



Q4 2021 Earnings Call  
February 2, 2022

**Prepared Remarks**

**Daniel Ek, Founder and CEO**

Hi everyone and thanks for joining us.

Obviously it's been a notable few days at Spotify. When we entered into the podcast space in 2019 with the intent to help modernize and grow the space for all types of creators, we assumed it would challenge and test our teams in new ways. There's no doubt that the last several weeks have presented a number of learning opportunities. I hope that you had a chance to read our response that addressed many of the questions we've received from creators, partners, employees and the medical and scientific communities. There is still work to be done but I am pleased that Spotify is already implementing several first of its kind measures to help combat misinformation and provide greater transparency.

We believe we have a critical role to play in supporting creator expression while balancing it with the safety of our users. We will continue to partner with experts and invest heavily in our platform functionality, teams and product capabilities to meet this evolving need head on.

Moving to our results, 2021 was an eventful year for Spotify and the world in general. Throughout the pandemic, businesses have seen enormous disruption in consumer behavior causing demand curves to shift – and Spotify, of course, has been no exception. In our case, these shifts mostly played to our advantage. But we did see some headwinds in the first half of 2021. By the end of Q2 we saw a reversal back to positive momentum and this trend continued throughout Q3 and Q4.

Historically, Q4 has been our biggest quarter and 2021 was no exception. In fact, Q4 was our largest quarter of MAU growth in Spotify's history. A significant MAU driver was our 7th annual Wrapped campaign, which was our most successful to date. With 120 million users, we saw unprecedented engagement - up 29% YoY - with the highest levels coming from the Gen Z audience. And on launch day, Wrapped was the #1 worldwide trending topic on both Twitter and TikTok, proving that it's more of a cultural phenomenon than ever before.

Ads continues its remarkable growth trajectory, turning in 40% growth YoY. Advertising is showing more proof points of being the second key revenue driver for the overall business, climbing to a record 15% of our total revenues this quarter. While the ad business is more prone to seasonal blips, I see this momentum continuing in 2022 and beyond. As a result of this strong performance, we will continue to test different windowing strategies for our exclusive podcast partnerships to get the advantage of that broader audience reach.

Q4 also saw strong performance across podcast metrics. We've amassed a highly engaged audience that is listening more than ever. Last quarter, we confirmed that Spotify had become



the #1 podcast platform US listeners use the most and we continue to see meaningful market share gains.

Let's move to long-term, which is where I try to focus my time.

We are building a category defining company. And this takes patience...

Some may still describe us as the leading music subscription service. And while this surely reflects where we have been, it doesn't encompass all the advancements we have made in Audio. And further, I don't think it properly captures all the future initiatives that we are working on either. It is as Jim Barksdale described it; constantly about bundling and unbundling.

So what are we focused on then? The best way to describe it is as a subset of the creator economy.

People have been talking about the creator economy for some time and it has taken on many different meanings. For us, the single largest trend to keep track of is the rapid professionalization of creators. I see this as one of the biggest opportunities on the internet.

For all the millions of artists and creators that have leveraged Spotify to date, I think we have only scratched the surface of the creative potential in audio. To become the preferred destination for audio creators, we will accelerate the move from a one size fits all model to a much more dynamic and open platform. We will give them greater flexibility and the power to be more entrepreneurial, which will unlock the extraordinary potential of their business and communities. We will provide greater reach, tools and access to diverse revenue streams that can be personalized to meet the needs of each creator.

I believe this will all lead to the creation of millions of jobs for the creator economy. While this is not limited to Spotify, we are building the platform that will enable the whole ecosystem to work together on a global scale. And we think that the Spotify ecosystem alone will encompass more than 50 million active creators, a significant increase from the 11 million total we have today. Think of it as 50 million small and medium sized businesses that we can support by giving them the infrastructure and resources to grow.

This evolution will take time, but I know some of you are wondering what this means in the near term. The work is already well underway. This opportunity started to crystalize for me around our acquisition of Anchor and it's only grown from there with increasing momentum. It was clear to me from the feedback we heard that Anchor creators wanted more flexibility and more options to do business.

