



Q3 2023 Earnings Call Prepared Remarks

October 24, 2023

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Third Quarter 2023 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 #SpotifyEarningsQ323. 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 Chief Executive Officer

Hey everyone. Thanks for joining us.

I hope you've had the opportunity to review our shareholder deck. Bottom line - it's a really exciting time at Spotify and I am super pleased at how the business is performing. It was a truly stellar quarter and one that clearly illustrates we are making great progress against the goals we laid out for you at our 2022 Investor Day.

Q3 was our second largest third quarter ever for MAU net additions. As we look ahead to the end of the year, you'll also see we are forecasting to hit another big milestone – reaching more than 600 million MAU at the end of the year. This puts us well on our way to reaching more than

one billion global users by 2030. To put that number into context, 15 years ago this month Spotify went live in France, Finland, Norway, Spain, Sweden and the UK. It's been a wild ride...

Next, let's turn to the strength of our subscriber growth. We walked into 2023 thinking we would do just over 20 million in net subscriber adds for the full year, but we are actually on track to deliver 30 million, which is a significant beat from where we thought we'd be. In fact, this will be the second biggest full year gain in net subs additions since going public. This momentum is especially significant when you put it in the context of the price increases that went into effect in Q3. As we previously shared, because of our confidence in our product and our ever-expanding content offering, we felt the timing was right to raise prices across more than 50 markets. I know some of you wondered how we'd weather these increases – so I am really pleased to report that this went as well as we hoped, even modestly exceeding our expectations.

All of this sustained growth is a testament to the exceptional value Spotify continues to deliver globally. And with our new focus on operational efficiencies, we've managed to achieve this with reduced marketing costs.

The essence of our business model is to deliver unparalleled value to our user base through an ever improving consumer and creator experience. This is coupled with every now and then expanding our ecosystem through new verticals to deliver even more value. And this of course nicely segues into our groundbreaking Audiobooks offering for Premium subscribers we announced a few weeks ago.

Not only will our expansion into this category supercharge the growth of the audiobooks format, but it also will drive engagement and reduce churn, which further enhances our value proposition. This in turn gives us more flexibility for our business.

And while it's still too early to see the impact in our numbers, initial signs from subscribers in the UK and Australia are incredibly positive as we bring them more content to discover. In the first two weeks since launch, Premium subs in these two markets are loving the breadth of titles and have already listened to over 28% of the catalog. They are flocking to fiction, memoirs, sci-fi and fantasy, and I can't wait to see what US subscribers gravitate towards when we launch there soon.

In terms of how all this flows down to the underlying fundamentals of the business including revenue and gross margin, I'll turn it over to Paul to provide more detail and then Bryan will open it up for Q&A.

Paul Vogel, Chief Financial Officer

Thanks Daniel, and thanks everyone for joining us. I'd like to add a bit more color on the quarter and then touch upon the broader performance of the business and our outlook.

Q3 was a very strong quarter. MAU grew by 23 million to 574 million and we added 6 million net Subscribers finishing at 226 million. Both MAU and Subscriber growth continue to be well above our historical trend and outperformed forecast.

On the Revenue front, we grew 11% Y/Y to €3.4 billion during the quarter. Importantly, our FX neutral growth was 17% and accelerated ~300 bps vs. the prior quarter's result, reflecting the early effects of new pricing and accelerated advertising results.

Turning to Gross Margin. Gross Margin of 26.4% was above guidance by 40 bps due primarily to favorability in our music business.

Moving to Operating Expenses, growth in the quarter was lower than forecast due mainly to lower than expected personnel and related costs, as well as marketing spend.

When combined with our better Gross Profit, we achieved an Operating Profit of €32 million in the quarter. We believe this is an important inflection point for the business as we start to see the benefits of our focus on speed and efficiency and progress towards delivering on the profitability targets we laid out for you at our Investor Day last summer.

Finally, Free Cash Flow was positive €216 million in Q3.

Looking ahead to fourth quarter guidance, we are forecasting 601 million MAU, an increase of 27 million from Q3 and 235 million Subscribers, an increase of 9 million over Q3. This has us adding about 112 million MAU for all of 2023 (nearly 60% above our 4 year historical trend) and adding 30 million Subscribers for the year (which is 12% above the historical trend). 2023 should finish with the highest net additions for MAUs and second largest for Subscribers in company history - but the largest excluding Russia. We are also forecasting €3.7 billion in Total Revenue, a Gross Margin of 26.6% and an Operating Profit of approximately €37 million.

Turning to Revenue, we are forecasting a 300 bp headwind to growth given the strengthening of the euro relative to the dollar. Excluding this effect, our constant currency Revenue would be closer to €3.8 billion, reflecting our expectation for accelerating currency neutral growth to 20%Y/Y vs. the 17% growth we delivered in Q3. This acceleration is aided by a full quarter benefit from the price increases we announced in Q3.

In sum, we're very pleased with how we're tracking into year-end. While it's too early to give guidance on 2024, I do want to point out that we are confident in our path and expect another year of meaningful progress towards delivering on our profitability goals for the business.

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, #SpotifyEarningsQ323. 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

Thanks, Bryan.

In closing, as you can see we are feeling very good about our progress and results. Lots of the actions we've taken over the last 12 months are really bearing fruit and I feel very confident that we are well on our way to being both a great product and a great business.

Thanks again for joining and as usual feel free to check out our For the Record podcast dropping later today.

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.