



**SPOTIFY 2022 INVESTOR DAY  
TRANSCRIPT  
JUNE 8, 2022**

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While we have made considerable efforts to provide an accurate transcript, there may be errors, omissions, or inaccuracies. This transcript is being made available for informational purposes only.



**Bryan Goldberg, Head of Investor Relations**

Good morning!

I'm Bryan Goldberg, Head of Investor Relations at Spotify.

It's my privilege to welcome everyone in the room and on the live stream to our 2022 Investor Day.

Over the next several hours, the Spotify management team will be presenting a detailed look inside our business and the future opportunities we see for growth followed by Q&A.

Before we begin, please note that we're going to be making some forward-looking statements today, including projections or estimates about the future performance of the company. Actual results could materially differ due to factors discussed in our filing with the SEC. We'll also be referring to certain non-IFRS financial measures during today's presentations. So please make sure to review the disclaimers on the screen.

And with that, let's get started with a short video.



## **Daniel EK, Founder, CEO & Chairman**

Good morning and welcome everyone to Spotify's 2022 Investor Day. I am Daniel Ek. And thank you all for joining in person and for those of you joining through our webcast.

We are excited to be here with you. And today, you will hear from me and a few members of our team about their own observations on the big bets we are making. And we will cover our progress, our investments and dig into how we evaluate success and how I believe that you should think about our business as investors.

I also want to talk about why I believe our future is a lot bigger, and even a lot more interesting than what you might have heard of previously.

Spotify went public in 2018 and four years into that journey, we have netted some notable accomplishments and we all know that we've weathered our share of challenges, but we've also morphed pretty dramatically as a business and I'm not sure that journey is fully understood. And frankly, we probably haven't done a very good job of explaining it.

So as you assess our progress, let me start with what I am sure some of you are thinking. You think that Spotify is a great product with a great experience.

But some may also think that we're a bad business or at least a business with bad margins for the foreseeable future. And others may even think that the audio market is limited and perhaps not that significant. So today we are going to say the quiet part out loud and directly address these assumptions.

To start, I believe we have a great product and importantly, our business is doing really well. But what's even more, we're really investing in building a fantastic, multi-sided platform that has all the ingredients to become one of the truly unique creative platforms in the world. And based on what we see, we are accelerating our moves to seize that opportunity in the near term. And the value creation opportunity is very high.

But nothing inspires confidence like a proven record of success—and success that can be effectively replicated over and over again with better and better results over time. So let's take a quick look back at what we said we would do, and what we achieved.

So at our last investor meeting, we spoke about three core foundations that we believed would differentiate Spotify in the market—Ubiquity, Personalization and Freemium. These are still the same foundations that drive our business today.

So let's start with Ubiquity:



We shared this concept of ubiquity back in 2018—making Spotify available to anyone on any device. And back then, it was something that no one else was really embracing. At that time, we had about 250 partners.

But today, Spotify has more than 2,000 partners—with integrations spanning from wearables like watches to all facets of the connected life—including cars and even kitchen appliances. And this idea of creating a truly frictionless experience for users was really as much about engagement as it was about convenience.

Today, what's also different is that listeners not only have access to all the world's music, but also have access to more than more than 4 million podcasts and an increasing number of audiobooks. And just like in music, thanks to our early investments in ubiquity, users can listen anywhere and everywhere.

This is something our competitors haven't prioritized because they don't have the same approach. This is a key point of differentiation for Spotify.

Ubiquity has also proven to be a significant driver of new users to the platform, with 28% of all of our new registrations coming from these 2,000 partners. And that's up from 14% in 2018.

People who use Spotify on more than one device represent some of our most engaged users, with lower churn and higher lifetime value, and that's a metric we'll spend more time on a bit later. Today, 89% of Spotify Premium subscribers use Spotify on multiple devices, up from 75% when we last spoke to you.

And further, this experience of innovating across different types of hardware with just about every player in the market makes us really well positioned for whatever comes next. And the more deeply that Spotify aligns with multiple devices, the more we also understand the listener, which leads us to our next foundation. Personalization.

So when you ask our listeners what they most admire about Spotify, more than 81% cite our personalization, and this is what we call discoverability.

Spotify listeners view this as the reason not only to sign up for the service, but also the reason to stay. And they repeatedly tell us that we are a service that "just gets them."

And over time, our ability to find the right content for the right listener has improved significantly – and we are driving more discovery than ever before.

For further proof of the power of discoverability, just look at the success of our annual campaign – "Spotify Wrapped." So for the last seven years, we've created a stop-sign cultural moment when we celebrate how our hundreds of millions of users listened to Spotify by giving them a completely personalized experience to share with the world.



And while the strength of our brand has been a key point of differentiation for the company, even we have been surprised by the longevity and virality of this campaign. In 2021 was our most successful Wrapped to date, with unprecedented engagement. It was the #1 worldwide trending topic on both Twitter and Tiktok, proving it's really more of a cultural phenomenon than ever.

Our expertise in audio personalization is truly unmatched and we have already begun to apply it to podcasts.

And the final foundation that I want to outline for you in 2018 was Freemium—the combination of our free ad-supported tier and our premium subscription tier. And our strategy was to be available to all consumers on all platforms. So if you wanted to reach the most number of users in a very competitive world, what is the most aggressive strategy you could have? Well, how about lowering the price point to zero?

And this dual revenue stream approach, which now, by the way, is inspiring a lot of imitation across streaming, gave listeners a chance to try Spotify risk free. And at the same time, it enabled Spotify to build a successful flywheel with our free tier serving as a direct funnel to help us establish a large and growing subscriber base.

And there's no question that this model has performed exceptionally well.

The low price of entry also helped propel our expansion into new markets and it also provides a critical safeguard to enable users to continue to have access to our platform—even in uncertain economic times. And it's really this funnel that has propelled our revenue growth.

So as a reminder, when Spotify debuted publicly, we were available in 65 markets around the world. And thanks in large part to our unique approach, in just four years, we've almost tripled that number to 183 markets and territories. And this includes some of the biggest and most exciting audio markets in the world like India and South Korea and the entire continent of Africa. I am really excited for you to hear more about the impact of this expansion later today.

And at the same time, we've also invested in fighting for platform fairness, including more payment choices for users. And I think there's no question that a fair and open platform enables better consumer experiences and it allows developers to innovate, grow and thrive.

And just last quarter, we struck a first-of-its-kind payment deal with Google. And while we can't talk about the terms, I can say they are beneficial to Spotify and overall, there's no question that that will lead to new subscriber growth opportunities on Android devices around the world.

And all of these efforts to enhance our experience have made Spotify more essential than ever. Our monthly subscriber churn rate has declined by nearly 30% over the last four years.



So it's clear that investing in building the best product also leads to the strongest growth and healthiest business.

But we are at a financial event. So let's get to it and talk about how this has translated into our financial goals that we set out.

So first, let's go back four years. Looking at what the consensus estimates from analysts were, we've met or exceeded them. We've delivered compounded annual growth rates of 26% for monthly active users, 26% for subscribers and 26% for revenue on a currency adjusted basis.

From 2018 to today, our investments, really coupled with our clear focus on a core set of fundamentals, have paid off nicely for Spotify.

The lone outlier - that's gross margin.

So there's two possible explanations for this lower gross margin result. One might be that Spotify simply isn't that good a business. And the other is that we are investing behind the strength of our business to make the business bigger, stronger and more resilient.

And I will share with you today that the music business is doing much better than you think. But we're also investing in expanding what Spotify is.

Today, we want to share what we are building, what we call internally the Spotify Machine. And compared to 2018, I believe Spotify is in a much stronger position. We are larger and we have a much more differentiated proposition.

So let's dive right into it.

In 2018, Spotify had three revenue generating models: we had subscriptions, we had ads and we had the beginnings of Marketplace. And at the time, these three were only being applied to our music vertical. But with a revenue split of 90/10, we were really just a music service.

Ads was more of an afterthought and Marketplace was really in its infancy with only €20 million in gross profit contribution.

But over the last four years, each of these three business models has evolved and grown. And today, they are much more robust in their ability to scale and drive revenue and gross profit.

So what happened then to our long term goals of 25-35% revenue growth and a gross margin target of 30-35%?



It really comes down to this. We saw the potential to be much more than just a music company. By leveraging what we learned—and all of the technology we built—in music—and across other verticals, our ambitions became much bigger.

And here's where those investments have taken us: We are now the world's largest audio streaming platform. But the prize we are going after is actually much greater and as a consequence, the total addressable market is gigantic.

