

SPOT Earnings Call Transcript

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Quarter: 3

Operator: Good morning, and welcome, everyone, to the Spotify Third Quarter 2025 Earnings Call. Today's conference is being recorded. [Operator Instructions]. At this time, I would like to turn the conference over to Bryan Goldberg, Head of Investor Relations. Please go ahead.

Bryan Goldberg: Thanks, operator, and welcome to Spotify's Third Quarter 2025 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO; Alex Norström, our Co-President and Chief Business Officer; Gustav Söderström, our Co-President and Chief Product and Technology Officer; and Christian Luiga, our CFO. We'll start with opening comments from the team and afterwards, we'll be happy to answer your questions. Questions can be submitted by going to [slido.com](https://www.slido.com), and using the code #SpotifyEarningsQ325. 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 e-mail 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 differ materially 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.

Daniel Ek: All right. Thanks, Bryan, and hey, everyone, and thanks for joining us. Overall, it was a very strong quarter, especially on the user side. We reached a significant milestone surpassing 700 million monthly active users beating our guidance, and we were right in line with subscribers, and we also beat on revenue, gross margin and operating income. Given that this is a year of transition for me, I've been reflecting on what has proven time and again to drive the company forward. And when I strip everything else away, it really comes back to the same thing, our user fundamentals. It's where everything starts and everything stops. And as this quarter shows, the user side of the business is really strong. Engagement continues to strengthen across music, podcasts, video and audiobooks. And people come to Spotify and they stay on Spotify. And this is across all markets and formats. Gustav will give you more color on the pace of shipping during this year of accelerated execution and the impact it's having, but the data is clear. Our multi-format strategy is working exactly as we hoped. And with that foundation in mind, let me talk about how we think about building the business. I've said this before, but it's worth repeating. We don't optimize for quarterly results. We optimize for lifetime value because at our scale, very few metrics shift quickly. The decisions we're executing on today were set in motion well before they show up in the numbers. In some cases, this means we made these calls many quarters ago or in some cases, even years. But that doesn't mean we get a free pass on our performance. Our job is to make smart investments that create more value over time, and we fully expect you to hold us accountable for them. Our goal is to deliver extraordinary results, and that means having both a great product and a great business. And those things aren't in conflict, they compound each other. So take our partner dynamics as one example. I get asked about these relationships all the time. When we signed new multiyear licensing deals with our partners, the market mostly assumes it's a zero-sum

game. There's a winner and there's a loser, and everyone tries to figure out who fell into what camp. Our view is different. We don't think it's a zero-sum game at all. Quarter-to-quarter, the math may not immediately be obvious, but here's what actually happens. Those deals give us the flexibility to innovate and move us closer to our long-term financial goals. We can build new products. We can launch new features, experiment faster, and that drives better user outcomes, more growth, higher engagement, stronger retention, which then drives a better business. It's a flywheel and a playbook we've run many, many times. Our partners also do better, so both sides win. And that's what good long-term investments look like. Before I hand it over to Alex, one note. So following today, I have one earnings call left as CEO. As you know, I'll be transitioning to Executive Chairman on January 1 with Alex and Gustav stepping into their roles as co-CEOs. You'll hear more from them today than you typically would and on our Q4 call in February, they'll run points. And with that, I'll turn it over to Alex.

