Q1 2024 Earnings Call Prepared Remarks
April 2024

Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's First 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 #SpotifyEarningsQ124**.** 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, thanks for joining us. I hope you've had the opportunity to review our shareholder deck. Overall, this was a solid quarter driven by strong revenue growth, expanding gross margin, and the largest operating income we've ever posted. Our performance speaks to what I covered last quarter when I described our outlook for 2024: a year of solid progress with monetization and resourcefulness taking center stage.

But let's discuss our MAU growth this quarter. We missed our target due to a bit of a slowdown at the start of the year. So I want to directly address the three main factors contributing to this outcome and how we are adjusting over the next few quarters.

First, the MAU and subscription growth we achieved in 2023 not only surpassed our most ambitious forecasts, but also set a record for the most significant user growth in Spotify's history. While we anticipate continued robust growth going forward, 2023 was truly a standout year, and should not be a baseline expectation for every subsequent year.

Another significant challenge was the impact of our December workforce reduction. Although there's no question that it was the right strategic decision, it disrupted our day-to-day operations more than we anticipated. It took us some time to find our footing but more than four months into this transition, I think we are back on track. I expect to continue improving on our execution throughout the year…getting us to an even better place than we have ever been.

The third issue is related to marketing spend. In hindsight, we probably pulled back too significantly throughout 2023, and as such, we are already correcting this as we move into Q2. To be clear, we are not going back to what we were doing before - we still continue to expect improving profitability over the course of this year and into the next. Any new funds are being directed towards acquiring and reactivating high-value users who enhance our base with their deeper engagement and loyalty. We expect to see good improvements in the second half of this year and are confident in our ability to deliver top of the funnel growth at consistently high levels, maintaining our proven track record.

So how do we expect this to impact our business in the coming months?

At Spotify, we don't rely on a single growth strategy but rather adjust our focus based on what the business demands. For instance, two years ago, we really concentrated on user growth. Then last year, we restructured our costs, and now we are focused on accelerating revenue while improving our bottom line. Next year, our focus may return to top-of-the-funnel user growth but in the near term, monetization remains our top priority.

Bottom line – we are really good at pivoting our attention when it makes sense. When I say pivot, I mean making tweaks that will get us to an even better outcome. And because of our ability to do this, I have no doubt that we will recapture top-of-the-funnel growth over time as it becomes more of a focus area for the team.

Before I turn it over to Ben to provide more detail into the numbers, I also want to mention our new CFO, Christian Luiga. I have worked with Christian directly and I can tell you firsthand that he's a terrific leader and excels at driving both operational efficiency and growth. He has an impressive track record and his expertise will be incredibly valuable as we continue on this path. I look forward to you getting to know him when he joins later this year. And a huge thank you to Ben for stepping into the role of interim CFO and helping to ensure a smooth transition.

<u>Ben Kung, Interim Chief Financial Officer</u>

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.

Q1 marked a strong start to the year, led by accelerating Revenue growth and record-setting profitability as our focus on monetization and efficiency have begun flowing through our financials.

Although MAU variability was greater than expected, our funnel continued to expand at a reasonably healthy rate within the context of the last few years, as total MAU grew 19% Y/Y in Q1 (coming off of 2023's record performance) while quarter-on-quarter net additions of 13 million were in-line with 2021 and 2022 levels.

On the subscription front, the business grew in-line with our guidance, adding 3 million net new Subscribers.

Total Revenue grew 21% Y/Y on a constant currency basis to €3.6 billion, representing 100 bps of growth improvement relative to Q4. Notably, our recent price increases and improving product mix shift accelerated Premium ARPU growth to 7% Y/Y on a currency neutral basis, while our advertising business saw improved currency neutral growth of 19% Y/Y vs. Q4's 17%.

Moving to profitability, we are very encouraged by the business's early stage inflection towards the targets we laid out for you at our 2022 Investor Day. Gross Margin came in at a Q1 record of 27.6%, surpassing guidance by 121 bps and resulting in our first-ever €1 billion plus Gross Profit quarter. As you're well aware, there are many components that can move our Gross Margin, and Q1's performance was driven primarily by content cost favorability among other smaller movements.

Operating Income of €168 million also set a new record, aided by Gross Profit strength and lower Operating Expenses. Operating Income was impacted by €82 million in Social Charge accruals, which were €74 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 positive €207 million in the quarter. Performance here reflected the expected reversal of some of the timing benefits we saw in Q4. We remain confident that we've entered a new chapter in terms of expanding the business's cash generation potential.

Looking ahead to second quarter guidance, we are forecasting 631 million MAU, an increase of 16 million from Q1, and 245 million Subscribers, an increase of 6 million over Q1. We are also forecasting a currency neutral revenue growth rate of over 22% Y/Y, pointing to €3.8 billion in

Total Revenue. We also anticipate a Gross Margin of 28.1% and an Operating Income of €250 million.

In terms of our user growth outlook, as Daniel mentioned, we've made some adjustments to further optimize our marketing activity, and expect improving MAU net add levels over the course of the year.

With respect to price increases and subscriber growth in Q2, our data shows 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 Q2 outlook. Additionally, we anticipate another quarter of sequential improvement in ARPU growth on a constant currency basis in Q2, similar to the 200 basis points of improvement we saw from Q4 to Q1.

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

Thanks Ben. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ124. 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

Thanks, Bryan.

We've talked about 2024 as the year of monetization and we're delivering on that ambition. Now as we've shifted to focus on strong revenue growth and margin expansion, we see a clear opportunity to ensure we are also continuing to grow the top of our funnel. I feel good about the changes we are implementing and remain very confident in our ability to reach the ambitious plans we've outlined.

Bryan Goldberg

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.