And this is the Spotify we have been investing behind for the past few years. And this is the unrecognized narrative I referred to earlier.

And it's a future that's much more exciting for listeners, and artists, and songwriters, creators, shareholders, and advertisers. And it has more financial upside because of our ability to successfully combine and bundle multiple business models with multiple verticals into one user experience.

And it's really under this one single experience where our model comes to life. It's a model with multiple verticals that have very different characteristics and gross margins. And I can confidently say that this model, in its totality, is doing way better than you think.

So let's talk through this evolution.

So as you all know, our company in 2018 was all about music. And when you isolate music, thanks to our Marketplace products, its gross margin has been steadily climbing. And we are performing much better than you probably suspect—roughly 28 and a half percent—which is significant progress in reaching our 30-35% long term goal.

What's been dragging it down is our move into podcasting.

We saw such a significant opportunity to expand our platform and our audience, so we decided to go aggressively after podcasting. And this meant making a significant investment, which clearly has brought more listeners to Spotify and deepened the engagement, but it also has impacted our overall gross margin.

And while the podcast vertical is still largely in investment mode and not yet profitable, we believe it has a 40-50% gross margin potential.

So looking back, when we jumped into podcasting, there were really huge obstacles to overcome. We were a distant third behind the largest players in the industry and everyone said we wouldn't be successful incorporating podcasts into what had traditionally been a music app.



But where others saw challenges, we saw an opportunity to turn a nascent business into one of the most attractive verticals in the media landscape. And we applied the same winning formula as we did to music.

We were able to build on the large and highly engaged global user base we established in music, giving creators scale from day one, and as a result, we dramatically expanded the entire podcast industry.

In addition to this, we made big acquisitions starting with Anchor and Gimlet, but then followed by others including The Ringer and Parcast. We've invested to bring some of the world's most popular talent and most iconic franchises exclusively to our platform and we have continued to differentiate ourselves through our owned programming.

And we're also enhancing the podcast discovery experience, which you will hear more about later in this program. And I think this ability to leverage state of the art machine learning technology to improve the discoverability of podcasts is really in its early innings of doing, for talk listening, what our personalization did for music listening.

And it works. We are now the number one platform that podcast listeners use the most in numerous markets around the world, including here the US. In just three years, we've not only become a leading platform for creators and listeners, but we've expanded the very format of podcasting itself.

And what's even more, all of these investments have resulted in user growth, retention and increased engagement, with overall consumption hours reaching all time highs, quarter after quarter. And despite all of this, we still think there is incredible potential in this space.

So while we may have traded some near term gross margin at the expense of these investments, we really believe the impact they will continue to have on the Lifetime Value of users is significant. And you will hear more about this concept of Lifetime Value throughout the day.

This is the primary tool that I use to judge whether our strategy and investments are paying off. So we will talk a lot more about how we think about that and how we know that that drives our business.

So to sum this point up: What our successes in music and podcasting have clearly demonstrated is that we have built a powerful machine and solid infrastructure that enables us to go after new verticals.

And we are not waiting around.





So, several months ago, we announced the agreement to acquire Findaway, a global leader in audiobook distribution. And while we are still waiting for this deal to close, we believe that audiobooks, in their many different forms, will be a massive opportunity.

Today, the global size of the book market is estimated to be around \$140 billion dollars. That's inclusive of printed books, e-books and audiobooks, with audiobooks having only about a 6-7% market share.

But when you look at the most penetrated audiobook markets, it's actually closer to 50% of the market. So call that an annual opportunity of \$70 billion dollars for us to expand and eventually compete for. And just as we've done in podcasting, expect us to play to win. And, with one major player dominating the space, we believe we will expand the market, and create value for users and creators alike.

And this third vertical of audiobooks further builds on our ambitions to be the destination for creators. While it's still early, we expect audiobooks to also have healthy margins, above 40% and be highly accretive to the business. And here again, we will apply the same differentiating foundations of ubiquity, personalization, and Freemium to attract both creators and users, and drive engagement.

But importantly, we aren't planning to stop there. We see the opportunity to continue to imagine and explore new verticals across our platform—within audio, but also beyond. And for each vertical, we will develop a unique set of software, services, and products and business models that's going to be tailored for that specific ecosystem. But again, all of these will live in one consumer experience.

And while we aren't ready yet to share the verticals that will come next, I don't think it's hard to imagine how we will deploy this proven playbook against them, ultimately winning market share and innovating to expand the categories we go after.

So to put a fine point on it, this machine we are building really enables us to continue to bundle these verticals and business models into a single consumer experience, and that benefits users, creators, ad partners, developers and Spotify itself. And each vertical we add enriches the consumer and creator proposition and it allows us to increase our margin over time with our fourth foundation: Marketplace products. And this makes our model more and more accretive.

And this allows us to increase the LTV per user because we are upselling on our existing base. As long as the LTV per user is positive and our Gross Profit grows, we will have more ability to invest to further strengthen our market position. So our team will share more today on how we think about optimizing LTV and our plans to reach long-term profitability.

I'm not aware of any other company who has been successful in taking a multi-business model and multi-vertical approach within one user experience.



We're much further along on this journey than you might think, and I have a tremendous amount of confidence in our ability to succeed.

So what does that success look like?

We will firmly cement Spotify as the home for some of the greatest artists, creators and educators in the world. And that gets us to that coveted position of being the world's Creator platform. A place where artists, and writers, and labels, and publishers, studios and creators can come to manage their businesses.

And with these creators, comes more listeners. And this then allows us the chance to also become the preferred content platform for users. The place that they choose to listen, to learn and be inspired, educated and informed—all while establishing deeper connections with the artists and the creators they love.

Lastly, with the world's top talent and hundreds of millions of engaged listeners, this gives Spotify the ability to attract the best brands and product partners.

And we will keep on evolving and keep on adding more verticals over time and expanding our business models to allow for more types of content and let artists and creators monetize them.

This is the Spotify Machine.

And this is the new definition of Spotify that I hope you will reorient yourselves around when you think about our business and build out your models.

To summarize, looking back at the best companies—think names you are all very familiar with—they are vastly different companies today than when they started. And they might have made their initial mark in one specific category, think books, search, desktop computers and they then redefined the way we think about those categories by expanding their potential through innovation.

And these companies didn't stop there. They've continued to expand and build on these strong foundations, applying their learnings and leveraging their customer bases to move into new categories, ultimately broadening their value proposition. And as a result, they built more resilient businesses.

And this is the exact same journey we're on.

We've moved from being a music discovery and playback service, to a fully-fledged platform where artists and creators can create, engage, and earn. A platform fueled by subscription, advertising and creator service models, applied to music, podcasts, audiobooks and more.



So today, it's really all about giving you all a much deeper understanding of where we've been, where we are, and where we're headed—and why.

And in the next couple of hours you will hear more details from our team about what this Spotify machine is capable of.

Next, Gustav Söderström, our Chief R&D Officer, will share more about our consumer experience and why we think we are uniquely positioned. He's then going to hand it over to a few others who will take you through the verticals in much more detail so you can get a better understanding of each one—how they work and what they mean from a gross margin and revenue perspective.

And you'll then hear from Alex Norström, our Chief Freemium Business Officer, who will walk you through how we plan to get to a billion users and he'll also share additional details about the potential of our revenue generating model.

And lastly, Paul Vogel, our CFO, will talk you through how all of this translates into our long term financials.

And then I'll be back with a few closing remarks and then we'll be happy to take some of your questions.

So with that, please welcome Gustav to the stage.



## **Gustav Söderström, Chief Research & Development Officer**

Thank you, Daniel. Hi everyone, I'm Gustav Söderström, Chief R&D Officer. I lead the R&D team at Spotify overseeing all product and technology for both creators and listeners.

Daniel just walked through our history and evolution over the last few years and he also talked about Spotify's future. So now, I'd like to take you even deeper into that future from a product point of view.

As you just heard, our business model is indeed quite complex. But—fortunately—user research shows us that the Spotify listener experience is actually quite the opposite. It's simple. To listeners, there is nothing complex about it.

And that's why my team exists. To “hide that complexity” and give users a single, intuitive experience that brings them all the world's audio in a relevant and personalized way.

Today, I want to walk you through that single user experience and what assumptions and decisions we've made that are different from most other companies -- and why this approach allows us to evolve, adapt and scale across multiple content verticals.

I'll then explain how we optimize the whole experience across these verticals using machine learning in a manner that I think is quite unique to Spotify.