Alex Norström: Thanks, Daniel. No pressure. Our Q3 results once again highlight just how well positioned Spotify is as we keep pushing boundaries through innovation and bringing even more value to artists, podcasters, authors and users around the world. A few weeks ago, we had our leadership team come together in New York for strategy sessions. Gustav and I shared our thoughts about Spotify's future and how it will evolve over the next few years. I can't remember a time when the company was more aligned, and this is just having an outsized impact on our performance. To build on what Daniel said, the real magic is in our ability to ship faster and smarter, and you'll hear more from Gustav about this in a minute. And these efforts there driving user growth across the top of the funnel, which then propels the flywheel and fuels the strength of our overall business. Now when you look at MAU in isolation, the global rollout of our enhanced free experience was a key contributor, bringing millions of new listeners into the Spotify ecosystem. It's having a huge impact on engagement and retention, which we know is the key leading indicator of even more growth and even more conversion. On the subscriber side, we saw continued growth across all regions, and users are spending more days and more hours on Spotify than ever before. Notably, we continue to take market share, even in our most competitive markets. We also saw steady retention rates following the rollout of our recent price increases across more than 150 markets. These results show the power of the product and the loyalty of our subscribers. And as we look at the growth across these 3 content verticals at Spotify, I want to share just a few highlights. In music, we continue to help artists reach massive global audiences. This past quarter, we saw artists break multiple streaming records across genres, and we've seen a number of new artists emerge as global fan favorites climbing our streaming charts at record pace. We also hosted several immersive fan activations and intimate performances. We launched in-app experiences that celebrate some of the most iconic discographies. And we continue our partnership with FC Barcelona, which just unites fan communities around the world, proving to be a strong user recruitment tool for us, for Spotify. Daniel also mentioned the relationship with our music label partners and publishing partners. Over the quarter, we finalized groundbreaking direct license deals, bringing value to artists, song writers, rights holders and Spotify. What's good for Spotify is also good for the industry we support, which, of course, include music, podcast and audiobooks. I was just excited to now capture the opportunities that these deals unlock. In podcasts, more than 390 million users have streamed the video podcast on Spotify. That's a 54% increase year-over-year. We now have almost 500,000 video podcast shows on our platform. Time spent with video content has more than doubled year-over-year, driven mostly by video podcast. And this consumption has increased by more than 80% since the launch of the Spotify Partner Program or SPP. We also recently announced that we're bringing some of our top video podcast from Spotify Studios and The Ringer to Netflix starting in early 2026 in the U.S. with more markets to follow. We want our creators to grow and scale their audiences around the world, and in turn, this also puts up an interesting monetization opportunity for Spotify. This partnership extends our ecosystem building new fans and serving up this wider distribution channels. And in audiobooks, we are continuing to reshape the category, fueling growth and discovery across the publishing world. In just 2 years, Spotify has now introduced tens of millions of new younger listeners to audiobooks. We've brought audiobooks to 14 global markets and have more than tripled our catalog in English language markets to over 500,000 titles. More than half of our eligible premium users have played an audiobook and the number of people listening to an audiobook rose 36% year-over-year with listening hours up even more. We also recently launched add-on subscriptions for premium users,

giving listeners more choice, opening up the format to new potential fans worldwide and enhancing the experience itself. It is still work to be done to continue to grow the entire book industry, but it is incredible progress. And it's so great to see so much enthusiasm for these offerings. I also want to quickly speak to our ads business. Last quarter, we talked about the need to recalibrate and to improve our execution. We remain confident in our long-term strategy and the dynamics are improving. We're really pushing hard to build for the long term. And while these changes will take some time, we believe that will yield significant results in the years ahead. So overall, our strong performance this quarter is proof that our work isn't just adding up. It's compounding. We're seeing faster growth, higher efficiencies and a product that's getting better and better as we continue to add value and solve problems for users, artists, creators and authors. Now I'll pass it over to Gustav. Gustav?

Gustav Söderström: Thanks, Alex. So this quarter really brought the year of accelerated execution to life. There's incredible momentum and the things we've been investing in for years such as personalization, interactivity and ubiquity are really paying off. We've been doubling down on what's working as we relentlessly try to build the most valuable experience in the world. And while we spent much of last year and part of this laying and building foundations, the pace of shipping and the speed of iteration are now at record levels. We both strengthened the core experience and added new value with a variety of first-to-market features and improvements in almost every facet of the product. That's the balance we're constantly trying to drive towards, enhancing what millions already love about Spotify while also expanding into new areas, make the platform even more attractive for users and creators alike. And the results clearly show that this is growing both MAU and subscribers. Over just the last few months, we've shipped more than 30 new core features. That's more than all of last year, actually, and we're not even done with the year yet. We have a comprehensive list of these in our Q4 infographic that's on our newsroom, but I wanted to share a few that really stand out as we focus on giving listeners more control, more ways to discover and more ways to connect. First, as Alex just mentioned, we roll out big enhancements to our free tier, the first real update to it since 2018, with the majority of users starting their Spotify journey on free and our bold ambitions to continue to attract new users of streaming, it was critically important to make this experience even better. And building on what Alex said, it's now a much more competitive offering. Improvements are really resonating globally, and we're already outpacing our planned growth in MAU. For the true audio fans, we also finally launched Lossless audio for Spotify Premium users, along with mixing tools and support for third-party DJ decks. We know that these were some of the most anticipated features and users around the world have responded really enthusiastically to it's arrival. Now on social, you've heard me talk a lot about, you know that users are constantly trading content and recommendations back and forth between each other. With our new in-app messaging feature, we made it even easier to share and discuss music, podcasts and audiobooks with friends. And since our launch in the initial markets just a few months ago, almost 25 million users have sent nearly 200 million messages already. We feel that we're unlocking a new powerful way for users to connect on Spotify. Something many of you on this call have long been asking for is an Apple TV version of Spotify, which now has a dramatically improved user experience as it's built natively for the platform. What I really love about this specifically is that while the reason we had previously held off on a dedicated or native Apple TV app, was that the extra development cost just wasn't worth it for us. But we were able to drastically reduce this cost by leveraging AI, where we could actually translate our general iOS application to TVOS. I think this is interesting because this speaks to the ways that we are not truly able to use AI to quite drastically accelerate our productivity and development. In last quarter's Q&A, I talked a lot about how excited we are about AI in general and specifically the potential arrival of new form factors. While there are lots of bold predictions out there, we think Spotify would benefit as products become even more media focused as they extend to new hardware experiences that are always in your ears and on your face. So perhaps you caught the live demo on Spotify on Meta AI's latest Meta Ray-Bans at the recent developer event. This integration allows users to connect, stream and fully control Spotify. And we're excited to be featured as an example of one of the new and one of the most requested innovations in this space. Then there is, of course, our new partnership with ChatGPT, which is another example of the ways we're expanding our ubiquity strategy, helping users discover and engage with Spotify in new ways wherever you are. Once you've connected your Spotify account with ChatGPT, you can ask

