming out, important offers like Denise Rudberg, for example, performing very well for us. We are also seeing some of our more digitally-focused publishers like Lind & Co., and Storyside performing very well, in line with market development or better. And then, of course, we have a new agreement with Nextory that became effective in February. And that has certainly helped grow our digital revenue in both Storyside and Storytel books. So, a lot of things happening in the business.

We are very encouraged by how the digital side of the book segment is performing and growing. Of course, we are subject to the market forces affecting physical books like every other publisher. But I do believe we are performing slightly better than the overall industry there as well.

Derek Laliberté
Analyst, ABG Sundal Collier AB
Q

Okay. That's very clear. And finally, I'd like to ask on – you talked in the report about these 6,000 podcasts in Sweden. I just wonder if you could share some detail on that. I mean, are this all sort of freely accessible podcasts that you can also find on, for example, Apple or Spotify, or do you also have perhaps some collaboration with certain publisher, podcast publishers that offer exclusive content where you have a revenue share agreement or similar, just to understand that?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. I think we need to be careful not to create the wrong impression. We're not turning the company into a podcasting company. That is not who we are. We are focused on audiobooks. Our subscription is for audiobook content. That's where we make our money and that's what our customers love us for.

What we're doing here is basically widening the top of the funnel in terms of audience appeal and customer intake. We added about 6,000 freely available podcasts in Sweden. They represent jointly about 90% of all the most popular podcast content in Sweden. You can get these podcasts elsewhere, absolutely, in your favorite podcast player whether that's Apple or Spotify or others.

Why are we doing this? The reason is, as I said in my comments, it's really twofold. One is we want to make sure that our existing customers don't need to leave us to get their favorite podcast content somewhere else. We have a great product, a great app that consumers love that is very user-friendly, so why not listen to your favorite podcast content on here instead of somewhere else, thus increasing the time consumer spend with Storytel, thus increasing what we know about each individual subscriber in terms of their preferences and likes, helping our recommendation algorithms, etcetera.

Second reason of course is, yeah, we also want to give non-Storytel subscribers the opportunity to find great – to discover great podcast content on Storytel for free without paying us. Go ahead, enjoy that content, and that gives us an opportunity to, over time, convince at least some of them to become subscribers who pay us money to have access to audiobooks content.

So, that's the reason. It's a kind of experiment. I think it's strategic. I think it is differentiating for us. And I think we will report back to you in the future on how that all is going. But it's a good step for us, and we developed some new technical capabilities to make this possible. We'll see how it goes. But it is not a shift fundamentally in strategy towards a broader podcasting service.

Derek Laliberté Q
Analyst, ABG Sundal Collier AB

Okay. Yeah, I get it. Makes a lot of sense and sort of what I expected. Perfect. Yeah. Also, onto – since this is your last earnings call with Storytel, Johannes, I also would like to extend my very best wishes going forward. Thank you.

Johannes B. Larcher A
Chief Executive Officer, Storytel AB

Thank you.

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

Stefan Wård Q
Analyst, Pareto Securities AB

Hello. Thanks for taking my questions. I have a few additional things to ask here. One is if you can give any additional insights into the performance in Poland and Netherlands specifically. How big is the subscriber base there, and any additional maybe market positioning and so forth would be helpful?

Johannes B. Larcher A
Chief Executive Officer, Storytel AB

Yeah. We don't really break out individual countries, Stefan, inside the Non-Nordics Core segment. I will say that, in the Netherlands, we are the clear market leader when it comes to audiobooks and have done very well in that country. We see further opportunity there to grow the base. In Poland, we're not the number one. It's a very competitive market. We are working hard to add some additional content that we've been lacking to the service, but we are performing well. We just recently reached a major subscriber milestone, and, unfortunately, I'm not in a position to tell you what it was. But I think we're performing in both of these markets according and in line with our plan.

Stefan Wård
Analyst, Pareto Securities AB

Q

Okay. Thank you. Then turning into the churn data that you referred to in the presentation saying that it is at the record low level. Could you be more specific on what that level is and perhaps give some technicalities behind how you calculate the churn?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

No, I'm sorry. I mean, I don't mean to be flippant about this at all. It's very, very important. Look, we do not disclose specific paid churn numbers. When we index churn against a starting point of 100, we have come down significantly over the past 18 months. Our paid churn performance is the strongest in the Nordic markets where we have super loyal customers. We're very pleased and I think we are comparing very favorably to the real world-class performers when it comes to paid churn minimization. And by that, I mean, players like a Netflix, for example. So, we are super pleased there. Of course, in markets that are in the Non-Nordics Core as well as in our Rest of World segment, churn still has a way to go. It's much better on a relative basis than it was before, but we still have a way to go to get to really world-class levels.