But, let's start with the Consumer Experience and the bet we've made, a bet which has proven to be successful over the last few years.

For context, most tech media companies don't operate multiple consumer models, nor multiple business models. They typically have a single consumer format, like video, or music, or podcasts that's paired with a single business model, like subscription, or ads, or a la carte.

Only a few companies operate more than one consumer format, often in separate apps or tabs, and as separate internal business lines ultimately creating totally separate experiences.

This approach sort of exposes the internal complexity of the company and its business lines to the end user. It asks the user to adapt to the software, instead of the software just adapting to the user.

At Spotify, we chose to do it differently.

As Daniel alluded to, when we entered podcasts, we were strongly advised to follow the status quo and, instead of creating an integrated app, create a stand alone podcast app, because that would be easier for us - as product and design people. But we asked ourselves, why should the user have to adapt to the format by switching software? Shouldn't the software adapt to the user?

So that's what we built, an adaptive user experience.

Practically, this meant that we integrated podcasts into Spotify's main app and then we worked to build a user experience and interface that automatically adapts, to introduce new podcasting



features dynamically that music doesn't require. These are features like 15 second skip, episode bookmarks, or adjustable playback speed.

It was harder for us, a technical challenge, to build this dynamic UX—where the same Home Feed, Search and Now Playing view automatically adapted to the content type. But, we quickly saw that this approach was not only easier for the user, it also increased the reach for all creators—meaning that podcast creators could now reach music listeners, and music creators could now reach podcast listeners.

So the value that this brought to users and creators outweighed the challenge it presented to our team.

We also quickly recognized that this strategy unlocked significant business value.

First, it gives us the ability to leverage our scale and distribution. New creators on our platform are able to access the entire combined user base across all the formats. And this drastically expands the market for these creators, as Daniel explained.

Secondly, it also allows us to use our existing infrastructure when laddering up into new verticals, not just on the back end, like personalization, but also on the front end in the actual application.

And finally, it increases engagement and lifetime value of our existing users as they also adopt these new formats.

First, let's look at scale and distribution. From day one, this single user experience strategy enabled podcasters on Spotify to tap into the existing music audience, which at that time, was already 200 million listeners - instead of what would have been zero listeners in a stand alone app.

Thanks to our tech research teams we were even able to use Spotify's much loved personalization features and adapt them to podcasting in a way that predicted which podcasts a user might like based on their music preferences.

We also learned that podcasting didn't "cut in" to music listening time, but instead actually increased overall time spent on the platform—ultimately allowing us to double down on our own user engagement.

This meant that Spotify wasn't simply competing for a slice of the existing—and honestly back then, rather small—podcast pie. Instead, we were able to dramatically expand the entire market for podcasts. And as a result, we eventually became a leader in the space.

Since then, we've added more and more functionality to this adaptive user experience software to make it more and more versatile.

It can now automatically adapt to video podcasts, with full screen and caption controls for that format, which again allowed us to start with 300 million potential video viewers, instead of 0 in a separate video app.

Then we added paid podcasts as another format, like with Sam Harris and Ben Thompson.



Again, letting them start at scale instead of in a separate paid podcast app somewhere.

This integration of free and paid formats is not only good for Spotify and for consumers, it is also great for creators as it helps them reach and convert their free podcast audience to paid subscribers—seamlessly and effectively. And this is the same Freemium model that Spotify itself already uses, but for each individual creator.

And now we're taking those learnings and laddering up into a new vertical, with yet another content format: the Audiobook. This means that we are identifying and introducing new features that podcast listening doesn't require.

On the surface, this might seem simple, as Audiobooks are a lot like podcasts, but there are critical differences. For example, audiobooks have chapters and not episodes, so you will always want to listen in chapter order instead of to the latest episode. And where you might want a recommendation for episode 10 of a podcast you've never heard of, because maybe it talks about a specific subject or guest you like, you probably don't want a recommendation for chapter 10 of an audiobook you've never heard of. It doesn't make any sense.

Instead of asking the user to switch apps, tabs, or software, we've taken on the task of integrating audiobooks into the same Spotify user experience. Again, optimizing for the user.

This allows us to take—what is today—a relatively small market of audiobook listeners paying a la carte and expose it to more than 400 million potential listeners. We can also again use our powerful tools that tell us what podcasts you like, to determine what kind of audiobooks you might want to listen to—for example fiction, nonfiction, mind bending mysteries or educational science or something. These tools help us make relevant recommendations to people who have never listened to an audiobook before.

This is another example of how this single experience strategy not only helps listeners easily discover, but also helps drastically expand and increase the reach of creators into new customer segments.

As we continue to adapt across content verticals, let me show you what this single multiformat feed will look like, that includes music, podcasts, video and audiobooks.

Ok, so, I've now shared how we think of Spotify as a scalable infrastructure that allows us creators and consumers to systematically benefit from our previous investments as we enter new verticals like audiobooks. A very important part of that infrastructure is, of course, our personalization engine, which is shared among all of our content formats.

Investments in this space allow for the personalization engine to get better and better as new formats are added, ultimately giving us a better understanding of every user and how we recommend to them.

To a large extent, the value of a service like Spotify is directly related to how much a consumer feels like that service helps them discover new things. So I want to spend some time on this area specifically.

Users tell us that Spotify's recommendations fit them perfectly. That it's almost like magic.



We've been investing in this recommendation engine since the early days of music. Now, we've reached a level where we can provide a personalized and unique experience for every listener. And in music, we are honored to be considered best in class.

We are already utilizing this infrastructure to support the same individualized experience across podcasts to build a better understanding of what you, as individual consumers, really want to listen to across each of our verticals.

It works for music, it works for podcasting, and we know it will work across all verticals. So what we've built is something that's repeatable, scalable and that compounds.

Let's look at some numbers.

Four years ago, we had 10 billion artist discoveries every month on Spotify. Today, there are 22 billion of them. And this is an exciting data point because we know that discoveries lead to real connections between artists and listeners - which is what ultimately drives value for those creators.

Nearly 2 billion artist discoveries turned into "connections" -- which we define as a degree of fandom. This helps artists increase their fanbase, their reach, and ultimately the success trajectory of their careers.

On the podcasting side, over 100 million connections were made between users and new podcasts hosts. And nearly half of those were driven by our recommendations or programming.

While our strategy on the front end is a single, seamless consumer experience, on the backend, we are taking the opposite approach, recognizing that each format - music, podcasting and audiobooks has different creator needs, audience expectations and business models.

This is why on the back-end, we've chosen to build distinct and separate software stacks and teams, deeply integrated into these different industries and optimized for each creator group and business.

Let me bring back up the visual of the Spotify machine that Daniel mentioned.

In music, for example, the business model is based on the streamshare of a royalty pool that requires massive custom integrations towards labels and publishers, and so forth.

Podcasting, on the other hand, is a very different business model, driven mostly by advertising and direct creator upload, such as to Anchor.

Audiobooks is yet another distinct creator group, with yet another dominant business model today -- a la carte where users pay per item -- so it requires more custom software integration to support the publishing industry -- like the audiobook company Findaway, which Daniel mentioned earlier.

As you can see, on the backend we've taken different and complex business verticals and we are approaching them individually to deliver the best creator experience, tools and business opportunities for each industry and creator group.



In just a moment, we'll give you a deeper look at these three verticals we've been building out.

But before I hand it over, I hope you'll take away a few key ideas on our overall product approach.

First, our strategy to adopt a single consumer experience enables us to accelerate our entry into new verticals and formats. This allows us, and creators, to capitalize on a compounding user base—rather than several separate ones.

Second, behind the scenes, our strategy is to build dedicated backends that super serve separate industries, different business models and different creator groups. This enables us to power the world's biggest music creator stack, the world's biggest podcast creator stack, and soon, hopefully, the world's biggest audiobook creator stack.

Finally, as we add new verticals into our single consumer experience, we continuously increase the Lifetime Value and retention of our existing users as well.

Now we are going to hear more about the music vertical - but let me first leave you with a quick clip of how Spotify connects artists to fans.





## **Charlie Hellman, Vice President, Global Head of Music Product**

Like Camilo said at the end of that video, Spotify can be life changing.

I'm Charlie Hellman, I'm the Vice President and Head of Music Product. And my team is helping to enable those life changing moments. And I'm excited to share with you how we're working with the music industry to build the best proposition for both artists and music fans.

It's important to remember that, first and foremost, Spotify is a music company.