ChatGPT to create things like the perfect playlist for the countdown to your 2025 rap experience, maybe a playlist with the Zen-like vibe for when your in-laws come to visit for the holidays, whatever you think of. Now I also want to highlight features that we previously announced that continue to gain popularity. The first is Jam, which lets friends listen together in real time. We recently hit 100 million monthly listening hours on Jam this quarter with over 200 million users sharing content monthly. It's proven to be a big driver of both top line growth and retention. Listening to Spotify in cars is also outperforming every expectation that we had, and it's become a huge part of users' daily engagement. In fact, there are 245 million people now listening in cars, which is 34% of MAU and 15% all consumption hours. And zeroing in, just on the U.S., this puts us well ahead of all other subscription-based audio services. All of these features and enhancements, they lead to richer experiences that in turn leads to deeper engagement and that deeper engagement drives value for everyone in the ecosystem. So with that, I'll pass it over to Christian to share more details about the numbers.

Christian Luiga: Thanks, Gustav, and thanks, everyone, for joining us today. Let me cover the quarter results and then give some perspectives on our outlook. In quarter 3, MAU grew by 17 million to 713 million in total, exceeding our guidance by 3 million. We added 5 million net subscribers finishing at 281 million, up 12% and in line with guidance. Total revenue was EUR 4.3 billion and grew 12% year-on-year on a constant currency basis. Premium revenue rose 13% year-on-year on a constant currency basis, driven primarily by subscriber growth. Our advertising business was consistent with prior year results on a currency-neutral basis. And as expected, our automated ad sales channels saw strong growth in the quarter. On a like-for-like basis, excluding the near-term impacts from the optimization of our licensed podcast and the rollout of the Spotify Partner Program, we had a mid-single-digit constant currency advertising growth. We continue to see 2025 as a transition year for ads business and expect growth to improve in the back half of 2026. Moving to profitability. Gross margin came in at 31.6%, 50 basis points ahead of guidance and expanding roughly 50 basis points year-on-year. Our outperformance here was primarily driven by changes in prior period estimates for rights holder liabilities, nearly all related to the first half of 2025. Excluding these amounts, our gross margin would have been modestly ahead of guidance due to content cost favorability. Operating income of EUR 582 million was EUR 97 million above forecast, of which social charges had a positive impact of EUR 41 million, and that was due to the share price movements. As a reminder, we don't forecast share price movements in our outlook for the business since they're outside of our control. The remaining variance to guidance was driven by favorability in marketing timing, and personnel and related expenses as well as the gross margin outperformance. Finally, free cash flow was EUR 806 million in the quarter. We ended the quarter with EUR 9.1 billion in cash and short-term investments and we repurchased \$77 million in shares in quarter 3. Year-to-date and through November 3, we have repurchased \$410 million in shares. As we announced last quarter, our focus is to opportunistically buy back shares, primarily to offset the dilution arising from our employee equity programs. If we then look ahead to guidance. In quarter 4, we are forecasting 745 million MAU, an increase of 32 million from quarter 3 and 289 million subscribers. Our subscriber outlook implies net additions of 8 million, which is slightly below prior year net adds due to the expected small amount of churn we see when we raise prices. This year, we have new pricing in more than 150 markets versus 6 in the prior year. In addition, we recently rolled out the enhanced free tier globally, and we are encouraged by the early benefits we're seeing to our funnel. We view this business as set up well for conversion and continued healthy subscriber growth in 2026. We're also forecasting EUR 4.5 billion in total quarter 4 revenue, representing an improved constant currency year-on-year growth rate of around 13% versus the 12% we just delivered in quarter 3. We're also forecasting a year-on-year ARPU growth of around 2% on a constant currency basis. We expect a quarter 4 gross margin of 32.9% and operating income of EUR 620 million. In summary, we are pleased with how the business is tracking into year-end. As Daniel mentioned, we will continue to make investments to generate long-term growth and returns for the company. While this can lead to quarter-to-quarter variability in terms of margin progression, we believe this is the right approach that sets us up well to advance towards our long-term goals. Turning to 2026. While it's too early to provide guidance, I do want to point out that our first quarter gross margin typically sees a sequential step down from the fourth quarter from advertising seasonality, and we expect the

same for quarter 1, '26. Beyond this, we are confident in our path and expect '26 to be another year of healthy revenue growth, disciplined reinvestments and margin and cash flow improvement. With that, I'll hand it back to you, Bryan.