So, look, we're not in a position to comment in more detail on this. But I will say that, overall, we're tracking very positively. We use a very conservative approach to defining and measuring paid churn. Again, I'm not going to go into the details of how we calculate paid churn. But it's a matter of pride that we have managed to bring it down a lot. We also see additional opportunities, especially by improving churn prevention and by improving our win-back efforts for churn subscribers to do even better. But there is no real concern about paid churn other than we see further opportunity to do better in some markets in particular.

Stefan Wård
Analyst, Pareto Securities AB

Q

Okay. Thank you for that. Maybe we can move on to the – if you could give us an update on the sort of how the customer base looks. I don't think we've spoken that much about that over the past couple of year. But, historically, it was a lot of females in the age group maybe 30 to 50 that made up the majority of the subscriber base. How has that evolved over the past couple of years when you have been with the company, and maybe some insights into take-up among younger listeners, how that is developing...

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah.

Stefan Wård
Analyst, Pareto Securities AB

Q

... [indiscernible] (00:41:07) for adoption?

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you, Stefan. That's a really good question, and I appreciate it actually to have an opportunity and answer that. As you're aware, since I got here, we have innovated quite a bit around pricing and packaging. And part of the reason for that was that we needed to restructure our offer in a way that makes it more attractive and affordable for different types of customers. We are very, very much focused on being the market leader when it comes to passionate book lovers in the Nordics. That is the core of our proposition. We are the clear market leader with that segment, and we are defending that segment very successfully.

Some of our competitors have made inroads into the more casual segments, the younger segments, the more male segments. And part of the reason we launched different pricing plans, different time-based consumption packages, and now a whole new set of packages a few weeks ago is that we want to make sure we have the right package and the right price point for the right customer at the right time.

So, take for example, our Flex Plan. This is an innovative feature that no one else in the market has, where, if you don't use your 20 hours a month that you pay SEK 99 for in Sweden, then the remaining hours roll over to the next month, and you can use that balance in the summer, for example, when you're listening to more audiobook content.

So, we're adding value to what we bring to the consumer as a subscription service that helps us differentiate from competitors and make us more attractive towards these younger and more casual audiences that we are seeking growth from.

So, we are seeing, I'd say, encouraging early results of all this, meaning that our base is becoming younger, it's becoming more of a reflection of the gender mix in the overall population, and that we are competing better and more effectively in the more casual segment. And we are hopeful that that will continue. We are not done innovating. There will be more stuff coming in the next year roughly in terms of packages and pricing that will be very exciting. But that is the goal to become more attractive for more subscriber segments yet not do that at the expense of profitability.

Unlike some of the players in the market who will add almost any subscriber at any cost as long as they can count the subscriber, we are focused on adding valuable, profitable, long-term customers that have a positive contribution margin. That has not changed. But we have these new packages we are able to compete much more effectively in that casual segment.

Stefan Wård
Analyst, Pareto Securities AB

Q

Thank you for that. Very helpful. Then I would like to move on to content investments. If you could maybe give us a feel for how much are you investing in the sort of new content at this point in time? Are you sort of being a bit conservative there to improve margins or is this the going rate that we should assume? I'm thinking about CapEx but also in the P&L?

Peter Messner
Chief Financial Officer, Storytel AB

A

Yeah. I think when you take a look at what you saw in the first quarter now and the second quarter as operational capital expenditures, hence, why we also highlight always the operational cash flow as a proxy here, that that is a good run rate to assume for the remaining part of the year as well.

The look then forward into 2025 and beyond is obviously subject to other strategic decisions from our board and the incoming CEO and whether we would like to see any other changes there. But I think we are on a very healthy level. The positive upside that you should expect in the midterm however is also production processes and the consideration of artificial intelligence as technology overall. That is certainly going to disrupt so many industries, including ours as well. Hence, why we started last year with the announcement of our Voice Switcher endeavor where we have come quite a long path, but there's still so much more to do. So, that will obviously impact our CapEx expenditures in the longer run very positively as well. But other than that, you can orient yourself on the midterm guidance and outlook that we have as well. So, we will stay in a certain frame, probably slightly below from the potentials that I had and not fully monetized yet when it comes to AI and similar technologies.