All of our music teams' strategies ladder up to two primary goals: making a unique and superior music experience for fans, and creating a more open and valuable ecosystem for artists.

And these two goals really complement one another. Which is clear to see when you look at the playlist ecosystem we've spent the last decade defining and perfecting.

Whatever your mood, your style, whatever the occasion, Spotify has something for you. And as Gustav noted, Spotify drives around 22 billion discoveries a month.

On top of that, one third of all new artist discoveries happen on personalized, algorithmic playlists.

Listeners love this exposure to new music, as well as the personalized touch. Discovery is our bread and butter. And it's driving a level of engagement that no streaming service can claim.

According to a recent report from Apple, in the US, iPhone users spend over 50% more time on Spotify than our next closest music streaming competitor, and more than double the time on Spotify than the rest of our competition.

And in markets like the UK, Germany, Australia, the gap between Spotify and other streaming services is even larger.

More time spent on Spotify, means greater customer retention. Driving more subscriptions around the world, and expanding our advertising inventory. And since Spotify and rights holders share in the same pool of revenue, our incentives are aligned.

So our personalized playlisting experience drives an incredible amount of listening time spent on Spotify. And this, in turn, presents enormous opportunities for more artists around the world to find a fanbase.

There is far more shelf space on Spotify today than there has ever been in any record store or on any radio station. Meaning that revenue opportunities now reach far beyond the biggest stars.



Consider this. Over the past two years, 150k artists have been added to a Spotify playlist for the first time, and that can be a career-making moment. In 2021, for the first time ever, more than 50,000 artists generated more than \$10,000 from Spotify alone. Which likely means over \$40,000 across all sources of recorded royalties.

And that's a far cry from the music industry of the past, which favored superstars twice as much as it does today. At the peak of the CD era, 25% of US sales were accounted for by the top 50 artists. In 2021, only 12% of US streams on Spotify were from the top 50.

Spotify has fundamentally changed the music ecosystem — democratizing access to audio for listeners around the world, lowering barriers to entry for artists, and allowing an increasing number of artists to succeed.

Before I go into our Marketplace business – which focuses on building tools and services for artists – I'd like to invite Sulinna Ong and Madeleine Bennett up to the stage, who are going to show you how artists are crossing borders and finding fans in what were previously unlikely places.



**Sulinna Ong, Global Head of Editorial for Music**

**Madeleine Bennett, Global Head of Music Content Strategy**

Thank you Charlie. I'm Sulinna Ong, Global Head of Editorial for Music

And my name is Madeleine Bennett and I lead the Global Music Content Strategy for Spotify

The music industry is rising back to peak levels, driven by streaming. In 2021, streaming revenue alone exceeded total recorded industry revenue in each year from 2009 to 2016. While physical sales have fallen dramatically, streaming and other sources of revenue have carried the industry forward.

And the recorded music industry is expected to be a nearly \$80 billion dollar business by 2030. Alongside the shift to streaming, another exciting trend has taken shape: listening has become far more diverse. This means continuing tailwinds for a broader array of artists – at all stages of their career.

Spotify has opened the floodgates, enabling artists from markets who, historically, might not have had much opportunity in the music business to captivate a global audience.

And so many are finding success. A case in point: of the artists generating \$10,000 or more a year from Spotify, 34% live in countries outside of the top ten music markets.

And artists from an increasingly wide variety of cultures are bringing new people to Spotify to listen, to share and to connect. We are by far the most global platform, the most tapped into local scenes, and the most capable of developing opportunities for artists at scale.

No other streaming service is better positioned to identify, amplify, and help shape culture than Spotify.

In 2014, the way that music traveled on Spotify was mostly a transatlantic affair. At that time, Spotify was available in just over 50 countries. And this map shows how streaming traffic was primarily focused between our US and our European markets.

In the years since, we've expanded into more than 100 additional markets; we've made dramatic improvements in our playlisting and promotional capabilities; and by honing our ability to recommend the listeners' next favorite song – regardless of language – we've helped to spread music from markets like Puerto Rico, South Korea and Colombia, all around the world.

And The result? Here is the same map for 2021. This is the difference between 60 million users in 50 markets and 422 million listeners across 183 markets.



Now, imagine this map in 2030. We will see a kaleidoscope of activity, tens of millions of artists, a billion listeners, leveraging the power of Spotify to tap into music culture and connect to a borderless global audience.

Let's go one step deeper, and show you how Spotify helps an artist "go global".

The next big hit can come from anywhere and, in recent years, no genre has traveled quite as far as K-Pop. Top K-Pop songs often ignite first in North America, Indonesia, the Philippines, Brazil and Southern Europe.

Then after about a week, interest spreads to East Asia and the rest of South East Asia. Two to three months later, we'll see the peak in key Latin and South American markets. Then, they broaden out to a more mainstream audience in the US and Canada.

So how does something like this happen? Well, the music always speaks for itself, but we also have our fingers on the pulse. And when something is bubbling, not only is Spotify there at the outset, we also know how to fan the flames.

This year, we rebranded our genre flagship playlist, now called 'K-Pop ON!' We introduced it to a broader global audience, driving more than 9 billion K-Pop streams per month. Because of our efforts, more than half of K-Pop streams now come from outside of the Asia-Pacific region. And its playlists like this that are helping to propel artists to new audiences around the world. But Korean artists aren't the only ones connecting with new audiences.

Let's take a look at what's happening in Puerto Rico. Streaming has helped Latin artists break through to the global mainstream like never before. And as a result, the Latin music industry is predicted to surpass 1 billion dollars in US revenue for the first time this year.

And while there are many Latin artists who have landed on the global stage, one artist sits in a class of his own: Bad Bunny. For the past two years in a row, Bad Bunny has been Spotify's top streamed artist globally.

And with the release of his new album, *Un Verano Sin Ti*, he achieved 183 million album streams in the first 24 hours, making him the most-streamed artist in a single day. One of the many reasons Bad Bunny's album connected with so many fans was because Benito and his team partnered with Spotify on an effective strategy.

Together, we made the album available on-demand to our free tier users for a limited time. This free-on-demand capability captured the attention of a far broader global audience. Fans were hooked. All 23 of the album's tracks debuted in the top 30 of Spotify's Daily Global Songs chart. And Bad Bunny took up 9 of the 10 top slots.



And to top it off, the album release drove hundreds of thousands of new users to the platform. Artist partnerships like these are key to our continued platform growth.

Now, let's take a trip across the Atlantic to Africa, where, last year, Spotify significantly expanded its presence by launching in new territories. It wasn't long after that we began seeing breakout stars from places like Nigeria, South Africa, Ghana, finding audiences in the US, France, Philippines, and beyond.

And Spotify helped facilitate this cultural exchange, supporting the explosion of African music, every step of the way. From day one we've championed Fireboy DML's "Peru", as well as "Finesse" by Nigerian producer Pheelz. We've introduced Wizkid and Tems to an international audience through our network of playlists across the world, including Today's Top Hits. And through our marketing campaign for African Heat—our flagship playlist—we partnered and celebrated the music of Focalistic, Lady Du, Olamide, and more.

We are not only supporting the hyper growth from the region through editorial coverage and industry partnerships. We're also the first global music streaming service to have a notable presence in continental Africa. We have a team of local employees, fully immersed in the local culture.

And never before has the African music industry connected with a global audience at this scale. And we're just getting started.

And that's what sets us apart from our competition. We are the preferred destination for artists, because we help to take an active role in achieving their dreams, and partner with them on thinking outside the box, working together to help them succeed.

Our local teams on the ground can see early indications of trends on the ground, and our worldwide strength allows us to showcase these on a global scale, unlocking the ability of any artist—from anywhere in the world—to connect with listeners everywhere, we are tapping into a potential market of billions of people everywhere.

And with that, we'll now pass it back to Charlie, who will share more about the tools we are building for the modern music business. Thank you.



## **Charlie Hellman, Vice President, Global Head of Music Product**

Thanks, Madeleine and Sulinna. As you can see, the music industry is changing fast.

There have never been fewer barriers to entry, and that's enabling more and more talented artists to be discovered: Songs can break out in hours. A fan base can emerge in days. Careers can take hold in weeks. Many artists are even seeing success with just a release or two.

But with this reduction in barriers comes an increase in the number of artists seeking success. We are in the midst of an explosion of creativity, where tens of thousands of songs are uploaded each day, and the rate of daily uploads has doubled in the last two years.