Bryan Goldberg: Great. Thanks, Christian. Again, if you've got any questions, please go to [slido.com](https://www.slido.com), #SpotifyEarningsQ325. 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.

Bryan Goldberg: And our first question today is going to come from Jason Helfstein on profitability. Can you talk through the puts and takes around gross margins across your premium and advertising segments in the third quarter? And how should we think about gross margins in the fourth quarter and 2026?

Christian Luiga: Thank you, Jason. Yes, we are happy. Gross margin expansion is happening for the company this year. And as you are pointing out, there is a pressure more on the premium side than on the advertising side. That is really nothing really to worry about. We started this year by letting you know that we are moving -- starting up the SPP program and moving over some of our podcast videos and podcast to utilize that content to give higher quality into the premium side. And when we do that, we recognize that cost now and premium instead of in advertising. That shift doesn't mean anything on the total company level, but it actually then dampens a bit the margin on the premium side, and improves it on the advertising side. As we started this in quarter 1 this year, it will come through all through the year and therefore also impact quarter 4 in the same way.

Bryan Goldberg: Our next question is going to come from Jessica Reif Ehrlich on superfan potential. The major record labels have hinted at what's to come for a premium superfan tier. Will this product be created by the major labels for all DSPs? Or will there be a Spotify specific product?

Alex Norström: Jessica, like I mentioned, in calls -- in previous earnings calls, we keep a very high bar for our products. We simply ship products when they're ready. But what I can tell you really is that we are in deep collaboration with most of the relevant rights holders out there. Let me also just give you an example of why this is a good strategy, putting add-ons on Spotify on top of our premium subscription. A few months ago, we launched what we call Audiobooks+, which is a recurring option for people to use when they hit the wall of 15 hours in the markets where we have audiobooks. The uptake on that specific add-on subscription has been really, really good. What's more is that on top of that, users are also buying top-ups. So really, what we're seeing is our ARPU levels that we've never seen before. So we're really encouraged by this as we keep adding -- as we keep launching add-ons on other further verticals and as part of ecosystem.

Bryan Goldberg: Okay. Our next question or a few questions here from Justin Patterson on AI. What impact do you believe AI will have on the music ecosystem and how does the ChatGPT integration fit into that? And in your collaboration with the labels, you also alluded to building products that create new revenue streams for the industry. Could you expand on what that means for royalties?

Gustav Söderström: This is Gustav. Thanks, Justin. I'll take that question. There are a couple of questions in here. I'll start sort of at a very higher level of what it means. One way to think about -- it means different things for us. For a consumer, it means a couple of things. First of all, you should expect, in general, recommendations to just get a lot better as the industry, including us, switches to what is called generative recommender systems. These will -- these are using generative AI to understand much more of what the consumer is doing. One way to think about this is that recommendations are moving from just looking at passive clicks and saves and so forth, but actually understanding content and understanding you and specifically and very exciting for us, even understanding English. This is why you can talk to the Spotify DJ in English, and it actually understands what you mean and can give you personalized recommendations. And I think if you play that out, what you should expect at a higher level is just much more user control, what we internally call Personalization 2.0, where you can literally talk to Spotify as if it was a person and it understands your specific taste. So you can tell Spotify that you're actually tired of this specific genre now and you want to listen to something new that we have never seen in your listening data. So we can never predict it. But you can tell us, this is what you should expect, different level of personalization, different level of user control. On ChatGPT specifically, this is part of our ubiquity strategy. One way to think about Spotify is that we've always tried to be where the users are. If the users are on Sonos, we're on Sonos.

If they're in the car, we're in the car. If they're on Google, searching for music, we're on Google and a lot of people are on ChatGPT. So of course, we're going to be in ChatGPT. What's exciting about this is that you can do more than on many of the other platforms that we integrated in. The beautiful thing about ChatGPT is that you can combine the power of ChatGPT to understand the world and use cases with Spotify understanding you. So now you can ask for a playlist related to something that happened in the world. But instead of that playlist just being the same for everyone on ChatGPT, it's also going to understand your Spotify user taste and make it personal to you. This combination has never been possible before. And on your last question of products that we build with the industry, -- the way we think about this and generative AI for music is that just as with piracy, we think someone needs to work with the industry and with the artists to make this technology available for them in a legal way where we don't ask for forgiveness and where artists can actually participate and make money. That's why we're doing this.