Stefan Wård
Analyst, Pareto Securities AB

Q

Okay. Thank you, Peter. Very clear. Then my final questions is a broader one relating to this. I will not call it guidance because then you will probably not give me any answer, but if we call it an ambition level to be at the EBITDA margin of above 20%. Behind that ambition, how would you say that sort of gross margin [indiscernible] (00:46:26), if you should reach that, and also maybe if you could guide on sales and marketing and development. Any insights would be helpful.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. And Peter will help here as well. First of all, let's just acknowledge that we've made very positive traction on gross margin. We're up 5 percentage points year-over-year and are now above 44% gross margin. A lot of things go into that. But we're certainly managing our content cost in a more sophisticated and a more aggressive manner if you so want than we have done in the past. By that, I don't mean that we're paying our offers less. I don't want anyone on this call to misunderstand me. We pay very fairly and we treat our offers very well according to market standards or better.

What we do is we manage content costs on a subscriber level much more carefully to make sure that each subscriber is indeed profitable for us, and a lot goes into the algorithms and the technology behind that. So, managing content cost is a big driver of achieving a healthy gross margins. We've done a lot there. I'm very proud of the team that has innovated in that area for us. We are not done. There is more to come, more sophisticated models, more machine learning, more algorithms driving all that, but we have made a lot of progress there. So, I'm very pleased with that development on the gross margin side.

Of course, we want to see the number go up from 44% further to achieve that 20% EBITDA margin. But as Peter highlighted also, we have made really tangible progress in terms of other cost efficiencies. Marketing efficiency has gone up significantly. We're spending the same amount of money on marketing per quarter that we did a year ago, yet we are bringing in more subscribers, and there's more to do there. We just launched a new media mix model. For example, we are rolling out more sophisticated CRM technology and campaigns as we speak. So, there's more to come on marketing efficiency.

General operating costs and overhead, we have obviously conducted a significant reduction in force in the first quarter. That has helped. So, we will stay very focused on that. I don't think we want to give a specific number on where we intend gross margin to develop to. But we are confident that in steady-state this business can deliver above 20% of EBITDA margin. When will that be? That is partially a question for the board and for the team going forward because obviously we're trading investment against profitability.

For now, we are extremely pleased where we are with our margins. We are developing according to plan, and we're doing a lot of things that will pay big dividends in the future in terms of laying the foundation for further improvements. Peter?

Peter Messner
Chief Financial Officer, Storytel AB

A

Yeah. I think we would not have given the outlook for 2026 from a midterm perspective, including the 20% steady-state EBITDA margin, if we wouldn't believe and see the chance and the potential to further improve in various areas. It's like in a logarithmic curve, we have taken a lot of improvements, efficiencies now in the last two years. It will become more intense in terms of taking these improvements, it will require a little bit more effort, and we have to dig so much more into certain details. So, you will not be able to achieve the same sort of steps that we have taken now, in particular, in the last 12 months, as you have seen in our financials, but we still believe that there are potentials on the gross profit margin side to step up.

At the same time, it's also very much depending as you understand from the overall market development. We are talking about, in particularly, the content cost and therefore the content economics. That is a function of the consumption patterns of our consumers and it's also a function of the various agreements with the more than 1,600 or so publisher relationships that we have, which may change of course, over time, depending on how the industry is further developing. But everything factored in, we still believe that there is a potential to improve our overall performance here in the market. And in the same way as we always take a look at how do we operate and can we find additional operational efficiencies and increase our effectiveness simply with the setup that we have, that is factored into our midterm targets here as well. So, that should be feasible to achieve.

Stefan Wård
Analyst, Pareto Securities AB

Q

Thank you very much. That's all for me. Very helpful and good luck in Q3, Johannes, and looking forward to follow your path. Thank you.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you.

Stefan Wård
Analyst, Pareto Securities AB

Q

Have a good...

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you, Stefan.

Stefan Wård
Analyst, Pareto Securities AB

Q

[indiscernible] (00:51:33)

Operator: Please state your name and company. Please go ahead.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Joachim Gunell, DNB Markets.

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Hey, Joachim.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)
Q

Yeah. Hey. Good morning. Sorry, I was cut off a couple of times here during the call. So, I hope you can hear me. In all essence, I was just – wanted to ask with regards to the stellar progress here on content costs and the differentiation as such. Is it possible to quantify, if you just further develop on this topic here, what is actually driving this? I mean, what are the key delivery mechanisms, if you want, to basically categorize them in order of relevance when it comes with your content slate, the proprietary one? It this actually that much better now or whether it's [ph] in progress of discoverability (00:52:32) or recommendation engine as such, which makes your subscribers get more engaged with your internal content?

Johannes B. Larcher
Chief Executive Officer, Storytel AB
A

Yeah. You're asking a good question, a very difficult question, complex question, and one that's hard to answer for us for obvious reasons. Partially you're touching on a lot of secret sauce here.