In this rapidly growing landscape, artists need an evolving toolkit that works for the millions who'll make up tomorrow's music industry - one that mirrors their creativity and ambition by offering speed and scale.

In 2017, we launched, "Spotify for Artists." At the time it was purely an analytics product; a powerful free resource for artists and their teams to better understand their audiences.

Today, Spotify for Artists is an integral part of every professional artist's toolkit. Since I talked to you in March of 2018, the number of artists using our Spotify for Artists product suite on a monthly basis has increased more than 6 times. In fact, today, 83% of our platform's streams come from an artist using our creator tools at least monthly.

And this is the top of the funnel, this is the foundation where we make all of our tools and products available for artists and their teams.

At Spotify, we've built our end to end proposition for artists by directly addressing the core needs that artists have to enable artists to express themselves, we need to give them ways they can stand out and show their creativity. To help artists grow their audience and turn listeners into fans and superfans, we have to provide them with the most powerful tools to promote their art. And of course, artists ultimately need to earn a living. Not only is Spotify the biggest single source of revenue in recorded music history - providing over \$7B in 2021 alone - we're also committed to unlocking new ways for artists to monetize their audience.

Now let's get into how we're helping artists grow their fanbases.

One of the reasons that we're the go-to destination for artists is because we uniquely provide them with a core set of valuable free resources, useful for any stage of an artist's career, that helps them get their music in front of the right fans. For example, we let all artists have the opportunity to pitch their music to our playlist editors.



We also let artists control the visual expression around their songs, and their artist profile on Spotify, allowing them to express themselves beyond the music, and drive more engagement. All of these features and more are freely available for artists, and completely self-service.

In addition to these free tools, we've also invested in building the most performant and effective commercial tools for promotion in the streaming era.

Because there's so much being added to Spotify every day, artists need tools that will help them stand out, now more than ever. And we are uniquely positioned to deliver effective promotion for artists for a few reasons.

First, unlike, say, social media marketing, our promotion tools reach people that have already, actively made the decision to open up Spotify and listen to music. It's contextual. Plus, our ability to target listeners, based on their listening activity, their taste, is second to none. And further, we have the unique ability to actually report back how many people listened to or saved the music, as a result.

Our ability to deliver the best promotion offerings for artists represents a tremendous opportunity. Not just for Spotify, but for each of the over 3 million unique artists who released new songs in the past year, as well as the growing number of artists releasing today and tomorrow.

So, let me tell you a little bit about how far we've come with these commercial promotion services since we first previewed this business line for you.

And let's start with how we help artists connect with new listeners in personalized listening sessions, which we customize for each and every user. These include playlists like Discover Weekly, Genre Mixes, or Radio and Autoplay.

In 2020, we introduced our Discovery Mode program, which is powered by algorithmic promotion and is loved by those who have tried it. In fact, from Q1 2021 through Q1 2022, Discovery Mode had 98% customer retention, illustrating the appeal of this product.

And that includes a broad array of over 50 labels and distributors that in turn represent hundreds of thousands of artists, everything from relatively unknown, to global superstars. In early testing, artists with tracks in Discovery Mode increased their listenership by an average of 40%. And almost half of that growth comes from listeners who had never listened to the artist before.

One of the most attractive aspects is the cost structure. There's no upfront cost to participate. Instead, Spotify only charges a commission on recording royalties the track generates in those personalized listening sessions.



And this gives artists at any stage of their career, regardless of the size of their marketing budget, access to the same resources as the biggest stars in the world. This is a stark contrast to the music industry of the past, where only the biggest stars with major marketing budgets would have had access to the most effective marketing tools.

We're really only at the beginning of the Discovery Mode opportunity. It's not yet available at scale to artist teams around the world – or as a self-service tool; and, with no upfront budget required, there's significant potential for adoption.

We're also hard at work expanding our visual Native Ads for music promotion. Because we can reach all of our users in the place where they are actually listening, these ads perform far better than other places where labels spend their digital marketing dollars.

And that leads to them routinely increasing their spend after they try out the tools. Marquee is our full-screen, visual, sponsored recommendation of artists' new releases. And we recently expanded access by rolling out a self-serve buying experience in the US, right from the platform people are already using: Spotify for Artists.

As a result—from Q4 2021 to Q1 2022, we doubled the number of new customers, while maintaining an 85% retention rate from existing ones. And in Q1'22, revenue grew 224% YoY.

The reason we're seeing such meaningful engagement is because of the tremendous impact the tool has for artists. On average, people who see a Marquee are twice as likely to save songs from the promoted release to their playlists. That means listeners aren't just streaming the music when they see the notification, they continue to engage with the artist, demonstrating real potential for long term fandom.

And, artists that leverage Marquee for their new release, saw three times the lift in listeners for the rest of their catalog. So, that means Marquee is not just sparking interest in that release. It's inspiring fans to revisit older releases, multiplying that artist-to-fan engagement.

It's important to remember that, so far, we're only targeting listeners in 12 markets and, as you know, Spotify is available in 183, so there's plenty of room to reach new listeners and expand marketing spend on Spotify.

So where do our promotion products go from here? Well, these products are still in their early stages, with plenty of room for growth. We're working closely with our partners across the music industry to innovate on these promotional tools, identify new opportunities, build new formats, and target different segments of listeners.

When it comes to promotion, no one can match us on format, our ability to target, or on reporting of measurable results. And with a user base that's well on its way to 1 billion listeners, Spotify continues to be the most important place for labels to market their music more efficiently.





In addition to helping artist teams promote and grow their audience, we're also focused on helping them earn in more ways. Today, Spotify has helped drive incredible progress in the revenues artists are generating off their music. We are proud that we are the biggest contributor to the recorded music industry.

And thus far, that's largely been revenue driven from streaming music royalties. But we know that when it comes to fans spending on artists—there's lots of untapped potential.

Beyond music, touring and merch are significant pieces of the equation. And we think there's a huge opportunity to help artists drive demand by seamlessly including them into the Spotify product experience, which is already the most powerful audience engagement platform in the world.

So we're building solutions for both artists and fans, all while growing new lines of profit for both artists and Spotify. There's a ton of investment in this space from non-music companies to help creators get paid, but just like in music promotion, we have some pretty unique advantages.

First, Spotify has the right context. Fans come into Spotify expecting a music environment in which they can engage deeply with artists. Offers like ticketing and merch – they're expected.

Second, Spotify has the data. We own, we see, we drive the full fan funnel from passive artist discovery, all the way to superfandom. And we see all of the data that comes with that journey. And, Spotify serves customers on both sides of the marketplace.

For a lot of fans, Spotify is the primary way that they interact with their favorite artists. And for many artists, Spotify is where they have their largest audience and investing in their presence on our platform is vital to driving their career.

We're already capitalizing on these unique advantages. For instance, we integrate listings from top ticketing platforms to sell concert tickets at scale within Spotify. And our Fans First program uses Spotify data to identify and reward the artist's most passionate fans with an exclusive offer, like advance access to concert tickets, exclusive merch, or an invite-only event.

To date, the program has generated more than \$300 million in revenue for the music industry. Also, we recently enabled artists to sell merch, vinyl, and other offerings directly to their fans on their Spotify artist pages, through a custom integration with Shopify.

Now, while we're investing more in helping artists sell more physical goods, we know that monetizing superfans is about more than that. We want to open up ways for artists to directly interact with their audience, creating meaningful engagement and monetization opportunities. For starters, we're exploring how we can leverage our live audio feature, Spotify Live.



One new experience is exclusive live audio rooms hosted by the artists with their top Spotify fans. In these intimate spaces, artists can celebrate a special musical moment like a new release and earn revenue by selling merch, promoting concert tickets, and receiving tips – all inside the live room.

We're learning about the best ways that artists can engage and earn in this new format, and even seeing positive signals on streaming impact long after the event is over. We're currently testing this with a select, diverse array of artists, and our early results are promising.

In a lot of ways, these monetization businesses are where our promotion businesses stood a couple years ago—early stage, but with huge potential. And just like our promotion businesses, we expect to build for scale. As we diversify revenue streams for artists, and identify the best ways to increase spending from a user base that is well on its way to 1 billion, we will further enrich artists, even outside of their rapidly growing streaming royalties—and deliver margin impact for Spotify.

For the Music Vertical, our goal is to deliver another strong year of growth, as our Promotion initiatives scale and we lean into these new revenue lines. As we've built tools to help artists engage, promote, and monetize, we've gone from offering distribution and royalties, to providing much more value that can propel an artist's career, both on Spotify and off.

