Q1 Earnings Call Prepared Remarks
April 25, 2023

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's First 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 #SpotifyEarningsQ123**.** 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 Chief Executive Officer

Hey everyone. Thanks for joining us.

As we open this call, I can't help but feel a tremendous amount of excitement about the progress our team made this quarter. In fact, this quarter represents our strongest Q1 since going public. Over the last few months, we've celebrated a few significant milestones including surpassing over half a billion users and reaching more than 200 million subscribers. Further, our user growth exceeded our expectations by 15 million, and our subscriber numbers by three million. AndAt our scale, it's pretty remarkable to see this level of reacceleration in our user growth, but it is a trend that has been consistent over the last 5 quarters. In fact, the last two quarters saw the largest MAU growth in our history.

The outperformance was broad based, meaning growth was pretty evenly spread across every region without any single market dominating. On top of this, we were able to accomplish this level of growth with lower marketing spend. We look at this as a promising sign, but it's too early to draw any conclusions yet.

As you've heard me say repeatedly over the years, a healthy topline user growth is the leading indicator of our ability to achieve future success on all other financial metrics. And When we successfully attract new users, it's only a matter of time before the conversion rate to subscribers increases, which then of course drives our revenue upwards over the long term. It's a formula that has worked for us exceptionally well and one I fully expect to play out again.

And speaking of long-term, I want to spend a moment talking about our approach to investment timelines and the outcomes they can deliver when we stay on the course.

So let me give you a recent example. For those who tuned in to our March Stream On event, we unveiled numerous creator tools and debuted an entirely new and updated Spotify experience, including a first of its kind AI DJ. And These changes mark the biggest updates to our user experience since we introduced mobile 10 years ago. But of course, this didn't happen overnight. These are things that we've been building over the last 12 to 18 months, and in some cases, even longer. And as we shift to rolling out these features, as well as several others across our 184 markets, we are seeing an acceleration in MAU, retention and subs.

Sometimes, our investments manifest themselves immediately. But more often than not, their impact is gradual and takes shape over several quarters….or sometimes even years. And while we really can't always anticipate when the benefits will materialize, we do know that our growth is a consequence of our relentless pursuit of learning, iterating and improving. We make strategic investments and wait for the results to compound, proving out the benefits for users, creators….and of course our other stakeholders. By delivering an exceptional experience that is centered on creating value for these stakeholders, over time, we are seeing a correlation with a stronger financial performance.

I've often talked about the fact that our success is not attributable to just one thing, but literally hundreds, if not thousands of improvements that we are investing in and working on in parallel. That's not to say every one of them ends up producing the outcomes we strive for. But over time, the things that <u>do</u> work, they do add up. And together, they have a compounding effect.

Think of it as waves of innovation, investment and improvement. There is an ebb and there's a flow, but over time, it becomes more predictable and produces steadier results. The key, it seems, is to maintain a long-term focus to help us navigate current and short-term uncertainties.

But don't let all my talk about the importance of long-term investing allow you to believe that we are rethinking our commitment to driving efficiency. As many know, last quarter and building on what we shared at last year's Investor Day, I talked about shifting towards becoming a more efficient company. There's no question that we have become leaner in the last 6 months, but this progress is still early in its reflection on our financials. The actions we've taken, coupled with other opportunities to reduce spending in areas like marketing, content production and real estate, should lead to a steady progression of key metrics throughout the year.….all of which makes me even more bullish about the remainder of 2023 and beyond.

With that, I'll turn it over to Paul for more detail behind the numbers and then Bryan will open it up for the Q&A.

Paul Vogel, Chief Financial Officer

Thanks Daniel, and thanks everyone for joining us.

Let's start with Q1. User growth was exceptionally strong in the quarter. Total Monthly Active Users grew to 515 million in Q1. This was 15 million ahead of guidance, up 26 million quarter over quarter, the largest Q1 net additions in our history and the second largest all time only surpassed by Q4 of last year. The strength was broad based and we hit record Q1 net additions across nearly all age demographics in both developed and developing regions.

Moving to Premium, we finished the quarter with 210 million Subscribers – 3 million ahead of guidance – thanks once again to broad-based strength across all regions.

Engagement trends were strong in Q1, with healthy uplift to year over year growth in content hours per MAU across all platforms. We also saw positive trends in our DAU/MAU ratio as well as churn.

Our Revenue grew 14% Y/Y topping €3.0 billion in the quarter. Results in the quarter were just slightly behind forecast as premium revenue slightly outperformed - offset by very modest underperformance in advertising. This marks the first Q1 in Spotify history where we surpassed $300 million in ad revenue.

Turning to Gross Margin. Gross Margin of 25.2% was above guidance by 30 bps.

Moving to Operating Expenses, growth was lower than forecast helped by less marketing spend than plan. When combined with our better Gross Profit, Operating Loss was ahead of guidance by €38 million. The better than plan results also include €44 million of severance related charges.

Free Cash Flow was positive €57 million in Q1

Looking ahead, it's clear we have a lot of momentum coming out of Q1.

With respect to second quarter guidance, we continue to see strong momentum in MAU and subscribers. We are forecasting 530 million MAU, an increase of 15 million from Q1 and 217 million subscribers, an increase of 7 million over Q1. We are also forecasting €3.2 billion in Total Revenue, a Gross Margin of roughly 25.5% and an Operating Loss of approximately €129 million. On Revenue, the currency translation benefits we've been experiencing for the last 6 quarters are expected to reverse in Q2, led by the weakening US dollar relative to the Euro. As a result, we are forecasting a 300 bp headwind to growth. Excluding this effect, our constant currency Revenue would be closer to €3.3 billion, reflecting our expectation for accelerating currency neutral growth to 14%Y/Y vs. the 13% growth we delivered in Q1. From a profitability standpoint, we continue to expect a steady ramp in Gross Margins throughout 2023 as well as sequential improvements in our Operating Loss.

One final note…As Daniel mentioned in his remarks, we will continue to be diligent regarding operating efficiency improvements and will be looking at areas such as real estate optimization. During Q2 we hope to finalize some of these decisions and this could lead to a material non cash charge during the quarter. We have not included any potential charges in our Q2 guidance but, should they occur, we will break them out during our Q2 earnings report.

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, #SpotifyEarningsQ123. 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.

And our first question today comes from ...

[Q&A]

Bryan Goldberg

That's going to conclude the Q&A section of our call, and now I'm going to turn it back to Daniel for some closing remarks.

Daniel Ek

Thanks, Bryan. In closing, it was a phenomenal quarter with significant outperformance and I continue to feel really good about what we are accomplishing. We closed out 2022 on a high note and this quarter continued that momentum. But more importantly, we are consistently seeing that our long term approach to innovation is working. As we move forward with an increased focus on efficiency, we are even better positioned to translate these efforts into a better business performance.

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.