Bryan Goldberg: Okay. Our next question is from Eric Sheridan on video strategy. Can you discuss the potential implications of your partnership with Netflix for video podcasts of the Ringer? How does this impact your overall strategy with respect to driving more video consumption on the platform?

Alex Norström: Good questions, Eric. So at the heart of it is that we believe in being creator first. So what we think is that when the creator wins, we win. And as creators optimize to create their best shows and interviews, which is really what they're focused on, they wanted to syndicate to everywhere. And we believe, of course, in helping them to reach audiences in as many places as possible, which is consistent with our core philosophy on being creator first. And also, of course, to help them monetize as much as possible. The partnership with Netflix that you're asking about is really a meaningful opportunity for both of these beliefs and just a natural extension of our ecosystem. And what's more is that we're already seeing some strong interest from creators who want to use Spotify as sort of their distribution hub, if you will. And to your second question more specifically, typically, when we have shows that originate on Spotify, we put them on YouTube. Historically, that's just been driving even more awareness about the show and where it originated. And typically, what we see is just net incremental usage on Spotify coming from that. So very encouraged and very exciting to have this new Netflix partnership being rolled out as we speak.

Bryan Goldberg: Okay. Next question from Rich Greenfield on premium conversion. In your Instagram post, Gustav mentioned that free users liked the recent upgrades to their free functionality. Have you seen any changes to the rate of upgrade from free to premium as a result?

Gustav Söderström: Thank you, Rich. Yes, we are excited by all the features we launched, and we hope several of you are excited about specifically the Apple TV features as well. What we see is indeed more usage. And the way to think about Spotify is that you have a few proxies for what is ultimately retention and subscription value. And it is more usage and specifically more usage, more days of the month, which we call active days. And so what we try to optimize for is more engagement per day, but specifically also more days per month. And we know over time that this simply leads to more conversion. In fact, we coined the phrase many years ago that is -- that says the more you play, the more you pay eventually, which is why we always try to maximize engagement, both in the free tier and in the paid tier. So we are very certain that this will go the way it's always gone. People are using the service more, which is going to create more good news for us, both free and paid in the future.

Bryan Goldberg: We got another question from Jessica Reif Ehrlic this time on the leadership transition. Gustav and Alex, as you prepare to take over as co-CEOs in January, what are you most excited about in your respective areas?

Alex Norström: Thanks for that, Jessica. I'll start, Gustav, and then you can run in. I'm honestly really excited because I know that the ambition level is going up. And this has been the case. We've always had an increasing ambition level at Spotify. And we have this just amazing platform. The user fundamentals are really firing on all cylinders. Daniel spoke to this in his remarks. With that, we sort of have -- and we have the 3 verticals that we have out there right now, all of which are producing results. And so we really have a platform to stand on that we can leverage to fulfill these new ambitions. And as you heard us talk about before, we now hit roughly 3% of the world's population. 3% of the world's population is subscribing to Spotify on a recurring basis every month they come back. And with these 3 verticals, we really have like a very expansive TAM. We believe that most of the people in the world are

interested in music. Most of the people in the world are interested in even the more expansive stuff like books and podcasts and video on top of that. So this just puts us in a very good position to fulfill this new ambition of getting to 1 billion subscribers.

Gustav Söderström: So I'll fill in. And in a way, nothing has changed in terms of why I'm excited. But in a way, some things are actually new. So I've managed to be excited about Spotify for over 17 years. And the reason I've been excited about Spotify for 17 years is still the same, which is what Daniel mentioned initially that if you just look at the opportunity, music specifically, but also podcasts and books, but music specifically is probably the single biggest TAM you can find. I think it's even bigger than social networking or anything. There's no one in the world that really doesn't like music at all. So it is the sort of the biggest TAM you can participate in. And -- that's been the case for a long time. But what is specifically exciting for me right now is that we are in one of these big macro shifts, the AI macro shift. That is -- I've said this before, but it's for me, certainly the most exciting since the smartphone came along. And so if you look at those 2 together, when you enter one of these macro shifts, where you know from a product point of view, and I'm a product guy, you're going to get to reinnovate things and things are going to change. You kind of want to be in a position where the TAM is really big, you have a strong, healthy company with a lot of talented people behind you. So that's exactly where I find myself right now. That's why I'm excited.

Bryan Goldberg: We've got a related question from Justin Patterson on time spent. You've often talked about a TAM in the billions of users. How do you think about the time spent opportunity for music and non-music content given new categories like audiobooks that have been additive to listening hours?