And as we've provided more value, it's generated value for Spotify too, as these marketplace businesses have been the primary factor in growing our music gross margins. And given the strong growth rates, this revenue will continue to be the primary driving force to help us further improve those margins.

This means we'll continue to grow what we offer to artists and fans, so that Spotify expands to be not just a licensed music service, but a platform for artist expression.

Not just playlists you hope to get on, but the most important and reliable marketing platform to develop an audience. And not just streaming income, but the place where artists monetize fans through multiple revenue streams.

Our marketplace vision is coming to fruition. We are the only music streaming service this committed to helping artists and bringing more money into the industry. We're driving a stronger business for Spotify that will only increase as we scale these opportunities.

Thank you for your time. I'll now pass the mic to Maya who will kick things off on the podcast front.



## **Maya Prohovnik, Head of Talk Verticals**

Thanks, Charlie. Hi, everyone. My name is Maya Prohovnik and I'm the Head of Talk Verticals, overseeing Spotify's creator tools across podcasting, video, and live. You just heard Charlie talk about the creator tools and marketplace that we built out for musical artists, their teams and their industry partners. So now, let's get into how we're applying that experience for a broader set of audio creators.

As you heard from Daniel, in 2019 when Spotify decided to move beyond music and become an audio platform, Anchor joined the band and drove massive growth for the podcast business and industry around the world.

Through our two-sided strategy of having the best content and the best creation tools in the world, Spotify became the only company to have a critical mass of both podcast creators and listeners on the same platform.

Now, think about how far we've come. In just under four years, we've gone from having virtually no podcasts on-platform to being a global leader in the market. To put this in perspective: when Anchor joined Spotify in 2019, there were fewer than 500 thousand podcasts on the platform. Today, there are over 4 million, and Anchor powers more than 75% of them.

And those millions of shows being published to Spotify from Anchor are often being made by first-time creators. As those creators make their content, they share it with their friends and family off-platform.

And the result? On average, every new Anchor show brings 2.5 additional MAU to Spotify. And between Anchor and our other hosting platform "Megaphone" Spotify-powered shows account for 45% of all podcast consumption on-platform. With that critical mass of both creators and consumption in the same ecosystem, we're able to do something that has not been possible in nearly twenty years: actually innovating on the podcast format itself.

Think about it: Podcasting has been around for almost two decades and it's remained largely unchanged, mainly because of the limitations of RSS. We've been able to replace RSS for on-platform distribution, which means that podcasts created on our platform are no longer held back by this outdated technology.

This has opened up a new world of opportunity to add features and formats to the podcast listening experience that have never been possible before - so Spotify is now not only differentiated by our catalog of content, but also by delivering a truly superior product for podcast listeners and creators.

One of the biggest results of this innovation has been our evolution on the format of podcasting itself.



A common pain point we hear from creators is that they want to use music in their shows, and they have no idea how to do that legally. This is especially painful for creators who want to make shows about music. One of the reasons this is so complicated is that there's no simple or fast way to pay out musicians or labels for songs that are streamed in podcasts over RSS.

So in 2020 we began testing a brand new format we call Music + Talk, which makes it possible for creators to include any music track from the Spotify catalog in an episode and for music rightsholders to get paid in the normal course when their tracks are being played as part of the Music + Talk episodes. All of this is only possible on Spotify and it's available now to all Anchor creators in North America, Europe, Latin America, and Asia.

Another new format we've introduced to our users is video podcasts. Up until a few years ago, most podcasts were recorded in a studio, with hosts and guests in the same room, gathered around a few microphones. But when COVID hit, podcasters had to produce their shows in a whole new way. Instead of recording together in person, they started using tools like Zoom and Riverside to capture podcasts remotely.

One of the benefits of this new approach was that it made it easy for podcasters to capture videos of these remote conversations, and many of them started turning their audio podcasts into video podcasts. As a result, we've seen a dramatic shift in podcasting as more and more consumers are actually watching their favorite podcasts, not just listening – and this means they've started to expect podcasts to include video.

Now, creators can upload video podcasts directly to Spotify from Anchor – it's just as easy as publishing an audio podcast. And the best part? Our great features for audio podcasts work with video, too.

And consuming this content is incredibly convenient on Spotify: seamless backgrounding and foregrounding not only saves users bandwidth and money, but it also gives them the ability to pick up where they left off on any device.

Another way we've been able to innovate on the format? We've made podcasts more interactive – finally enabling a deeper, more intimate connection between creators and their fans. One of our favorite things about podcasting is the unique connection it enables between creators and listeners. It's intimate. Hosts' voices are directly in listeners' ears.

But until now, podcasting has been a one-way street: creators publish shows, and their audiences listen. Traditionally, RSS has been limited to anonymized, aggregated analytics (and even those are limited to what can be determined from IP addresses). Because of these limitations, fans have never had a good way to reach their favorite creators directly. But now, we're changing that.



Our first way of addressing this was with Q&A and Polls, both text-based questions that can be posed by the shows' creators and surfaced to listeners in the Spotify app. These interactive features make it easy for listeners to engage with the people behind their favorite podcasts and for creators to hear from their audience, directly on Spotify.

These features are available now to all Anchor creators around the world. We've heard from many creators that Q&A and Polls have been crucial in helping them develop engaged audiences that keep coming back for more. And this is just the beginning of our interactive tools for podcasts: we're really excited to introduce lots of new ways for creators and their fans to connect with each other.

And that direct relationship — the engagement between creators and listeners — is also at the core of the live audio offering Charlie mentioned earlier — Spotify Live. Spotify Live makes it easy for the top podcasters to live stream audio to their biggest fans — so creators can reach their listeners where they already are.

That immediacy and intimacy allows creators like Alex Cooper — creator of the popular "Call Her Daddy" podcast — to engage with their fans in new ways, and at many more touch points throughout the day. Thousands of fans participated in her first live room and the engagement was incredible. And as you can see from her reaction afterwards on Instagram, she was blown away.

Another one of my favorite examples is how powerful Live has been for sports fans. They've been able to go deep with their favorite creators like the team at The Ringer right after the NFL Draft, NBA playoffs or the Champions League final.

Now finally, let's dive into an incredibly important area where we've been able to innovate and truly make podcasting better on Spotify: new monetization opportunities for podcast creators.

Those of you who've followed us over the years know that a huge part of our mission at Spotify is enabling creators to live off their art. One of the ways we get there is by making podcasting more profitable for more creators.

And as Daniel shared, we want to give creators the most control over how they grow and manage their individual businesses. So, we've developed a few different offerings to help creators earn more.

Let's start with advertising. Ads have long been the financial backbone of the podcast ecosystem, but it hasn't always been a viable option for most creators. Back when Anchor first started thinking about this problem, only the top few podcasters were able to make money.



So we set out to develop tools for every level of creator so anyone who creates a podcast can participate in some form of advertising monetization. In the last month alone, over 90 thousand podcast creators have made money on Spotify.

We're continuing to improve this adoption by building and expanding a variety of advertising options for creators. You'll hear much more about our advertising offering in just a moment from Dawn, but we're very excited to innovate on the podcast advertising model, including making monetization a reality for more creators than ever.

And part of how we plan to accomplish that is by offering non-advertising monetization options, too, because we know it's important for all creators to be able to choose the business models that work for them.

One thing we've heard from many podcast creators is that they want to be able to establish a direct relationship with their most loyal fans by building their own subscription businesses. So, in 2021 we rolled out a paid subscription platform for podcasters, unlocking the ability to put either a whole show, or select episodes, behind a paywall. And since then, we've taken this feature global, providing access to creators in 34 markets.

Podcast Subscriptions have already unlocked a meaningful revenue model for many creators who've enabled it. Because of the tight connection between creators and their fans on Spotify, the on-platform average subscriber retention rate we're seeing since launch is 90%.

But even after launching podcast subscriptions, we were still missing one key piece of the puzzle. The core of Spotify's benefit for listeners is that they can hear all of their favorite audio, both music and podcasts, in one place. But there was a lot of paywalled and subscription audio content that wasn't available on Spotify. So, we built a better way for people to manage all of their audio subscriptions in one place, and we call it Spotify Open Access.

Open Access provides customers who are already paying for exclusive content off-platform the ability to connect their existing account to Spotify, so they can easily find and unlock their content on-platform. Let's say you're a subscriber to Pushkin+, the premium subscription offering from the folks behind hits like Malcom Gladwell's Revisionist History. Now subscribers can simply link their Pushkin and Spotify subscriptions, and manage all their listening on Spotify.

