



Q1 2020 Earnings Call
April 29, 2020

Prepared Remarks

Daniel Ek, Founder and CEO

Hi everyone and thanks for joining us. Before jumping into our quarterly results, I want to acknowledge these extraordinary times that have profoundly impacted the world around us. On behalf of the entire Spotify team, I want to express our deepest appreciation to the healthcare workers and first responders around the world who are keeping us safe.

I also want to acknowledge all of the creators whose livelihoods have been altered -- from the artists whose music continues to inspire us, to the podcasters who keep us entertained and informed. We know that for many creators with touring and live shows canceled, the pandemic has brought unthinkable levels of uncertainty into their lives.

Like every other company, we are operating within a new reality. It's premature to say when things will return to normal, or what that normal will look like.

Despite this uncertainty, Q1 was a strong quarter for Spotify. We continue to see impressive user growth, up 31% last year. In fact, we saw faster growth in all four of our regions in the first quarter of 2020 compared to Q1 2019. We met our guidance by nearly every measure growing both our subscribers and MAUs.

The one exception was advertising revenue, which is a very small portion of our total revenue. Obviously, a loss in ad revenue is something that every media company is experiencing during these challenging times. So in sum our overall business is less impacted than many others.

Podcast consumption grew by triple digits during the quarter compared to just a year ago. It was also our biggest quarter ever for organic podcast creation. While many companies have had to adjust their output during this crisis, almost all of our originals and exclusives have either maintained or increased their pace of new releases in response to audience demand.

For example, our original podcasts *Science Vs.* and *Fest & Flauschig* have both doubled their weekly releases. We also launched a new daily news podcast in Germany that has already become the second-largest show in the country and regularly ranks in the top 20 worldwide. We've been encouraged by the wave of creativity in new podcast creation this quarter. More than 70 percent of new podcasts on Spotify were created with Anchor and within our own ecosystem.

With 286 million monthly active users and 130 million subscribers - it's clear that audio -- and Spotify -- continue to play an important role in our users' daily lives. Our solid performance is the result of the audio-first strategy we put in place just over a year ago. We are up 31% in both MAU and Subs year over year.



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While we saw some minor impact from COVID-19 during the back half of the first quarter, MAU and Subs remained in line with our forecast and held steady. In hard hit markets like Italy and Spain, we saw more of a decline in daily active users and consumption. But over the last few weeks, we've seen listening start to rebound in a big way.

In this environment, we've had to suspend what we normally believe and think differently about our business.

For example, when we saw consumption starting to decline, we would have assumed that MAUs and paid subscribers would be negatively impacted. But that wasn't the case. In fact, both new and reactivated MAUs grew substantially even during lockdown periods in major markets. We believe this is a testament to how engaging our platform and ecosystem are to our users.

Last year, as you all know, we outlined a vision to be the world's largest audio platform and we've made significant progress. We now have more than 1 million podcasts on the platform, and we're the #1 audio service for podcasts in dozens of countries around the world -- and quickly gaining ground where we're not.

I know many are wondering how we will continue to weather this storm. With so many unknowns, there are some questions we simply can't answer at this point. But I can say that I am confident that we will continue to be in a position of strength when this is behind us because of our model, our scale, our superior user experience and our content pipeline. These are the fundamentals that have fueled our success and will continue to do so in the future.

When I look ahead, both short and long term, I'm always thinking about what Spotify's role is within the larger ecosystem. And while most focus on the competition between streaming services -- we continue to be focused on the billions of users that are listening to linear radio. The 20 year trend is that everything linear dies and on-demand wins. This is a trend that we suspect will be accelerated by the COVID pandemic.

Time at home has moved people out of their cars, requiring them to shift their listening behaviors, and that's when they discover streaming — Spotify is best positioned to capitalize on this. And because we offer a personalized and on-demand experience - they stay.

So in my mind, our competition is actually those learned and long held user behaviors. For us, it will always be about capturing the share of time listeners spend elsewhere, and prove out that their time is far better spent with us.



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We see this is happening now on our platform. As routines -- like commuting to work and going to the gym -- were disrupted, and consumers started to form new habits, the ubiquity of our platform was a true advantage for Spotify. And because we're available on over 300 devices across 80 hardware brands, we are accessible to users even as their listening behaviors have changed. For example, while listening in the car has declined, listening on gaming consoles is exploding and we continue to see increased listening on home speakers and through TVs.

On the music front, we were pleased to reach a long-term licensing deal with Warner Music that covers all of our existing markets and paves the way for us to enter new ones.

We also delivered some of the year's most popular music releases to our fans. The Weeknd's album, "After Hours," had the biggest debut of the year so far, and Dua Lipa's album, "Future Nostalgia," broke three Spotify records when it was released in late March. Fans are craving new music, and we expect to see more artists and labels move forward with their planned releases.

But it's not just about delivering relevant content. In the midst of an economic downturn, Spotify's free tier and freemium model are more valuable than ever. It's important to remember that just over 60% of our paid subscribers come from our free tier so growing the top of the funnel has always been a priority.

With more and more people dealing with financial stress, our free service provides a bridge to ensure users don't have to give up access to their favorite podcasts and music. In fact, over the last few weeks we've seen an increase in the number of users coming to the platform for our free service. Many of these listeners are returning to Spotify from lapsed accounts and some are joining from other streaming providers. As you know, the majority of our competitors do not have a free tier, which makes Spotify a more appealing option in this environment. This should allow us to expand the pool of subscribers available to us as the economy recovers.

No one knows how long this will last or what the long-term implications will be. We are very optimistic because of the many positive indicators we see in our business, our strong cash position, and our strong belief that we will continue to grow and gain share. There have been many unknowns and surprises throughout this crisis, but I am proud of our team and pleased by how well our business has responded.

I will turn it over to Paul to open the call for questions.



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CLOSING REMARKS

In closing, we are really pleased with our quarter and despite all the uncertainty in the world, we feel very good that we will continue to execute and respond quickly. We also believe that we will likely see new opportunities due to the economic environment and that Spotify will ultimately come out of this as an even stronger company.

Thanks again for joining us today.