



Q4 2020 Earnings Call
February 3, 2021

Prepared Remarks

Daniel Ek, Founder and CEO

Hi everyone. Thank you for joining us.

Despite the global uncertainty of 2020, it was a remarkable year for Spotify. Following a strong Q2 and Q3 -- Q4 met or exceeded our guidance by nearly every metric.

Monthly Active Users reached 345 million, coming in at the very top of the range, and we now have 155 million subscribers, which surpassed all expectations.

Over the last year, we have demonstrated our ability to pivot quickly, anticipate user trends and adapt to their new behaviors. It is easy to forget, but 2020 had plenty of uncertainty and puts and calls. Our success really is a testament to the strength of our teams and I'm confident this experience will serve us well in the future.

Going into 2021, Covid still has the potential to be a headwind as it's difficult to fully gauge its impact. For Spotify, more time at home resulted in more people discovering streaming and turning to our platform, but it also created disruption in listening habits, consumption hours and the release of new music and podcasts. We believe it caused us to pull forward subscribers across the back half of 2020, which makes it hard to predict if we'll drive the same subscriber growth in the year ahead. However, the trendlines are healthy and long term the shift from linear to on-demand that COVID accelerated will continue and remains a massive multi-billion user opportunity.

Knowing your focus is likely on our outlook for the upcoming year, I want to spend a few minutes addressing how I'm thinking about 2021 and some of the uncertainty and opportunity it brings.

As a reminder - our approach to forecasting is to only forecast what we have a very high degree of certainty we will achieve. Given the uncertainty we face today, I suspect that our full year 2021 plan will have a higher variance than prior years. Therefore what you see reflected in the forecast is what I believe we will absolutely do. This does not mean that's what I hope we will achieve as evident by our outperformance in 2020.

So I thought it might be worthwhile to outline some of the biggest drivers that may contribute to this variance. For example, while we have seen some pull forward effects that may slow down subscriber growth in some markets, we are shifting to drive more aggressive revenue growth where we know our pricing power will enable us to increase ARPU. We've long believed that Spotify provides exceptional value, and the positive early data we're seeing from the price increases we announced in October makes us very optimistic that our users agree. This week, we implemented price increases across a number of markets and we will continue to evaluate future increases carefully based on the broader global economic impact of COVID.

Another important tailwind we will pursue is continued expansion into new markets. We launched in South Korea on Tuesday morning, tapping into one of the fastest-growing music markets in the world. There are still millions of creators and billions of listeners who don't yet



have access to Spotify. Work is underway to change that and I will share more in the near future.

The impact from expansion into new markets also creates some uncertainty as we forecast user growth. It's been challenging to predict... and Russia is a prime example. We quickly - and significantly - surpassed all expectations there. The result of this outperformance is that we saw some additional pull forward of user demand, again leading to growth in 2020 that we expected to occur in 2021.

Another area of the business where we are seeing extremely strong results, but where the true payoff to Spotify is still in front of us, is podcasting. In the last year alone, we've tripled the number of podcasts on our platform -- moving from about 700,000 in Q4 2019 to 2.2 million podcasts today. We've also significantly grown the number of podcast users on Spotify. Going forward our investments in originals and exclusives are creating more reasons for listeners to choose Spotify ... and our exclusive programming is already proving to be an essential part of our differentiation. That said - with a small number of these shows on our platform today, but many more in the pipeline, it's difficult to know exactly when we will see the compounding effect of these investments...but all early indications are very positive.

Another example is our advertising business. Other platforms have experienced inconsistent ads growth in their early years and we are no exception. We are putting more resources into developing this business and in Q4, our ads business accelerated, finishing above forecast. In our mature markets, our largest issue was that we were inventory constrained. While this sounds like a good problem to have (and it is), it is difficult for us to predict how quickly we can open up new inventory.....I expect that as the category of audio ads matures and more radio dollars move to streaming, this area will become much more predictable, but for the next year or two, it will be a bit more uncertain.

So to conclude, 2021 brings more uncertainty than any normal year. That said, we have a high degree of confidence in our ability to deliver against the guidance we've provided. We were able to overcome unprecedented uncertainty in 2020 and exceed almost all expectations. And I believe that we can do the same in 2021.

I'm also focused on identifying where we can seize new opportunities and drive sustained growth in the long term. Just look at what happened to video in 2020. Linear video fell apart as viewers flocked to on demand. And the companies who were not prepared to take advantage of this disruption faced huge challenges as their business models were upended.

A similar shift hasn't happened...yet...to linear radio, but you've long heard me say that it's coming. And I am more confident today that it's inevitable. But unlike video, there are only a handful of companies who will be able to take advantage of this disruption in audio. No other company has the capabilities, or is as well positioned, as Spotify for this massive opportunity. That is our "eye on the prize" .

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



CLOSING REMARKS

I'm very encouraged by the progress we've made on our path to becoming the world's number one audio platform.

I want to thank all the Spotify employees who stayed focused on our creators, fans, and partners around the world this year, and for executing at such a high level.

While it's still early days, it's clear to us that our strategy is working. Looking ahead, we will continue to enhance the user experience, expand into new markets, and develop and acquire unique content from both new and established creators.

We're planning to share more details about these innovations, as well as what's next for Spotify—during our "Stream On" event later this month. I hope you'll join us for this virtual event as it will shed more light on what the coming months and years will bring.

I'll be talking more about it, and our earnings report on our podcast, Spotify: For The Record, which will go live on our platform tomorrow. Thanks again for joining us.