So far we've partnered with over 100 publishers and platforms from some of the world's top voices. We're actively expanding this list and we are excited to share more developments soon.

Bottom line? We want Spotify to be the best place for creators to grow their audience, connect with their biggest fans and build their businesses. We want to be their partner as they make their journey from listener, to hobbyist, to enthusiast, to professional.

Now let's go deeper on podcasts.



## **Dawn Ostroff, Chief Content & Advertising Business Officer**

Hello, my name is Dawn Ostroff and I am Spotify's Chief Content & Advertising Business Officer.

I want to walk you through how we've taken key learnings from our #1 position in music to become the industry leader in podcasting. It began when we saw an opportunity and set out to seize it by buying three of the premiere podcasting studios: Gimlet, The Ringer and Parcast.

We then combined them with our own growing global studio operations. Our goal was to build a foundation that would allow us to transform and expand the industry.

That deliberate approach began with investing in top-tier original and exclusive content, or as we call it, O&E content, in order to create real value in four ways.

First, we leverage exclusive programming to attract existing podcast listeners from other platforms and bring them to Spotify. We also utilize this tent pole programming to introduce non-podcast listeners to the medium for the first time. And most importantly, we use it to engage music-only audiences already on the platform, which levels them up to become music and podcast listeners.

Second, it serves as powerful leverage with hardware platforms, many of whom are our competitors. Ask any voice assistant to play *Call Her Daddy* or *Armchair Expert*, and if they don't have Spotify, they'll likely have countless unsatisfied users.

Third, the excitement around our premium content also attracts blue chip advertisers, many of whom try podcasting advertising for the first time and then the results keep them coming back. Finally, hit originals create a cultural halo effect for Spotify, keeping us front and center with audiences and creators. And that's why we make top-tier original, exclusive content.

And this is a worldwide strategy. It begins with teams immersed in their local cultures, working with creators in 17 markets. These markets are in constant communication and learn from one another, so when the right hit show comes along, they can collaborate across borders.

And, this is where Batman comes in. Created in partnership with Warner Brothers and DC Comics, *Batman Unburied* marks a powerful step forward in scripted audio. Our teams around the world worked with local actors and creators to authentically adapt the core script into nine different local language versions.

This meant that fans who speak German, Hindi or Japanese, all got to enjoy Bruce Wayne and The Riddler in their native tongue. And the results speak for themselves, we delivered a worldwide hit.

But our success in global programming goes beyond Gotham City. Our original and exclusive shows account for 15 of the top 100 podcasts on Spotify. A significant achievement given that we produce or license only 1,000 of the more than 4 million podcasts currently on the platform. And 6 of the top 10 shows are Spotify Exclusives.





So, in addition to *Batman*, we have 5 other top 10 O&E shows. Sitting in the top slot, *The Joe Rogan Experience* hosted by the only podcaster on TIME Magazine's 100 Most Influential People List. And even though it's exclusive to Spotify, it's still the number 1 podcast in the world.

Next up is *Armchair Expert* with Dax Shepard and Monica Padman, a massive hit with audiences but also a darling with advertisers. The third is *Call Her Daddy*, which has leveraged Spotify's production, booking and marketing resources to make a show that was already wildly popular into a full blown GenZ and Millennial phenomenon and as of May, it's a top 5 podcast globally.

And host Alex Cooper has tapped into Spotify's video capabilities, which has nearly doubled the audience from her audio-only episodes. The reality is *The Joe Rogan Experience* and *Call Her Daddy* and other shows are creating both listening and video habits in the US and around the world.

And that brings us to Germany and two more of our six largest shows: *Gemischtes Hack and Fest & Flauschig*. Germany is a critical market for the medium and one of the first countries where we launched Original and Exclusive podcasts.

That's why it's the place where the maturity of our investments are furthest along, and, as a result, Spotify-exclusive series account for 4 of the top 10 in Germany, with 2 of those in the global top 10!

All of this success is a testament to these extraordinary creators. And we're constantly on the hunt for new voices who can break through and really move culture.

That's why we're following *Batman Unburied* with a string of new shows from DC Comics as well as the first series from Kim Kardashian, *Archetypes* from Meghan Markle, *The Duchess of Sussex*, the English adaptation of our Spanish-language scripted hit series *Caso 63*, and the terrifying first series from Jordan Peele's Monkeypaw Productions.

We've invested in creators at every level and across genres, and to date, we've committed more than a billion dollars to podcasting. This has allowed us to dramatically improve the consumer experience and grow the total audience through differentiated content. And, as Daniel mentioned, while this investment has created a short term drag on our business, it brings with it significant long term growth.

In 2021, we generated close to 200 million euros in podcast revenue. We expect this to increase materially in 2022.

But while we're still in investment mode, our bets in this space are already starting to pay off beginning with improvements in ad products and in turn monetization.

And going forward, we believe podcasting in itself will be a \$20 billion opportunity. You'll hear more about how we see our podcast business growing into a higher margin vertical later today.

But first, let's look at how we've already moved the podcast industry needle. A few years ago, everyone underestimated the opportunity and the impact that we could have on growing the





overall pie. Before we entered podcasting in 2018, the annual Ad Spend in the US was approximately \$480 million and at that time, it was projected to hit \$1.1 billion in 2022.

Today, podcasting is expected to exceed 2.1 billion dollars in 2022, almost double the initial projections, representing over 300% growth since 2018. And the US ad market is expected to double by 2024 reaching 4.2 billion.

We also know that bringing podcasts and music together are especially powerful when it comes to audiences. Since 2018, we've gone from less than 7% of listeners on Spotify spending time with podcasts to 30% of users listening monthly.

And users who listen to both podcasts and music, listen twice as much as users who only listen to music.

In the US, when we bundle music and podcast advertising, the average size of the spend on a campaign is 4 times that of a music-only campaign, so we're driving bigger spends from advertisers and growing our revenue significantly.

And this upside is expanding as we continue to transform podcasting into a more mainstream entertainment medium. To summarize - under one roof - we have the best creation workflow, the best distribution, and the best discovery process, connecting an ever-growing audience with the world's best content.

In the years ahead, that powerful loop will encompass more than a billion users. And with billions of revenue at play, that opportunity is what will drive the entire podcasting industry forward and increase Spotify's margins. And it all begins with a single great experience. Which brings me to audiobooks, so I'm going to pass the mic to Nir Zicherman.



## **Nir Zicherman, Global Head of Audiobooks**

Thanks Dawn, hi everyone, I'm Nir Zicherman and I'm the Global Head of Audiobooks here at Spotify.

As you've just heard, since we announced our ambition to become the world's leading audio platform, with an expansion into podcasting, Spotify has not only become a leading platform for podcast creators and listeners, but has also expanded the very format of podcasting itself.

Podcasting was a medium that hit a ceiling due to technical limitations. And, as Maya explained, our tools changed that.

By introducing streaming technology to podcasting, Spotify has helped create audio experiences that simply were not possible before. Now, it's time to take that same approach to a new frontier: audiobooks.

Annually, books are a one hundred and forty billion dollar industry, and it's our belief that audiobooks can be a much larger part of that. And audiobooks are a massive opportunity for Spotify, because while they represent just a 6-7% share of that larger industry, the category is growing by 20% year over year.

We believe this presents a really unique opportunity to introduce music and podcast listeners around the world to audiobooks and drastically expand that market. Our platform will soon be a place where consumers can purchase and listen to their favorite audiobooks right in Spotify.

And this initiative also offers a great opportunity for creators. Authors and publishers around the world will soon be able to introduce audiobooks to Spotify's global audience of over 422 million users.

Just as we've done with podcasting, this will introduce a new format to an audience that has never before consumed it, unlocking a whole new segment of potential listeners. As you heard, at the end of 2021, we announced our intentions to fully dive into the audiobooks space with our acquisition of Findaway, a powerhouse in audiobook distribution.

Findaway works across the entire audiobook ecosystem with a platform and offerings that serve authors, publishers, and consumers. We see overlapping opportunities to not just grow the industry but also significantly innovate and transform it.

As was the case with podcasting in 2018, there has long been just one major player in audiobooks, which we know doesn't fuel or drive innovation. So, just by entering the space and coming to the field, Spotify will be pushing the industry forward, bringing our fresh take on what the audiobooks experience can be.

We will provide the tools and the resources needed to lower the barriers to entry and to enable creators to find an audience, so that we can rapidly scale and expand the audiobooks market overall. To achieve that plan, we plan on amplifying the growth of Findaway's platform offering, currently called Findaway Voices.



