



Q2 2022 Earnings Call Prepared Remarks

July 27, 2022

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Second Quarter 2022 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO, and Paul Vogel, our CFO. We'll start with opening comments from Daniel and Paul 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 #SpotifyEarningsQ222. Analysts can ask questions directly into Slido and all participants can then vote on the questions they find the most relevant. We ask that you try to limit yourself to 1 to 2 questions, and, to the extent you've got follow ups, we'll be happy to address them, time permitting.

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 Letter to Shareholders 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 Letter to Shareholders, 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

Hey everyone and thanks for joining us.

I hope you had a chance to take a look at our new approach to sharing our earnings results. We would love any feedback you have. Because, as I mentioned at our Investor Day, we want to improve how we communicate with you. I see this revised format as an important first step and Paul will speak to this further in a few minutes.

With that, let's jump into the quarter...We had another very strong quarter in Q2, building on the momentum and success we've now seen for four consecutive quarters. The acceleration in our user growth continued. We had a very strong beat on MAU growth coming in about 5 million users ahead of forecast. As a reminder, this was one of the weak spots for us in Q2 of 2021 so



I'm glad to see that the hard work from our teams has paid off. In addition, our global subscribers growth exceeded expectations by 1 million, while revenue was in line.

Going forward, while the macro environment continues to present uncertainty, we are currently not seeing any material impact on our expectations for user or subs growth from the economic downturn. In fact, we are seeing several markets trending ahead of our forecasts. That said, in anticipation of a potential slowdown, we already shared that we proactively reduced our hiring by 25% and instituted a "double down" weekly revenue monitoring. I've said before, I do believe "only the paranoid survive" and we are preparing as if things could get worse ... but it's hard to be anything but optimistic given what I am currently seeing.

Looking further ahead, recession or not, my confidence in our business and the unique "Spotify Machine" that we are building is unwavering. Audio is growing and Spotify with it. Hopefully, after last month's Investor Day, this is a term you are all familiar with.

For those needing a refresher, we believe the Spotify Machine is what differentiates us from other tech platforms – it leverages one consumer experience, powered by three revenue generating business models – subscriptions, ads and Marketplace. And as I detailed last month, we are confident in our ambitions to get to one billion users by 2030 while at the same time, we are also focused on improving our gross margins and continuing to generate positive free cash flow.

This rinse and repeat approach – and the machine behind it that bundles multiple business models with multiple verticals into one user experience – is what we will continue to invest in. Not only will this investment benefit Spotify and its shareholders, but it also creates tremendous upside for listeners, artists, songwriters, creators and advertisers.

For those who want to learn more, I'd encourage you to go to our Investor Site to catch a replay of our recent event. We highlight the big bets we are making, the incredible opportunity on the horizon and detail how we are measuring success.

With that, I'll hand it over to Paul to go deeper into the numbers and then Bryan will open it up to Q&A.

Paul Vogel, Chief Financial Officer

Thanks Daniel, and thanks everyone for joining us.

As Daniel mentioned, we have moved away from a Shareholder Letter... transitioning to a slide based presentation. Our goal is to make our performance as easy to understand as possible and we hope this new format resonates with the investment community. Please reach out to me or the IR team with any feedback.



Now...turning to the quarter...I'd like to add a bit more color on our strong operating performance, what we're seeing with respect to the macro environment and then touch upon our outlook.

Let's start first with our strong user performance. Total monthly active users grew to 433 million in Q2. This result was 5 million ahead of our guidance and was the largest Q2 net additions in our history after adjusting for our exit from Russia and the March outage.

Moving to premium, we finished the quarter with 188 million subscribers – 1 million ahead of guidance – thanks in part to broad-based strength across regions, particularly in Europe and Latin America, where upside was helped by an extra week of promotional activity and traction in our multi-user products like Family Plan and Duo.

Revenue finished ahead of guidance, which was helped by currency movements. And we saw another strong quarter in advertising which grew 31% Y/Y.

With respect to Gross Margin...on a reported basis...Q2 finished below guidance but gross margin was modestly ahead of our expectations when adjusting for the one-time charge related to our decision to stop manufacturing Car Thing as well as the positive net royalty impact we saw from prior period accrual adjustments.

Looking specifically at Car Thing, our decision to stop manufacturing the device was made based on a few factors. First, we tested a number of price points and we frankly haven't seen the volume at the higher prices that would make the current product financially viable. Second, rising inflation and components costs, coupled with the expanded lead time needed to order parts has significantly altered the risk/reward of continuing to lean into further product development. Our decision resulted in a one-time charge of €31 million, impacting Gross Margin by 109 basis points in this quarter. Our decision will minimize further gross margin impact and cash flow expenditures moving forward.

As we discussed during our recent Investor Day, much of the operating expense growth we saw in Q2 was the result of decisions we made toward the end of 2021 mainly to expand our global sales team, invest in our platform, and increase marketing to drive user growth. We have also added incremental costs associated with our acquisitions of Podsights, Chartable and Whooshka. Lastly, while we did forecast higher growth, a significant portion of our operating expenses are US dollar denominated and foreign exchange movements added nearly ~1,000 bps of growth in expenses...this was more than expected.

Despite the increased operating expense, we generated our 9th straight quarter of positive Free Cash Flow. And when looking at our FCF growth on a trailing 12 month basis, which smooths out the seasonality... it shows a very consistent trend...we have averaged over €200 million of FCF for the past three years. We believe this is a really key way of looking at our business and also smooths out the lumpiness that we see quarter to quarter.



Looking at Q3 and beyond...as Daniel said, we continue to monitor the global macro outlook, but to date have seen no real impact on our user or subscriber outlook. Specifically, we expect to see another quarter of accelerating MAU net adds and expect subscriber net additions similar to Q3 of last year. On the premium side, which is still the majority of our revenue, we expect ARPU to be up mid single digits. And for advertising, we did see some softening in trends over the last two weeks of June. With that context, we expect solid growth in Q3, albeit slower than we might have forecast earlier in the year.

Our gross margin outlook of 25.2% for Q3, is in-line with our full-year commentary and reflects our expectation for continued core operating improvement across our music and podcasting businesses, offset by select growth initiatives.

We anticipate elevated Operating Expense growth consistent with Q2's run-rate for the next few quarters (excluding the effects of currency movements), with the benefits of our previously announced 25% slowdown in new headcount additions showing up later in the year.

In closing, despite an uncertain macroeconomic environment, we continue to be highly encouraged by the trends we have seen year to date.

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

Bryan Goldberg

Thanks Paul. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ222. Once your question is entered, you can edit or withdraw it by selecting the option in the bottom right. 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.

[Q&A]

Daniel Ek

Thank you all for joining the call. I'll close by reiterating my confidence and optimism in our business. I look forward to the rest of the year and for more detail, check out our For The Record podcast.

Bryan Goldberg

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.