Look, it all starts with great writers. And I think we're very fortunate that when we look at our publishing houses, whether that's traditional mainline publishers like Norstedts or Gummerus, but also our digital publishers like Lind & Co., Storyside, we're doing very well. We're churning out great content that resonates very highly with our subscribers. And that content obviously is the economically most beneficial content, highest margin content, gross margin content for our Streaming business.

So, it remains a priority for us to ensure that our publishing houses have access to the best offers with the best stories, so that we, as a streaming organization, get those on the service. In addition to just great content that we own and have high gross margin on, of course, we've gotten a lot smarter in terms of understanding consumers and what they actually listen to. And we have trained our algorithms and our search engine to not only ensure that consumers get content that is relevant to them and is exciting to them because that is essential for them to stay on the service and remain paying subscribers. So, that hasn't changed.

But what we have certainly factored in is now also a view towards profitability and economic return of the content they consume. As I mentioned in an earlier answer, we've made a lot of progress there, but we are not done. More to be coming in that direction.

And then a third layer, I would say, broadly falls into the area of addressing customer segments that are historically non-profitable. And there, we are committed to offer the unlimited service and plan. And that is a big part of our subscriber base, although obviously with the new plans many new subscribers [ph] kind of (00:54:59) gravitate towards the time-based and more affordable plans. But we need to make sure that, like all other streaming providers in video and music, we combat abuse and we make sure that the service is used as intended and that we manage – that our customers use the rights we give them responsibly.

So, all these things go together to help us drive profitability and gross margin on the service. I can't really talk in more detail about this because, again, this is secret sauce and I think we're market leading here. But you can rest assured that we are not done, we're continuing to work on this, and there is a lot of more goodness to come there.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

I think that's clear. Thanks. And when it comes to the ARPU development here, of course, comps are getting tougher as such. And if you just can provide some high-level thoughts on whether we can expect continuous somewhat pressure on the ARPU going forward as well in light of the geographical mix and the new tiers targeting perhaps lower priced subscribers? Thank you.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. Good question as well. Look, as we said, overall, ARPU is stable and we're happy with its development. It's down 2% year-over-year. But if you look at the Nordics, for example, we're actually up quarter-over-quarter. So, we've seen the progress there. We've raised prices in some of our non-core markets, Non-Nordics Core markets recently. And that has worked well but has come at the cost of some subscriber development of course. Look, the biggest driver of ARPU shifts is because more consumers that come into the service tend to shift towards the more attractively priced Flex Plan and premium plan versus the unlimited plan.

I would put it this way. Don't expect to see any major ARPU expansion in the course of the next year. Will we see major downside? I don't think so. We're managing ARPU very, very tightly. I think we have ability to raise prices in some markets further. But, overall, I think we are at a point where the pricing power in the Nordics that we enjoyed, we've used that pricing power. I wouldn't expect much expansion of ARPU in the Nordics, for example, where we are competing so hard with multiple players. Overall, really pleased with how we've held up. And I think we're managing ARPU versus subscriber growth in a very responsible way that optimizes for the long-term.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Perfect. And you're obviously tracking very well in relation to the full-year plan here. So, we've seen this throughout the past couple of years where progress have been fairly H2 tilted also from a seasonality perspective. So, given the fact that H1 is already progressing somewhat or in line or slightly ahead of plan, can you just make some just high-level commentary here on your level of confidence when it comes to reach and potentially actually beat expectations for the full year?

Peter Messner
Chief Financial Officer, Storytel AB

A

Well, I think it's always our plan to beat our own expectations to start with, Joachim, right? But if you take a look at our year-to-date figures now for the first half year, so our revenue is very in line with our guidance of around 10%. So, we are trending at 10.3% year-to-date with group revenue growth. Our EBITDA guidance was above 13%; first half years at 12.8%. And the operational cash flow as a consequence is also in line with our guidance and slightly above there.

So, we are very confident that we are developing on that. At the same time, we have our own ambition to not negatively surprise the market, right? So, I think there's no reason to update any guidance as of now. As you just asked by yourself the question of, okay, what is happening on the ARPU side? So, we just now, in the second quarter, did a lot of this service innovation, product packaging, the Flex program, the Student Forever program. So, these numbers are not yet fully incorporated into the entire base here in the Nordics. That just happened now in the second quarter. So, there's good reason to believe with the first trends that Johannes mentioned in July, in particular on the subscriber intake, that this goes according to our plan. But I, as a CFO, would like to see that really in the numbers reflected before I would get back on that guidance, right?

