



Q2 2024 Earnings Call Prepared Remarks

July 2024

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Second Quarter 2024 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO and Ben Kung our interim CFO and VP of Financial Planning & Analysis. We'll start with opening comments from Daniel and Ben 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 #SpotifyEarningsQ224. 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.

Hello everyone, I want to start by saying it was a very strong quarter across most of our key metrics. As you will recall, a few quarters ago, I said that while many believe that Spotify has a great product, we needed to prove that we also could be a great business. I think we are really starting to show this now.

Thanks to the hard work of our teams we beat on subs, also expanded gross margin and had our highest free-cash flow quarter ever. This quarter also marks three consecutive quarters of



profitability as we continue to execute on what you've heard me describe as a year focused on monetization.

So how have we done this? We have expanded our subscription offerings to consumers who might be looking for different types of content. By introducing new subscription plans, we are successfully giving subscribers even more listening choices – with options like the Audiobooks Access and Basic tiers. This builds on our already robust list of Premium plans around the world including Individual, Duo, Student, Family and Mini passes.

In addition to this expansion, we also implemented a price increase in several key markets, including the U.S., which we are rolling out now with great success. In fact, we are seeing less churn in this round of increases than we did in our prior one – which was already very low by any measure. I attribute this to the tremendous value we've added to our service over the last several years. Our subscribers now get access to 250,000 audiobooks, more than 6 million podcasts and of course, pretty much the world's entire music catalog...in one experience. In the US today, access to all of this content would cost a user approximately \$26, significantly more than a Spotify subscription. Spotify remains a pretty outstanding deal.

But there is one exception to our overall outperformance this quarter and that's in our MAU. So I would like to get into that....

As a reminder, the easiest way to understand Spotify's business is through the lens of our Free and Paid segments. Our paid/subscription business is primarily anchored in developed markets, where growth today is driven by net subscriber additions and strategic pricing. On the other hand, the growth of our Free/ad-supported segment is focused today on developing markets, where we see potential to convert these users into subscribers, but on a much longer time horizon.

So looking at where we are today, the changing market dynamics play a role in how we think about our user acquisition strategy. And while we've talked about the importance of reinvesting in marketing to attract new users to Spotify, we are only going to spend money to attract listeners if it meets our ROI expectations.

While our developed markets see high ROI from our marketing spend, we already have strong penetration and broad awareness in these markets, so it's really about carefully targeting our acquisition resources. In these markets, paid subscriptions aren't showing signs of slowing down, even from historically high levels.

On the flip side, we have significant potential to attract a large number of new users in developing markets. However these users can be a little more inconsistent – engagement looks different in these markets, as do the channels to acquire them and conversion to paid can be slower. This makes it difficult to get the same level of ROI effectiveness from our marketing spend.



So to tackle our MAU challenge, we are doing two things. First, we are intensifying efforts to improve the impact of our marketing and we believe there are numerous levers to pull over the upcoming quarters. Second, we are prioritizing enhancements in our free product pipeline that based on existing performance in certain markets, should boost engagement and retention – especially in our developing markets. Further additional improvements will be integrated into our free experience in the coming months.

While I am disappointed with our MAU miss, I see the reversal as more of a “when” rather than an “if.” The reason I feel so confident is that overall, we are seeing healthy MAU engagement trends year over year. So, the users we are now acquiring, we are also retaining, which is a great leading indicator for value and future monetization.

I know the impact of MAU on our subscriber growth will be top of mind for some of you, so I want to discuss what I think this means in the short to mid-term.

Historically, our conversion funnel was quite straightforward: a listener would come in as a free user and, over time, convert to our standard premium tier. This process has evolved given the bifurcation between developed and developing markets and the increased number of subscription options we now offer. This means the relationship from free to paid is no longer a one-size-fits-all scenario and we are less dependent on new free users to fuel our revenue growth in the short to mid term.