Daniel Ek: Yes, Justin. So I think much of this has been said already by both Gustav and Alex around the TAM and the opportunity. But I guess maybe to take a step back and what I think is more important, like what is the super power of this company. And I think the super power of this company is really into mix between building great product experiences and figuring out how to monetize those product experiences at a level which is different from almost any other platform because the reality is we deal with a lot of professional content where there's an expectancy for us to figure out monetization from the start. It's not something we can wait for and figure out in a few years. So that's really the superpower of this company. And when you then look at that from a TAM, not necessarily in numbers of users, but in time spent, it turns out that there's all of this amazing content that's out there, all of these amazing experiences that are out there that, for whatever reason, may not yet be at a user experience that is attractive to people or at a price point that makes it accessible to people. And when you think about Spotify, that's really been at the intersection where we've been innovating. I think not only did we do that for music, not only did we do that for podcasting, but I think with audiobooks, that's certainly been our bet too, which is we just think that there is a lot more people that cares about audiobooks than what the market was showing at the time. And that's part user experience and it's part business model. Now it turns out that there's plenty of other things out there that has considerable time spent that also doesn't necessarily have the right user experience nor the right business model. And when you add AI to the mix of that, there's -- that's a foundational technology that's going to enable totally new user experiences and business models, too. So we're really excited about it. And I think when you look at sort of the AI world at the moment, of course, it's the foundational models and you have the sort of core assistant models that are doing incredibly well. But we aren't yet seeing a lot of these entirely new consumer experiences in AI having massive traction. But we think that there will be over the coming years, and we think we have the opportunity of being a net beneficiary of that.

Bryan Goldberg: Okay. Our next question is from Rich Greenfield on advertising. Looking at a 2-year stack of advertising revenue growth, FX neutral, you've decelerated from 31% in the third quarter of 2024 to 7% in the third quarter of 2025. And you've repeatedly talked to softness in pricing over the past several quarters. How do you return to robust ad growth?

Christian Luiga: Thank you, Rich, for the question. And let me start, Christian here, and then I hand over to you, Alex, if you want to pitch in something. You are completely right. I mean we have a like-for-like single-digit growth now, mid-single-digit growth now in the quarter 3. And we came from a much better position before when it came to growth levels. We did set a new long-term strategy that we believe in, and we are very confident that we will succeed with. It's not if, it's when. We came out in quarter 2 and expressed the progress and said that we are a little bit behind, and we need a little bit

more time. But we do see really good progress on the programmatic side. And the question is when that programmatic side is then growing so much in amount that it compensates for the direct sales. And that needs then a little bit more of the DSPs. Now we have Amazon and Yahoo coming on board in quarter 3 and to be on board and add value and then also the customers to shift more into the programmatic sales. And that is progressing well, but the inflection point is a little bit further out than we expected before quarter 2. But as I said in my remarks also, we see that we're expecting to be back on the growth that we want in the second half of 2026. I don't know if you want to add something there, Alex.

Alex Norström: Rich, my friend. I'll add something to this. So when it comes to ad sales, it's a question of when, not if it's going to happen, right? We remain confident in the long-term strategy that we put in place, and I'm seeing that the dynamics really are improving to Christian's earlier points. So as it's not yet -- while it's not showing up in the top line, we are making progress. As you can see in the deck that we sent out, the transformation of the ads business is really growing, in particular, in the new auction channels or biddable channels. And in Q3, we signed new DSP partnerships with Amazon and Yahoo. We also gave advertisers programmatic access to not just our audio inventory, but also our growing video inventory. So we are pushing hard to build for the long term. And while these changes will take some time, I do believe they'll yield significant results in the years ahead.

Bryan Goldberg: All right. Our next question comes from Deepak Mathivanan on price increases. Can you talk about the elasticity and consumer behavior you're seeing after recent price increases in markets like Australia, where the magnitude was slightly higher? And what does it inform about potential in markets such as the U.S.?

Alex Norström: Well, Deepak, as you know, we don't discuss elasticity and the specifics when it comes to pricing. But what I can tell you, and I want to reiterate is that price increases are part of our strategy. You've seen this over the last couple of years. And of course, we will continue to do so, but in a thoughtful way. And this is always based on a number of different factors. The important thing is that we're committed to pricing that reflects the value that we provide. And as we've talked about many times, Daniel mentioned it earlier. We've mentioned the V2P ratio that we want to balance over time. And we will act when the time is right for each specific market, and we'll do it at the appropriate price based on those market dynamics.

Bryan Goldberg: Okay. Our next question comes from Benjamin Black on our label relationships. You've now struck deals with all major labels from a high level. What do you think you've achieved? What added rights or added flexibility do you have? Do you still have the flexibility to pursue your nonmusic bundling strategy?