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Sure. The final question for me, so we're seeing, I mean, the flywheel dynamics, especially when it comes to – you cited peers such as Netflix and Spotify before, but they are increasingly, in their respective space, showing that they're starting to win the streaming wars as such. So, can you just comment a bit about the flywheel dynamics? And since obviously, I mean, the competition is, to a certain degree, actually heating up in the Nordics where I would have thought that you would actually just continue to expand your leadership as such, and where you are in relation to that opportunity.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Yeah. The first observation I would have is that the launch of Spotify's audiobook streaming product in the US. When it happened in November, it obviously raised questions about the viability and performance of Audiobooks.com. And, in fact, we've been very pleased with how Audiobooks.com has performed. It's at an all-time high in terms of subscriber numbers. It's profitable. It's cash flow positive. We're very pleased. And I think part of that we've made a lot of changes there operationally as well that mirrored many of the innovations and further efficiencies we've applied in the non-US business. But part of the reason Audiobooks.com is performing well is that the category itself has gotten a boost in growth by the entry of Spotify into audiobooks. More consumers are now interested in audiobooks than ever before.

And so, our concerns were we're not well-founded. I think similar things will happen. Obviously, Spotify has not launched in any of our core markets in the Nordics or Non-Nordic Core markets either and we don't have any insight into when they might launch. But I do think that there is also a positive effect of a potential launch of Spotify in some of our markets.

As I said, we are the market leaders in the Nordics in terms of total number of subscribers, but also especially when it comes to the core segment of heavy usage audiobook lovers who are incredibly passionate about this service. And this is what we are most focused on, is to defend our category leadership in that segment. And if Spotify were to launch, you can be certain that the most effective players will be the ones with the largest share of the more casual audience segment, and that is not us at this moment.

So, we are optimistic. Of course, there is risk. Of course, this would be something we would need to compete with very, very deliberately and carefully and aggressively in a way. But we are not panicked about a potential entry of Spotify. And keep in mind lastly that we are also a major owner of content in the Nordics, content that we license to some of our competitors, but not all of them, and content that, in many cases, is becoming exclusive and only available on Storytel and nowhere else.

So, I look at this pretty, not relaxed, but I think it's a good thing that the audiobook industry is continuing to change and to grow and to expand. And should Spotify enter into Sweden, for example, we welcome the competition, and I think we are not afraid to, again, compete against a global player of Spotify stature just like we've done against, vis-à-vis, Audible and Amazon for a long time and very successfully.

Joachim Gunell
Analyst, DNB Bank ASA (Sweden)

Q

Perfect. Now, the question was more related to competition excluding Spotify, but we can take that off the call as such. Thank you very much. Nice to see [ph] enough (01:03:50) profit here in the final chapter of your transformation story. Good luck on your future endeavors, Johannes.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

A

Thank you.

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

Peter Messner
Chief Financial Officer, Storytel AB

A

Yeah. I would like to refer to a question that we got via the Web interfaces. So, there was a question about our long-term margin, 15%, 20%. I think we have addressed that already.

There's another question or a set of questions in relation to capital allocation, non-Scandinavian markets development and overall margin development. So, I think on the margin development, the statements that we did before relates to all the markets. We didn't break that particularly out in particularly for the gross profit. That is true for all the markets. It's very different in the markets, depending on the publisher relationships and the circumstances in the markets, in particular, the position that Storytel or Mofibo in Denmark has in those markets and the dynamics from competitive and from consumer consumption patterns in particular.

We also are not breaking out necessarily the non-Scandinavian markets with the exception of what we show for the Non-Nordics Core markets, which, again, is the total region for the Netherlands, Bulgaria, Poland, Turkey, and all of Audiobooks.com operations, in particular the US there.

When it comes to capital allocation, will we amortize more of that or how do we allocate going forward? I mean, firstly, the positive thing is that we are eventually now in a situation where we can ask that question and discuss this with various strategic options. As we outlined in the presentation, the leverage ratio is below 1, which brings us into a very favorable position also thinking of how the interest rates are expected to further develop when it comes to refinancing and maintaining a very healthy capital structure going forward.

So, whether we will further deleverage and to what extent and/or whether we will use funds, for example, mergers and acquisitions, be it on the IP side or be it on a different level, or whether we do more of investments on the capital expenditure side when it comes to R&D, that is all possibilities in that entire toolbox that we have here subject to our strategic discussions with our board and also the incoming CEO to decide together with our board. But, again, it is very fortunate, I think, for the company that we are in that position to choose from several alternatives and combine this for the best possible outcome.

Johannes B. Larcher
Chief Executive Officer, Storytel AB

I think double down on what Peter said here and really appreciate the additional question, I think I don't see any further questions on the interface. So, we will conclude this call. Thank you very much and appreciate all your interest and thoughtful questions.