Take for example, our developed markets – with both the widespread awareness of our offerings and the strong affinity for Spotify’s products, we see many users subscribing directly to our paid tiers without any trial period. Additionally, the high engagement in these markets gives us tremendous confidence in our ability to raise prices allowing for strong revenue growth even as those markets continue to mature.

To close, I want to go back to how I opened. We set out very ambitious goals to transform our business. And there are many ways to grow Spotify today – it’s not a linear path dependent on any one metric. We have more options than ever. But to also be very clear, I have no doubt that we will also capture top of the funnel growth over time while we continue to focus on monetization.

I’ll now turn it over to Ben to provide more detail and then Bryan will open it up for Q&A.

Ben Kung, Interim 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.



Q2 marked another strong quarter for the business, led by robust subscriber trends, improving monetization and record strength across all of our profitability metrics.

Although MAU variability was again greater than expected, our funnel continued to expand at a healthy double-digit rate of Y/Y growth, and our rate of subscriber conversion, particularly in developed markets where we've recently taken price, continues to be strong.

We added 7 million net new Subscribers in the quarter, which was 1 million better than forecast.

Total Revenue grew 21% Y/Y on a constant currency basis to €3.8 billion. Our recent price increases and improving product mix shift accelerated Premium ARPU growth by 300 bps to 10% Y/Y on a currency neutral basis, while our advertising business saw currency neutral growth of 12% Y/Y. Our ads performance was a bit slower relative to Q1, as marketer spend on upper-funnel, brand-related campaigns continued to be volatile.

Moving to profitability, the business continues to inflect nicely towards the targets we laid out for you at our 2022 Investor Day. Gross Margin came in at a Q2 record of 29.2%, surpassing guidance by 110 bps. As you're well aware, there are many components that can move our Gross Margin, and Q2's outperformance was driven primarily by music content cost favorability and marketplace.

Operating Income of €266 million also set a new record, aided by Gross Profit strength and lower Operating Expenses. Operating Income was impacted by €59 million in non-cash Social Charge accruals, which were €46 million higher than our forecast driven by share price appreciation during the quarter. 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 €490 million in the quarter. Performance here was largely driven by our improving Operating Income profile net of non-cash items as well as fairly typical net working capital favorability.

Looking ahead to third quarter guidance, we are forecasting 639 million MAU, an increase of 13 million from Q2, and 251 million Subscribers, an increase of 5 million over Q2. We are also forecasting a currency neutral revenue growth rate that is sequentially consistent with Q2, pointing to €4.0 billion in Total Revenue. We also anticipate a Gross Margin of 30.2% and Operating Income of €405 million, setting the stage for another record quarter of Free Cash Flow generation.

In terms of our MAU growth outlook, as Daniel mentioned, we are continuing to make adjustments to our marketing activities and also exploring potential product enhancements, both of which we anticipate will contribute to improving MAU net add levels as we progress through the back half of the year.



With respect to price increases and subscriber growth in Q3, our data continues to show that historical price increases have had minimal impacts on growth. However, much like Q3 of last year, we are baking in some modest levels of churn into our Q3 outlook. Additionally, we anticipate another quarter of sequential improvement in Y/Y ARPU growth on a currency neutral basis in Q3, likely in the 100-200 basis point range. This is a slight moderation compared to what we saw in Q2 as we start to lap last year's price increases.

From a profitability standpoint, we continue to expect a sequential ramp in Gross Margin through the balance of 2024, as well as improvements in Operating Income and Operating Margin.

With that, I'll hand things back to Bryan for Q&A.

Bryan Goldberg, Head of Investor Relations

Thanks Ben. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ224. 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

Thanks, Bryan.

It's an exciting time at Spotify. We keep on innovating and showing that we aren't just a great product, but increasingly also a great business. We are doing so on a timeline that has exceeded even our own expectations. This all bodes very well for the future. The primary objective for the team now is to continue delivering against these goals while increasing our innovation to the benefit of consumers and creators all over the world. If we can do this, even more great things are in store for Spotify.

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.