Q1 2025 Earnings Call Prepared Remarks
April 2025

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's First Quarter 2025 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO, Alex Norström, our Co-President and Chief Business Officer, Gustav Söderström, our Co-President and Chief Product and Technology Officer and Christian Luiga, our CFO. We'll start with opening comments from the team and afterwards we'll be happy to answer your questions.

Questions can be submitted by going to slido.com (S L I D O.com) and using the code #SpotifyEarningsQ125**.** Analysts can ask questions directly into Slido and all participants can then vote on the questions they find the most relevant.

If for some reason you don't have access to Slido, you can email Investor Relations at ir@spotify.com and we'll add in your question.

Before we begin, let me quickly cover the Safe Harbor. During this call, we'll be making certain forward-looking statements including projections or estimates about the future performance of the Company. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed on today's call, in our Shareholder Deck and in filings with the Securities and Exchange Commission.

During this call, we'll also refer to certain non-IFRS financial measures. Reconciliations between our IFRS and non-IFRS financial measures can be found in our Shareholder Deck, in the financial section of our Investor Relations website and also furnished today on Form 6-K.

And with that, I'll turn it over to Daniel.

Daniel Ek, Founder and CEO

Thanks, Bryan, and hi everyone.

I'm pleased to report that this was another solid quarter, largely in line with our expectations — with one clear standout: the outperformance in our subscriber growth.

It was a fairly straightforward quarter, so I'll let Alex and Christian take you through the numbers and share their insights. So instead of going over what's already working, I want to use this time to talk about two things that are more top of mind for me right now.

The first thing I want to acknowledge is the broader macro environment. There's a lot of uncertainty in the world, and when volatility rises, it's natural to ask who might be affected, and how.

From where I sit, Spotify is faring better than most. But of course, if something truly extreme happens, we may be impacted too. That said, I don't believe anything we're seeing today changes the long-term picture for Spotify. The business is solid, our model holds up, and the direction we're heading in remains clear.

People still want to listen to music. They want to learn, they want to be entertained, and they want to be inspired. That fundamental demand hasn't changed since we started Spotify — and the engagement we're seeing now suggests we've become even more central to people's lives. That only happens when you consistently solve real problems and meet more of their needs. The underlying data at the moment is very healthy: engagement remains high, retention is strong, and thanks to our freemium model, people have the flexibility to stay with us even when things feel more uncertain. So yes, the short term may bring some noise, but we remain confident in the long-term story, and the direction we're heading in feels clearer than ever.

April 1st marked my 19th year working here. That kind of milestone naturally leads to reflection. And one thing that stands out is that while the emphasis of what we prioritize may shift, the core strategy has stayed remarkably consistent. Our focus has always been on delivering the best possible experience to users and creators - and solving the real problems they face.

For me, it's never been either-or when it comes to the short term or the long term. The way I see it, the long term is built one day at a time. We focus on the inputs we can control: solving real problems, improving the experience, and moving with speed. And we trust that if we keep doing that, the outcomes will follow.

My co-founder Martin has this line I keep coming back to: "The value of a company is the sum of all problems solved." That's how we think about our job. Just keep solving meaningful problems every day, and the long term takes care of itself.

That's also why we came into this year with a clear commitment to accelerate our pace of innovation. We are calling 2025 the Year of Accelerated Execution — and so far, we're delivering on that promise. We support more than 2,000 partner devices, and as you can imagine this comes with complexity. We've now decreased the time spent rolling out across all our ubiquity apps by 10x. And timing for scaling new features on ubiquity devices has shrunk 6x. So what used to take us years to deliver is now taking months. From behind-the-scenes upgrades to visible new offerings, these are already creating a significant impact.

One great example is the Spotify Partner Program, our new monetization system for video podcasters, which launched in January and complements our growing podcast ads business. In record time, we've expanded it to nine new markets. We're seeing strong traction, with users spending 44% more time with video content overall. As we've worked to scale quickly, the program has enabled us to pay out $100 million to podcast creators in Q1 alone. We also continued to expand Audiobooks in Premium, rolling it out to more regions and introducing innovations that are driving higher user and author engagement.

What's particularly exciting is that I think this is only the beginning. The internal tooling and AI systems we've been building over the past few years, combined with new ways of working across teams, are now enabling us to execute faster and smarter. And the compounding effect of that shift is something I believe will become even more visible in the quarters ahead.

With that, I'll hand it over to Alex.

Alex Norström, Co-President and Chief Business Officer

Thanks, Daniel. I'll dig a little deeper on MAU and Subs and I'll also touch on our Ads strategy.

This was our highest Q1 Subs net adds since 2020 and our second highest Q1 ever. And a huge part of that boost came from emerging markets. These markets drove two-thirds of the Subs outperformance with places like Latin America and APAC coming in especially strong. But it's not just emerging markets that are doing well: developed markets are also seeing solid growth. We are growing organically and our data also shows that we are taking market share in these regions. So, looking at the global picture, we really couldn't ask for a better position.

