



Q4 2024 Earnings Call Prepared Remarks

February 2025

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Fourth Quarter 2024 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 #SpotifyEarningsQ424. 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.

Hey everyone and thanks for joining us. I want to start by speaking to the devastation caused by the LA fires. LA is home to hundreds of Spotify employees, millions of music fans, and countless members across the creative industries. We've committed our financial support to recovery efforts and will continue to look for ways to help those impacted.

Before turning to the quarter, I wanted to introduce Chief Business Officer Alex Norström and Chief Product and Technology Officer Gustav Söderström. Since they were elevated to the role of co-presidents in January 2023, they've been leading much of the day-to-day operations. This



has allowed me to spend more time working on the future of Spotify, which is where I've always believed I can have the biggest impact. We'll aim to bring Alex and Gustav to future calls to share their perspectives on our goals and performance.

Moving to our performance, we had a strong quarter and closed out 2024 even better than we anticipated – giving us plenty of runway and flexibility for years to come. It was our highest Q4 ever for MAU additions and our second highest of all time. We also had record high Subscriber additions. But that's not all – we set quarterly record highs for revenue, gross margin, operating income and free cash flow as we closed out our first full year of profitability.

So what drove this growth? In large part, it's the result of countless improvements and tweaks we've made over the past two years — a continuous system of innovation that has brought us to where we are today. In Q4, we enhanced our product in areas like video and audiobooks, with many more innovations to come in the quarters ahead. It's this ongoing commitment to incremental progress that ultimately adds up to something massive over the long term — even if the exact timing is hard to predict.

Gustav - do you want to share a few thoughts on how we've innovated the product given how consequential it's been to our growth?

Gustav Söderström, Co-President and Chief Product and Technology Officer

Yes and thanks, Daniel. As you shared, we made some exciting updates this quarter including launching our new video proposition at scale. But beyond the work itself, I also want to commend the team for how quickly we got it done. For example, when we saw higher engagement happening on video podcasts and received the feedback from creators that they were looking for new monetization opportunities, we moved fast to launch our new Spotify Partner program and video podcasts experience. Video podcasts are seeing enormous spikes in popularity on Spotify and we now have more than 330,000 video podcasts globally. Even more, over 270 million users have streamed one. During a creator event we held in LA last November, we announced that we are now giving Premium users the ability to watch their favorite podcasts uninterrupted by dynamic ads. We also introduced a new effort to help video creators turn their shows into a sustainable business. And in just the first couple of months, more than 70% of eligible shows and networks have already enrolled. We are incredibly pleased with these early results and will continue to innovate from here.

Daniel Ek, Founder and CEO

OK - Thanks, Gustav. Another huge driver behind our MAU and subscriber growth was our annual Wrapped campaign, which celebrated 10 years. Wrapped is always a big contributor to our Q4 performance and this year was no exception. Alex, perhaps you can shed a bit more light on the campaign.

Alex Norström, Co-President and Chief Business Officer



Happy to. Wrapped is a massive cultural moment for Spotify, but it's also become a significant driver of our business. This year, over 245 million users engaged with Wrapped, surpassing 2023's record within the first 7 days of the campaign. And importantly, we saw impressive engagement in key growth markets like Brazil and Indonesia. Every year, it's wild to see how deeply our users care about their own personalized Wrapped experience. And because it's become such a phenomenon, it also means there's a ton of visibility. We did change up the experience a bit and despite the massive success in the engagement, we heard from a few users that they want to see even more creativity. So look for more surprises from us in our 2025 experience. But overall, a really big win as evidenced in our numbers.

Daniel Ek, Founder and CEO

Thank you, Alex. So as you can see many of the things we've put in play are working very, very well. 2024 was a year where we really showed what we are capable of. And I am sure you must be asking, if 2024 was the year of monetization, how will we define 2025? While I am still working through it, I am coining this year, the year of accelerated execution.

So what does this look like in practice? It will require three things. First, we need to move even faster to ship improvements. The landscape is shifting constantly and I want to set the pace, not play follow the leader. We are also going all in on our core and investing in more music experiences on the platform. Think video, the higher priced premium tier we've discussed previously and new ways to bring fans and artists closer together – features and offers that will all continue to push the historic expansion we are seeing in the music industry. And finally, we must also remain disciplined with our resources as we aggressively pursue these opportunities.

