



Q2 2021 Earnings Call
July 28, 2021

Prepared Remarks

Daniel Ek, Founder and CEO

Hi everyone and thanks for joining us.

I will touch briefly on the quarter and then offer context for some of the opportunities I see across our business.

All along, we've been clear that our outlook for 2021 included a higher degree of variability given the ongoing uncertainties of the pandemic and the uneven recovery worldwide. And with the exception of MAU, we had another strong quarter, which is apparent in the solid outperformance of all other metrics.

While I'm disappointed that our MAU growth was softer in the last half of Q1 and the first half of Q2, the good news is that we've seen that trendline reverse and all the leading indicators I'm seeing show that we are back on track.

There is a lot to learn for us on the MAU shortfall. Markets like India, Brazil and parts of Southeast Asia lagged behind our expectations and we've also seen a slightly slower adoption rate in some of our newly launched markets. All these regions have been hard hit by COVID.

Ultimately, we lost about a quarter of growth between Q1 and Q2. In hindsight, we likely underestimated the acceleration we saw in MAU growth in 2020. All that said, I feel really, really good about what we're seeing. Taking a bigger picture view and looking at the last two years averaged together, we are still on track to outpace our MAU growth in the two previous years. 2020 was a bit of an outlier -- companies rarely grow in a straight line and nothing in our data changes our long term outlook and the audio opportunity for Spotify.

In fact, if there is one thing that has surprised me the most during COVID, it's been how effectively we've been able to dream up and accelerate the rollout of new innovations in the midst of tremendous disruption -- while also executing against our existing roadmap. And long term — I believe speed of iteration will be a key competitive differentiator. So there's a lot of positives that we bring with us from this.

We've highlighted several of these innovations in our letter, but we've actually introduced more than 20 significant new features over the last few months. On everything from collaborative listening worldwide to launching our new live audio experience: Spotify Greenroom. We also began rolling out Paid Podcast Subscriptions and Spotify Open Access, both of which offer solutions for creators and publishers to earn revenue from their Spotify listeners. These product innovations unlock an entirely new class of content on Spotify.



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I'm hearing from consumers and creators alike about their first hand experiences with the changes they are seeing on the Spotify platform. And frankly from where I sit, it's incredibly exciting to know that there are plenty of improvements we can deliver that will substantially enhance our offering — and as a consequence, open new doors for Spotify as well.

And all of this has been accomplished as our entire team has been remote, allowing more teams across the world to collaborate on each new release. We've used our learnings to supercharge our velocity of shipping and the impact is starting to show.

Put in other words, the platform we are building is all about moving from 8 million to 50 million creators and from 400 million to more than one billion users on our platform. For each improvement, we will turn more listeners into super fans, give a voice to more types of creators and offer users multiple ways to interact and engage with the talent they love. When we connect creators at every stage with fans around the world, our flywheel moves faster and faster, unlocking even more potential growth. We are still early in moving linear radio to on demand audio — which just goes to show the growth opportunity still out there is significant.

Then, there is the growing strength and importance of our ads business. Admittedly, this is an area where I previously didn't spend much time, but it's become impossible to ignore. It's now safe to say it's becoming a second big revenue driver for Spotify. And I am especially inspired by the early success of the Spotify Audience Network. While we are growing the overall ads business from a small base, the potential is significant and the trendline is clear: We saw strong growth of 110% year over year. Adjusting for FX, the growth is even more impressive, coming in at 126%. And looking at Podcasts, podcast revenue was up over 627% year over year -- or nearly 200% on an organic basis. The continued out performance is currently limited only by the availability of our inventory, which is something we are actively solving for.

It's clear to me that the days of our ads business accounting for less than 10% of our total revenue are behind us...going forward I expect ads to grow to be a substantial part of our revenue mix.

So as you can see, there is a lot going on and there's a powerful pipeline of platform improvements that will benefit consumers, creators and brand partners in Q3 and Q4.

And now I'll turn it back to Bryan.

CLOSING REMARKS

To close, I want to reiterate the opportunity in front of us and how pleased I am with our overall business performance.



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MAU growth slowed due to the significant COVID-related pull forward in 2020 and impact from an uneven recovery in the first half of 2021. But we anticipate a strong second half and our trendlines are looking very healthy. Of course, in the short-term, some COVID uncertainty lingers. And in the long-term, the shift from linear to on-demand audio will only continue to accelerate and as a more than one billion user opportunity, reinforces our position as the audio browser of the world.

No one else is as laser focused as we are on audio. It's all we've done for over 15 years and that dedication is an advantage we leverage every day for creators, fans and brand partners. We are pushing ourselves to deliver at an unprecedented pace and are building out the infrastructure to go even further, faster. Long term, I believe these product innovations will bolster MAU and subscriber growth, helping to attract more and more users around the world and connecting them to the creators they already love as well as the ones they are waiting to discover.

I'll be talking more about the quarter on our podcast, Spotify: For the Record, which will go live on our platform tomorrow.

Thanks again for joining us.