Alex Norström: Benjamin, typically, we don't discuss the specifics of these partners, but I wanted this time actually give you a little bit more color. As you may have heard, we're about to conclude another renewal round with all of our partners. And this is a very significant moment for us. For the first time in our history, we've got new modernized deals in place with all of the top 5 U.S. publishers. Now these are new structures. They're true win-win deals that we built to address the core objective for both sides. And for our publishing partners, these agreements better recognize the value that songwriters create across our different offerings. For Spotify, to your specific question here, these deals secure broader video rights that we've long needed. This was a critical strategic objective for us because it unlocks our ability to innovate and launch more products and features that you've seen us rolling out, which in turn grows the entire pie for everyone. And it just positions us to make continued progress towards our longer-term business goals. I'm super excited to just expand these partnerships with the wider industry as well as we focus on building a great future for music.

Bryan Goldberg: All right. Our next question is going to come from Eric Sheridan on -- a follow-up on the advertising. Can you discuss the forward path to revenue growth and gross margin trajectory for your ad-supported efforts? How much is the current advertising environment weighing on your third quarter reported revenue growth? And how do your new partnerships on the DSP side set the operation up for growth in 2026?

Christian Luiga: Just let me go back a little bit to the answer we just gave, Eric. First of all, on the margin side, as I elaborated in our first question today, the advertising business is actually benefiting from the move of SPP into the premium side, and that will continue through quarter 4. So starting

quarter 1, we won't have that year-on-year benefit on the advertising margin. And when it goes to the revenue side, I mean, and getting all these things in place, One of many things that we do this year to improve and drive the advertising revenue is to bring up the auction-based revenue. And you see that, and Alex alluded to that, you can see that in our slides that it is actually growing healthy. And it's more when that inflection point comes when that growth actually surpasses the flatness or slight decline we have in the direct sales. We are not so much focused on the current ad environment because we have so much momentum in this transformation. So we feel very positive about with current situation that we will get into a healthy growth then in the second half of 2026.

Bryan Goldberg: Our next question comes from Michael Morris on video strategy. You've described video as a very exciting opportunity. In October, you agreed to license 16 of your own video podcasts to Netflix. How will this partnership enhance your video growth ambitions? And is there a risk that Spotify engagement declines or that Netflix builds its own competitor over time?

Gustav Söderström: Thanks, Michael. I'll start here. As you said, we are indeed very excited about video podcast and SPP has driven significant interest from the creative community, and we now have almost 500,000 video podcasts and shows on our platform. And as you heard Alex mention, we're seeing meaningful uptake, more than almost 400 million, 390 million users stream the video podcast on Spotify, which is a 54% increase year-over-year. So this is really working for us. The way to think about this is that we are building our experience better all the time on mobile, but also as we talked about on TV sets. But if you think of this from a creative point of view, this gives us the ability to give creators a tremendous opportunity. This is a choice for creators. We don't decide for them where they want to be. They can be on Spotify and any other platform. But now we can offer the creators the opportunity to be on Spotify, but also get distribution on Netflix, which is ultimately very good for podcasters, and it also gives us revenue opportunities. This is the way to think about it. It's part of our ubiquity strategy. And it's really important that while we build a good user experience, we also need to have a very strong creator offer. So this has really strengthened our creator offering, which is why we're seeing this growth, while more and more creators want to be on Spotify with their video.

Bryan Goldberg: A related question from Rich Greenfield on the TV opportunity. We recently saw you updated your Apple TV app to make it far more video focused. How significant is TV-based usage to Spotify today as a percentage of overall usage? And how does it play into your video advertising aspirations?

Gustav Söderström: Thanks, Richard. So to back out, the reason we are building our TV experiences is that it's part of a ubiquity strategy. What we've seen time and time again, and Alex has talked about this as well is as soon as you start using Spotify in more situations, whether that's in the car, on desktop, on a TV, your usage goes up, your time spent, your active days per month goes up and your retention goes up. So at the core of it, this is part of our retention and ubiquity strategy. Now in terms of the opportunity, we think that we see really exciting engagement metrics. We're very happy with the usage, and we think we have plenty of room to grow in terms of users. So we're very excited about the usage, and we think we have a lot of room to grow on the amount of users. Now this obviously also helps advertising, but it's not the core reason we're doing it. The core reason is because ubiquity drives engagement that drives retention for us.

Daniel Ek: And on a specific note, we heard your complaints on the Apple TV app. So we hope you're happy, Rich. You can now use the new app.

Bryan Goldberg: Okay. We've got another question from Michael Morris on pricing. You recently raised prices in bundled service markets such as Australia and the U.K. The increases in Australia were larger on a percentage basis than those in the U.K. Why were the U.K. changes smaller? And do you expect future price increases to more closely look like those in Australia or those in the U.K.?

Alex Norström: Thanks, Michael. So we -- when we adjust prices in markets, we take into consideration a number of different factors. We look at things like household income. We look at things like maturity of the market. We look at things like specific value to price ratio if there's a specific different offering in that market. And all of this we take into account. And when the timing is right, we do it and we do it in the magnitude that is right for that market.