One recent example includes the Spotify Open Access Platform. We brought it to market last year to enable creators with existing paid content businesses to activate their subscriber base on Spotify. This means those creators - whether they're an independent podcaster, a major



news outlet, an audiobook publisher or creator platform - can retain full control over their subscription base, while leveraging the reach of Spotify to grow their audience.

Based on the early success you should expect us to continue to invest in an ever growing number of tools, resources and services for a broad range of creators. Not one by one, but many in parallel, moving faster and faster to bring them to market.

While many will be competing to seize a piece of this opportunity, I believe that we are uniquely well positioned to adapt to this changing environment and deliver for the good of the entire audio creator ecosystem.

So now before we go to Q&A, Paul, I believe you were also going to add a few thoughts. Over to you.

**Paul Vogel, CFO**

Thanks Daniel, and thanks everyone for joining us.

While Daniel touched on most of our key KPIs, I wanted to add a bit of color on our Gross Margin, which finished at 26.5% in Q4, above the top end of our guidance range. Relative to our forecast, our Gross Margin was helped by a shift in investment costs that were originally targeted for Q4. That benefit was partially offset by an unforeseen expense related to our ads business. Taken together, our Gross Margin still would have finished above the top end of the range. Some of the investment costs in Q4 that didn't materialize are now reflected in our Q1 Gross Margin guidance.

Looking at our full year 2021 margin of 26.8%, we made meaningful progress relative to the 25.6% we reported in 2020. Full year 2021 did benefit from close to 50 bps of favorable royalty adjustments. However, even excluding this item, GM was still an improvement year on year.

Looking into 2022, we expect a continuation of the favorable Gross Margin trend you saw in 2021 for our underlying business as we grow advertising and drive further growth in marketplace contribution; We also expect improvement in our core podcast margins, both on the O&E front, as well as on Megaphone. Given the encouraging traction we're seeing, we do plan to invest in incremental content and music initiatives in 2022, with an eye towards our long-term goals of 1 billion users, a 20%+ revenue CAGR and 30-40% gross margins. While these investments may slightly alter the progress we've seen in consolidated Gross Margin over the past two years, it is exactly this progress that has given us the conviction to increase our investments in certain areas and gives us confidence that we're on the right path over the long-term.

Finally, I want to expand upon our approach to guidance. As we said in our Shareholder Letter, we no longer plan to provide yearly targets. We will continue to share quarterly guidance as a



way to update investors on the current trends in the business and we will simplify our approach by providing a single estimate for each metric instead of a range of outcomes.

We are aligning our guidance practices with how we run the business as most of our investments are multi-year in nature and the exact timing of any specific launch may vary within a given year. With that being said, we do not anticipate any material changes in the trajectory for net growth in MAUs and Subs in 2022, when compared to the net growth we experienced in 2021.

For Q1, we're expecting total MAUs of 418 million and 183 million subscribers. We anticipate that total revenues will come in at €2.60 billion, benefitting from an approximately 360 bps tailwind due to movements in foreign exchange rates. We're expecting Gross Margin to be 25.0%, primarily due to costs that didn't materialize in Q4 hitting in Q1. With respect to the subscriber net adds in Q1, please keep in mind that we expect a different level of seasonality for this metric over the course of 2022 due to anticipated promotional campaign activity and other initiatives.

We are also excited to announce that we plan to host an investor day during Q2, where we'll talk about the big drivers of our business, the investments we are making and the financial results we expect over the long-term. Stay tuned for more info.

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

### ***Closing Remarks***

I wanted to thank you all for joining the call. I hope you are as excited about the business as we are. We are just getting started and will continue to accelerate our work and the pace of innovation as we pursue our view of the creator economy and the role we want to play in opening it up for more and more creators.

I look forward to sharing more details at Investor Day, but first, I'll be talking more about the quarter on our podcast, Spotify: For the Record, which will go live on our platform tomorrow. I hope you'll tune in.