We've been doing a few key things to drive this Subs growth forward. First, it's our product itself. It's industry-leading and just keeps getting better with all the new features and enhancements we're constantly adding. Second is our best-in-class value-to-price ratio. And we continue to drive strong conversion from our promotional campaigns, which, as you know, are designed to move users through our funnel. Our promotions can be highly localized and targeted, geared at converting new and long time free users that have seen the exceptional value that Spotify Premium provides. So bottom line, we have a number of different tools available to us to continue to drive healthy subscriber growth and you saw some of those at play in Q1.

When we look at the full year 2025, we're confident in our expectations, especially given the notable growth in engagement we continue to see across our content offerings, with listeners spending more time with Spotify than on any other audio platform.

Turning to our Ads business, this is an area where we've been laying the foundation over the last several years. And importantly, 2025 will be a year where we are **now** able to build on this foundation, which puts us in a strong position for more growth.

But even in Q1, our ads business did better than expected, and we're starting to see early benefits from the automated features we've been introducing. These tools give advertisers more flexibility to buy ads, create them easily and cost-effectively, and achieve measurable results. In Q1, we had over 10,000 advertisers leveraging these new tools, representing a 21%

year-over-year increase and marking the first Q1 to exceed Q4 in active advertisers. So, while it's early, I feel confident about where this part of the business is headed.

I'll now turn it over to Christian to take you through the numbers.

Christian Luiga, Chief Financial Officer

Thanks Alex, and thanks everyone for joining us. Let me dive into the Q1 results and then share some perspective on our outlook.

Overall, we are pleased with how the business delivered in the quarter. **MAU** grew by 3 million to 678 million in total. We added 5 million net **Subscribers** finishing at 268 million, up 12% Y/Y.

Total Revenue was €4.2 billion and grew 15% Y/Y on a constant currency basis. Our Premium revenue rose 16% Y/Y on a constant currency basis, driven by continued subscriber growth and ARPU gains associated with price increases. Our advertising business delivered currency neutral growth of 5% Y/Y. If we exclude the near-term impacts from strategic initiatives, like optimization of our licensed podcasts and the roll out of the Spotify Partner Program, we had low double digit advertising growth. While these efforts involve short term adjustment to our advertising business, we are pleased with the early positive effects they have and how it improves our position long-term.

Moving to profitability, **Gross Margin** came in at 31.6%, surpassing guidance by approximately 10 bps and expanding about 400 bps Y/Y. Favorability vs. our plan was led by stronger than expected podcast ad sales and slight variances in content costs.

Operating Income of €509 million was aided by Gross Profit strength. Operating Income was impacted by €76 million in Social Charges in the quarter, which were €58 million higher than our forecast. Excluding non-forecasted Social Charges, we came in €18 million above our guidance. As a reminder, we don't forecast share price movements in our outlook for the business since they are outside of our control.

Finally, **Free Cash Flow** was €534 million in the quarter. Y/Y performance here was driven by our growth in Operating Income, as well as improving net working capital. We ended the quarter with €8.0 billion in cash and short term investments.

Looking ahead to guidance. In Q2, we are forecasting 689 million **MAU**, an increase of 11 million from Q1, and 273 million **Subscribers**, an increase of 5 million over Q1. We are also forecasting €4.3 billion in **Total Revenue.** While we are seeing underlying outperformance in Revenue, our outlook incorporates an incremental headwind of approximately €100 million arising from currency movements over the last quarter.

We also anticipate a **Gross Margin** of 31.5% and **Operating Income** of €539 million. Regarding full year margins, we continue to expect improvement in 2025 at a more measured pace than last year's exceptional gains as we strategically invest to accelerate our long-term growth ambitions. As previously noted, we expect our sequential Gross Margin cadence to be more variable over the course of this year, with expectations for a seasonally stronger Q4 finish. Naturally, the exact trajectory will depend on the timing of strategic initiatives and, to a lesser extent, broader advertising market dynamics. While our Ads business has remained resilient, we are closely monitoring market conditions to proactively adapt to any changes in the macro economic environment.

With respect to capital allocation, we remain focused on prioritizing internal growth opportunities that can drive attractive returns while managing our balance sheet to support our long term strategy. At the end of Q1, our March 2026 Exchangeable Notes became a current liability with a current carrying value of €1.7 billion relative to the €8 billion of cash and short term investments we have on hand. While this upcoming maturity factors into our framework, we remain confident in our strong balance sheet position. To the extent excess capacity arises, we will of course take our shareholders into consideration.

In conclusion, we delivered a solid quarter, and we stand well positioned financially.

With that, I'll hand things back to Bryan for Q&A.

Bryan Goldberg, Head of Investor Relations

Thanks Christian. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ125. We'll be reading the questions in the order they appear in the queue, with respect to how people vote up their preference for questions.

And our first question today comes from ...

[Q&A]

Daniel Ek, Founder and CEO

Thanks, Bryan. So yes, there's plenty of uncertainty. But we've been here before, and we know how to navigate through it. Our fundamentals are strong, our mission is resonating, and we're focused on building for the long term.

Thanks again for joining. I look forward to catching up again soon.

Bryan Goldberg, Head of Investor Relations

Ok, and that concludes today's call. A replay of the call will be available on our website and also on the Spotify app under "Spotify Earnings Call Replays." Thanks everyone for joining.