Bryan Goldberg: All right. We've got time for a few more questions. I got a follow-up one from Deepak Mathivanan. Gustav, AI models are getting much better in formats like video and audio. As a platform,

do you see opportunity for Spotify to help artists with AI tools for their music creation process? Can you talk about Spotify's strategy to enable AI tools for creators?

Gustav Söderström: Thanks, Deepak. So certainly, we do, and this is what I mentioned previously when we talked about the industry initiatives. What we think is important is that someone does this in a way where artists in the music industry can get to participate and to choose if they want to use these tools. There's obviously a lot of excitement, but also a lot of fear around these tools. So we are trying to be the ones who do this responsibly. And we're very excited about that. I don't want to talk more about the specific at this time, but that's what we're trying to do. But it's also important to remember that it's not only for music. We think AI tools are also very helpful for podcasters and for authors. So we want to help all creators with these kinds of tools.

Bryan Goldberg: Our next question is from Batya Levi on engagement. Can you talk about the impact on engagement and conversion to paid from the enhancements added to the free tier? How should we think about impact on margins and monetization opportunities down the road?

Alex Norström: Thanks, Batya. First of all, the process is working. We're taking share even in the most competitive markets. And since you kind of asked, here comes a mini sermon on subscriptions growth from me to you. So the key to subscriptions growth is really a strong funnel. And to build a strong funnel, you need really 3 things. One is, of course, engagement, and we've talked about that earlier in the call. And our engagement, the listening hours on Spotify and also the active days that Gustav spoke to, they're growing. And they're growing, thanks to the numerous product launches that we have. This means that we keep people on the platform, which is, again, very important for a strong funnel. And the second thing that's important is that when we adjust prices, when we raise prices, you need minimal churn. And that's also what we're seeing. Third of all, and then to your point, as specific question, is about intake. For healthy subscriptions growth, you need a good replenishment of MAU. And as you can hear us talk about this quarter, that really is the standout number. Our MAU is increasing to higher levels than we expected. And as MAUs grow, we also see engagement grow. And as the engagement of the MAUs grow, we typically see much higher levels of conversion. Every time that we have made a change to the free product and it's generated more MAU in the history of Spotify, it's led to more business growth down the line. So we just have to trust the funnel.

Bryan Goldberg: Our last question today is going to come from Jason Bazinet. You've taken some price increases in a few markets, but the price gap between Spotify and rivals varies by market, and you talk about your philosophy regarding price increases and specifically, what metrics give you more confidence to price the service well above versus just above your competitors?

Alex Norström: Thanks, Jason. Well, the answer is sort of embedded in a part of your question here. We pay attention to competition, but what we pay attention the most attention to is obviously our own offering. And we care a lot about the value to price ratio. You've heard Gustav talk about how we've shipped much faster in this last quarter. There's more than 30 product -- 30 features that's been shipped in the product and users are loving it, right? So the important thing for us is just keep continuing to improve the value to price ratio, meaning raising value and relentlessly just build the best product out there. The best product will always win. And then when we look at our product and the value that it reflects, we will then take steps to understand if we need to adjust the price or not. And again, like I said many times before, it's based on specific market dynamics.

Gustav Söderström: And some of the things give us confidence is, as we've said many times, engagement, day spent per month, where we know that we are well, well ahead of our competitors.

Daniel Ek: Maybe just an addition from my side, too. I think implied in the question is that perhaps there's a comparison of music to music competitors. But in many markets where we act now, Spotify is not just a music service anymore. It is a music podcast and an audiobooks service. In some markets, we haven't yet gotten to with our audiobooks offering. So as you look at our pricing, we are factoring in the value, not just in music, but in all of the verticals that we act as well. And I think this is an important addition to add because in a lot of the markets, their perception of what Spotify is, is just very different than what it is in other markets as well.

Bryan Goldberg: All right Great. Thanks, everyone, for the questions. That concludes the Q&A; session today. I want to hand the floor back over to Daniel for some closing remarks.

Daniel Ek: All right. Thanks, Bryan. Well, I think the headline here is quite simple. The business is

healthy. We're shipping faster than ever, and we have all the tools we need. We have pricing, product innovation, operational leverage and eventually the ads turnaround to deliver both revenue growth and profit expansion. I said earlier, it all comes back to user fundamentals, and that's where we are. 700 million users who keep coming back, engagement at all-time highs, we're building Spotify for the long term. And as I transition to Executive Chairman, I couldn't be more confident in what's ahead. Alex and Gustav have been instrumental in getting us here, and I'm excited to watch them take Spotify to the next level. Thank you, everyone, for joining today.

Bryan Goldberg: Okay. And that concludes today's call. A replay will be available on our website and also on the Spotify app under Spotify Earnings Call Replays. Thanks, everyone, for joining.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.