



Q3 2024 Earnings Call Prepared Remarks

November 2024

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Third Quarter 2024 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO and Christian Luiga our CFO. We'll start with opening comments from Daniel and Christian 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 #SpotifyEarningsQ324. 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. We're in LA this week to spend time with creators. Over the next few days, we'll have a couple of announcements that I am sure will be of interest to you related to our expansion of video on the platform. More to come on that.

I want to start this call by welcoming our new CFO, Christian Luiga. I know some of you have already met him and I hope the rest of you have the opportunity to do so soon. Christian brings incredible expertise and proven leadership to Spotify and I'm grateful to have the benefit of his track record. I also want to thank Ben Kung for the fantastic job he's done as interim CFO. It's been seamless, which is a testament to all that he's brought to the role.



As you can see, there are a lot of positives this quarter. Q3 is another standout in what you've heard me refer to as "the year of monetization" and we are on track for our first full year of profitability. We outperformed on both subs and MAU, revenues were in line and we had significant beats on gross margin and operating income. We also had another sequential - and all-time record quarter of free cash flow.

Back at our 2022 Investor Day, we set clear goals for Spotify's growth, and this quarter marks a key point where we've successfully achieved - and even surpassed those targets....Doing so slightly ahead of schedule. This demonstrates what we've been saying over the past year: Spotify is not just a great product, but well on its way to becoming a great business. A big thanks to our team for their hard work and dedication in making this vision a reality.

Over the past few years, we've continuously modulated our time and resources between focusing on growth and optimizing for profitability. This approach led to a record year in 2023 for MAU and Premium additions. However, as the macro environment shifted, we made the difficult, but necessary, decision to adjust and focus our efforts on cost efficiency. And we did this while continuing to transform our business, which included expanding audiobooks in Europe, launching new subscription tiers and bringing more video onto the platform... just to name a few. Today's results demonstrate what we've consistently seen - the importance of finding the right balance between growth and reinvestment.

So, as we head into the end of the year, I am sure you are asking...what does all this mean for Q4 and beyond?

We will close out Q4 just as we started the year - laser-focused on monetization and the underlying fundamentals of our business. Looking at our forecast, we expect to make further progress across all of our key metrics, which sets us up with plenty of runway for growth and profitability expansion in the years to come.

But make no mistake, we're not here to merely optimize for today. I am as energized as I've ever been about the current landscape of technology—what's unfolding in AI, with all of its knock-on effects, is both thrilling and humbling. Moments like this don't come often; they're inflection points, where you can either let the opportunity slip by or seize it and press forward with conviction. We're choosing the latter—fully committed, heads down, and building for a future full of possibility.

So, as you think about Spotify in 2025 and beyond, picture a company that operates with the same disciplined management you've seen this year, but one that also has the ambition to seize the opportunities presented by what's happening in technology. In the near term, I see potential for transformative shifts in music discovery and new, innovative ways to connect artists and fans like never before. All great stuff for the music industry, which will drive further growth across our core business. And, just as we successfully entered the audiobook space, we're committed to making targeted investments that also expand Spotify into new areas, enhance the platform,



and deepen the value we bring to users. This relentless focus on consistently delivering exceptional value – well beyond the price a user pays for Spotify – is how we drive sustainable growth for all stakeholders across our entire ecosystem.

So, to conclude, our commitment to the long-term goals we shared at Investor Day remains unwavering, but our journey will, as always, be defined by bold innovation and a relentless pursuit of what's next.

Now, I'll turn it over to Christian to share his perspective and then he'll provide more details into the numbers.

Christian Luiga, Chief Financial Officer

Thanks Daniel, and thanks everyone for joining us. I couldn't be more excited to join Spotify. I've been on board for just a short time now, and I'm impressed with the talented teams I've met and I see great potential in our product and business. I'm looking forward to working together in efficiently allocating our capital and scaling the business towards our long term goals.

Q3 OPERATING PERFORMANCE

Turning to our quarterly results. Q3 marked another strong quarter for the business.

MAU grew by 14 million to 640 million and we added 6 million net **Subscribers** finishing at 252 million. Both MAU and Subscriber growth outperformed our guidance by 1 million.

Total Revenue grew 21% Y/Y on a constant currency basis to €4.0 billion. Premium revenue rose 24% Y/Y on a constant currency basis, driven by continued subscriber growth and ARPU acceleration associated with price increases. Our advertising business saw currency neutral growth of 7% Y/Y, reflecting another quarter of volatile marketer spending on brand related campaigns.

Moving to profitability, we're pleased that we've delivered on our intermediate-term Gross Margin target of 30%. In fact, **Gross Margin** came in at a record of 31.1%, and surpassing guidance by 90 bps due primarily to content cost favorability.

Operating Income of €454 million also set a new record, aided by Gross Profit strength. Operating Income was impacted by €54 million in Social Charges, which, in the quarter, were €39 million higher than our forecast due to share price appreciation. 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 €711 million in the quarter. Performance here was driven by our improved Operating Income profile, as well as net working capital favorability.



BUSINESS OUTLOOK & GUIDANCE

Looking ahead to fourth quarter guidance, we are forecasting 665 million **MAU**, an increase of 25 million from Q3, and 260 million **Subscribers**, an increase of 8 million over Q3. We are also forecasting €4.1 billion in **Total Revenue**. As you might have seen in today's results, unfavorable foreign exchange rate movements created a larger than anticipated headwind to the business in Q3. These movements have also impacted our Q4 outlook by approximately €80 million. We also anticipate a **Gross Margin** of 31.8% and **Operating Income** of €481 million, pointing to our first full year of positive Operating Income of €1.4 billion.

With respect to subscriber net additions - the very low levels of churn that we expect in the 6 markets where we've recently announced price increases, is also incorporated into our Q4 outlook. This is consistent with what we've seen historically. We have also incorporated our ongoing actions to drive better subscriber monetization. Although new pricing will contribute towards ARPU growth in Q4, overall, we anticipate the lapping of 2023's price increases in 63 markets will lead to an approximately 400 basis point moderation of Y/Y ARPU growth on a constant currency basis in our Revenue outlook.

In terms of our recent Gross Margin improvements, as Daniel mentioned, we are very pleased with the strides we've made this year. The significant rate of improvement in our Gross Margin in 2024—which exceeded even our own plans—has been *exceptional* and should be viewed as such. Looking ahead, we see substantial runway to grow margins and income over the long run, which will be driven by a continuing focus on improving our product and business via targeted investments, disciplined management and improving monetization.

Finally, on capital allocation. We have a strong balance sheet, with €6.1B in cash and equivalents, €1.3B in exchangeable debt, and a trailing 12-month free cash flow profile of €1.8B. As a sustainable growth company, our top priority remains to invest in opportunities that make sense for the business with high returns. We are of course considering our shareholders as part of our overall framework as well.

Overall, we are very pleased with our positioning heading into year-end, and look forward to building on our momentum going forward.

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, #SpotifyEarningsQ324. 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

We've never been in a stronger position, thanks to the outstanding execution by our team. I'm incredibly proud of the way we've delivered and the progress we've made. We're where we set out to be—if not a little further—and on a steady path toward achieving our long-term goals. This relentless pursuit of innovation and commitment to growth sets us up to deliver the most valuable user experience in the industry, while reinforcing the core strengths that make Spotify unique. I am very excited about what lies ahead for us.

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.