



Q3 2020 Earnings Call
October 29, 2020

Prepared Remarks

Daniel Ek, Founder and CEO

Hello everyone and thanks for joining us.

Q3 was a very strong quarter -- surpassing our own expectations on several measures. This is a testament to all the amazing contributions of the Spotify team who in these uncertain times remain focused on the needs of our creators, fans, and partners around the world.

Monthly active users beat the top end of our guidance. Subscribers hit the very top of our range. And our service now reaches 320 million users and 144 million subscribers. The size of our total catalog increased significantly, and our advertising business returned to growth. We also beat expectations in our newest markets where we are seeing growth continue to accelerate. This affirms our belief that there is significant pent up demand for Spotify around the world -- even in places where our service has yet to launch. These results illustrate the power of our business despite COVID and other related challenges across the globe.

As a result of our performance this quarter, we have updated our Q4 guidance ranges to reflect increased optimism on where we expect to end the year.

It's also worth noting that we've paid out more than €1 billion to rights holders in every quarter in 2020, and I'm proud to say that we're on track to pay out another €1 billion-plus in Q4.

In addition to sharing our results, I believe these calls are also a time to help frame where we are headed. Our team remains laser-focused on building the world's largest audio network and while it's still early days, it's clear to us that our strategy is working.

We know that when we reach more listeners, we're able to attract more creators to our platform. So with more reach, comes more content and with more content, especially content unique to Spotify, there comes more opportunities to monetize. That interplay is super important because it is the foundation of our flywheel. And that flywheel is continuing to accelerate faster with every new user and creator that comes on our platform. Bottom line, as I look at the increase specifically in reach that we are seeing this quarter, it gives me confidence in our ability to monetize that growth. So to fuel the flywheel, you will see us continue to invest in enhancing our user experience, furthering market expansion, and developing and acquiring unique content from both new and established creators.

Related to this, you've seen us make a few big moves in launching new content so I would like to shed some light on how it's going. Our number of new podcasts increased over 20% and music releases are up 13% over the prior quarter. We saw a strong positive reaction when Michelle Obama's and Joe Rogan's podcasts launched during the quarter, and we're seeing great success with our Originals and Exclusives, which now account for 19% of all podcast listening on the platform. In addition we are hard at work on new content development that will roll out in the months ahead. One of the residual benefits of our time indoors is that many creators have turned to what they do best -- creating. As a result, future music releases look



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very strong too, as we know new music is coming from artists like Billie Eilish, Drake, and Sir Paul McCartney, just to name a few.

Another benefit of the investments that we've made in our content and user experience is that Spotify listeners are enjoying greater value than ever before. We believe this presents two distinct opportunities:

- 1) With about 60% of Spotify subscribers starting out in our free tier and our outperformance on MAUs in 2020, we are confident that we have a long runway to continue to grow our subscriber base in the months and years ahead.
- 2) And long term, if engagement and/or our listener value per hour is high, it gives us the ability to selectively increase our price.

Here's how I think about it. While our primary focus remains user growth, based on our maturity in certain markets and the increasing value we provide to our subscribers -- including enhanced content -- we've seen engagement and more specifically value per hour grow substantially over the past few years. I believe an increase in value per hour is the most reliable signal we have in determining when we are able to use price as a lever to grow our business.

And while it is still early, initial results indicate that in markets where we've tested increased prices, our users believe that Spotify remains an exceptional value and they have shown a willingness to pay more for our service. So as a result, you will see us further expand price increases, especially in places where we're well-positioned against the competition and our value per hour is high. I would, however, throw in one big caveat, we will continue to tread carefully in these COVID times to ensure we don't get ahead of the market.

To wrap up, it was a really strong quarter, and as history has shown us, while we don't always nail the timing, we're usually right in predicting the outcome of our strategy. I continue to believe in the long-term value of each and every listener on Spotify. And there are still billions of listeners that we have yet to reach around the world. Listeners who try Spotify tend to stay, and they often convert to a subscriber. That is why our continued focus is on reaching more listeners, as ultimately, this will translate into long-term value for our investors.

With that, I'll turn it back to Bryan.

CLOSING REMARKS

I am so proud of our team and how well our business has performed over the first nine months of the year. As I said earlier, it's a real testament to our flywheel. As we gain momentum, I strongly believe that you'll see us drive greater acquisition, retention, engagement, and monetization, which is good for Spotify, our users, and creators. And there's no doubt it's also good for the entire audio ecosystem. For that reason as well as the continued outperformance of our business, I remain very optimistic.



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For more on this quarter, listen to the Spotify, For The Record Spotify podcast, which will go live on our platform tomorrow morning.

Thanks again for joining us. Have a good day.