I will let Christian talk more about the forecast but as you look at Q1, remember there's always a little overhang that we see in this quarter. A quarter that historically looks different than the rest of the year. And while we don't share an annual forecast, I couldn't be more confident in where we're headed and I expect 2025 to deliver healthy growth alongside improved profitability. And we're doing all of this while we continue to learn and optimize, investing for the longer term benefit of artists, creators and our users.

With that, I'll turn it over to Christian.

Christian Luija, Chief Financial Officer

Thanks Daniel, and thanks everyone for joining us. Let me give you some color on Q4 results and then some perspective on our outlook.

Our Q4 was exceptionally strong. MAU grew by 35 million to 675 million in total. We added 11 million net Subscribers finishing at 263 million. This represented our best Q4 for MAU net additions, while the net additions of Subscribers matched the peak performance we delivered 5 years ago.



Total Revenue was €4.2 billion and grew 17% Y/Y on a constant currency basis. Premium revenue rose 19% Y/Y on a constant currency basis, driven by continued subscriber growth and ARPU growth associated with price increases. Our advertising business saw currency neutral growth of 6% Y/Y, reflecting marketer spending on brand related campaigns. We also saw some early positive progress in our automated sales efforts.

Moving to profitability, Gross Margin came in at a record of 32.2%, surpassing guidance by approximately 40 bps, primarily due to content cost favorability. For the full year, Gross Margin came in at 30.1%, representing 450 basis points of improvement relative to the full year 2023. This was our largest rate of gross margin expansion as a public company.

Operating Income of €477 million was aided by Gross Profit strength. Operating Income was impacted by €96 million in Social Charges in the quarter, which were €80 million higher than our forecast. 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 a record €877 million in the quarter. Performance here was driven by our improved Operating Income profile, as well as net working capital favorability. We ended the year with €7.5 bn in cash and short term investments.

Looking ahead to guidance, as many of you know, we are entering our seasonally smallest quarter in terms of MAU and Subscriber intake as well as ad sales. As a result, in Q1, we are forecasting 678 million MAU, an increase of 3 million from Q4, and 265 million Subscribers, an increase of 2 million over Q4. We are also forecasting €4.2 billion in Total Revenue. We anticipate a Gross Margin of 31.5% and Operating Income of €548 million.

With respect to MAU net additions - we had an exceptionally strong Q4 with outperformance driven by developing markets, and we are not prioritizing retention of the recent influx of lower engagement users in Q1 as we continue our focus on growing higher value users. While this will amplify typical Q1 seasonality, for the coming quarters we remain confident in our product and marketing strategies, and we expect full year 2025 net additions to be within the range over the last four years.

With respect to Subscriber net additions - we expect another year of healthy growth with a focus on customer quality and improving LTVs.

While we do not give full year guidance for Gross Margin and Operating Margin, we are expecting both to improve in 2025 on a full year basis, albeit at a more moderated pace relative to last year's exceptional levels. As Daniel alluded to earlier, we plan to make targeted investments in our core offerings, which may make our sequential Gross Margin cadence a bit more variable over the course of this year. That said, our fourth quarter Gross Margin is expected to be higher than Q1 due to seasonality. Finally, we expect our Free Cash Flow generation to meaningfully exceed what we generated in 2024.



On capital allocation, having just generated our first year of profitability, we're very pleased with the recent inflection in our liquidity profile and the emerging optionality this provides.

Sustainable growth opportunities with attractive return potential remain our top priority. We are prioritizing the business first. To the extent excess capacity arises, we will of course take our shareholders into consideration

In conclusion and echoing Daniel's remarks, in 2025 we expect healthy growth and continued improvements in profitability, while remaining disciplined with our resources.

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, #SpotifyEarningsQ424. 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

I am very excited about 2025 and feel really good about where we are as both a product and as a business. We will continue to place bets that will drive long term impact, increasing our speed while maintaining the levels of efficiency we achieved last year. It's this combination that will enable us to build the best and most valuable user experience, grow sustainably and deliver creativity to the world.

Thanks again for joining.

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.