Findaway Voices is a platform that connects independent authors and publishers with independent voice actors. And after pairing the two, the platform fully manages the production and distribution process.

This creates an exciting new channel of scaled creation within the Spotify ecosystem for distribution on Spotify and other platforms.

Keep a close eye on this space and we'll share developments with you as we build the future of audiobooks.

We've been sharing these plans with authors, publishers and many others across the industry and there's a lot of excitement about what's to come.

Thanks so much for your time. And now, I'll pass it back to Gustav.



## **Gustav Söderström, Chief Research & Development Officer**

Thanks so much to both our Talk and Music teams for their in-depth run through.

In just a few minutes, we're going to take a 15 minute break, but before we do, I wanted to first introduce you to one more concept that will kick off the second half of this presentation which will focus on how we're optimizing the business.

As you just heard, our behind-the-scenes strategy to build dedicated backends to serve separate industries, business models and creator groups, is well underway and performing exceptionally well.

This focus on a dedicated backend for each industry, paired with our single front-end experience for users, is what has enabled us to be the largest music streaming subscription service in the world and the most used podcast service in many markets around the world, including here the US. It is our hope that we'll soon be the leading audiobooks service as well.

We're incredibly proud of this progress and we're confident in our ability to repeat and scale this strategy over the next decade.

But now that you have heard how the technology & content from different verticals come together into this single consumer experience across multiple business models, a natural question is: How do we actually optimize the business across these verticals, when there is the potential for wildly different business outcomes depending on which piece of content the consumer clicks on? It's a tricky problem.

This goes back to the metric Daniel mentioned earlier - lifetime value, or LTV for short. You'll hear more on this approach after the break from Tony Jebara, Head of Machine Learning at Spotify, but let me give you a little introduction.

We think about Lifetime Value as the value of a consumer over their entire lifetime on the service. It is the best representation we've found of how much value Spotify provides to consumers and creators. And we've spent years building advanced machine learning models that estimate the predicted lifetime value of every combination of a piece of content and a user on the platform, across all the verticals every single day.

It's important to note that this is not an attention economy—where content competes for the user's attention in the moment. It's actually something quite different. It is a value economy — where the content competes to give users the most long term value, that makes them want to stick around for as long as possible.

This is what we predict and optimize for. And each month, users vote, many of them with their wallet, if they think we've done a good job or not. We believe that this approach avoids a lot of the traps of the pure attention economy – enabling us to create greater value for consumers, creators and for Spotify.

So taking a step back, we're not just using machine learning to power recommendations - we're also using machine learning to optimize the very company itself. So with that, let's take a short 15 minute break before we invite Tony to the stage to share more detail on LTV.



## **Tony Jebara, Head of Machine Learning**

Hello, my name is Tony Jebara and I'm Head of Machine Learning at Spotify.

You just heard Gustav discuss the evolution of our platform to distribute multiple verticals in a single, machine learning-powered user experience.

I'm going to spend a few minutes talking about the basic three pillars of the company—creators, consumers and monetization—and how we are broadly growing all three.

Number One: Growing the most creators and content, from music, to podcasts, to audiobooks.  
Number Two: Growing the most consumers across countries, plans and cohorts, and, number  
Three: Growing the most monetization for those creators, using ads, a-la-carte, subscription, marketplace and monetized fandom.

As we scale these formats and business models – there are more and more things on our platform competing for consumer and creator value.

You might say, “whoa, this sounds like a lot of complexity”—but we've built a machine learning system that now enables us to rein in that complexity—and turn it into an advantage.

There is this common belief that complexity is bad, and that is because it tends to make the world unpredictable for us humans. But while that complexity may be hard for a human to handle -- the rise of machine learning has given us new tools that have no problem handling this complexity.

Our machine learning models can now tell us which combination of user, content and monetization gives the most consumer value and the most creator value - at a certain time enabling us to maximize the total value of the platform at each moment.

But while that may sound great, what does creating value actually mean and how do you measure that?

Lifetime Value, or LTV, is a metric that many of us at Spotify spend a lot of time thinking about modeling, testing and refining. And we think this is a metric that provides enormous insights into the true value that we provide to consumers, creators, and to Spotify itself.

We use this powerful instrument to predict which content yields longer term retention, engagement and happiness, with the goal of maximizing the lifetime value of all Spotify users.

While it is still early days, we are using LTV more and more in our business. Our vision is to have it be the primary driver of all of our business decisions as it allows those decisions to be automated, personalized and scalable, something that wasn't possible before.

So what is Lifetime Value? It is simple in theory, but very hard in practice. It literally means “All the future value that you expect a consumer to bring you, across their entire lifetime on the service, discounted to a net present value.”



If you could know that number with a high degree of certainty, you can do very powerful things, such as starting to understand which content and recommendations tend to increase life time value – even with content in widely different formats, across different business models.

You can sum up all the LTV, from all the users for a particular piece of content and understand exactly how much that piece of content is worth to you as a business.

You can balance your ad load so that the revenue you gain from the ads doesn't come at the cost of a shorter lifetime. That then increases LTV.

You can even understand how much financial value a specific software feature roll-out contributed to the platform.

But doing all this in practice requires instrumenting and encoding the entire company in software, from user behaviors and ads sales forecasts, to content contract costs. This is a huge endeavor that we took on a few years ago.

But, before LTV, we spent years focused on growing the number of users and how many months they would stay on Spotify. We call this lifetime growth, which is closely related to MAU growth. And it is now growing at a great clip.

Here's rankings from the third-party measurement company Antenna, which uses anonymized transaction data to track subscription services. You can see Spotify has the absolute lowest churn of any music streaming service. We're pleased with where they've placed us within the broader market.

So we spent years getting rid of the leaks in the bucket through better content, personalized programming and personalized experiences. Now, we can reliably predict retention, acquisition and even a user's future lifetime on the service. We base this on their dynamic consumption behavior and static things like the country that a user is in.

But today, on top of lifetime, we are also layering in the financial value each user brings to the business and its creators. We measure value by their gross profit contribution. So, LTV elegantly unifies the concepts of profitability and lifetime into a single metric that can inform our decision-making. We are actually forecasting each and every user's lifetime. And also, each and every user's lifetime value.

We are doing this for each and every user including our Premium subscribers, our Free users and users that convert between the two plans. And as we learn and backtest, we expect huge opportunities to iteratively improve upon our capabilities and precision going forward.

So, here's a hypothetical example of how our models calculate the LTV of one single user or member.

And remember, our forecast is based on what we know about the user today – and how they've behaved on our platform so far. And these numbers are just for illustration purposes only.

First, we have a model that forecasts how long each user will stick around by calculating survival probabilities over the next 60 months. Then, we forecast the Gross Profit they will generate each month. Specifically, we forecast the gross profit from things like Ads by also



forecasting each users' engagement levels to estimate the music and podcast ad load into the future.

And once we have the survival probabilities and the month's gross profit we multiply each month's survival probability by the month's gross profit. What we end up with is the expected gross profit over the lifetime. And we discount the expected gross profit by our cost of capital. In this hypothetical example, we can expect this user to generate €67 for the business.

As an experimentation metric, the total LTV seeks to answer the question, "If we do X today, what can we expect to be the profit X will bring to the business and its creators in the future?"

And in the table here on the screen, we calculated the average LTV across all our cohorts – across different regions and different plans for music-only listeners. And then we calculated the relative increase of the LTV of music listeners who we also activated to podcasts. The percentages on the table show the LTV of podcast-activated users is much higher relative to music listeners.

And what's interesting is that the LTV of users who we've activated to listen to both music and podcasts is consistently higher – across every region, in every plan, from Free to Premium. So, this is just one example.

So, how do we keep on increasing LTV? We plan to repeat what we just did with podcasts by adding Audiobooks to the platform. And again, we hope to increase our userbase's LTV by another plus X percentage points. Because audiobooks should grow their lifetime multiplied by their value because it's helping retain users and it's increasing our gross profit.

We don't want to increase lifetime at the expense of gross profit, for example, by dropping prices.

And we don't want to increase gross profit by doing something that a user might accept in the moment but not enjoy in the long term, like cranking up their ad load or recommending lower cost content that isn't right for them. Both could negatively impact their lifetime on the service.

So, a well-instrumented LTV metric aligns you with your consumers and your creator partners, and "keeps you honest".

So, if we have users generally loving Spotify and retaining better and engaging better – you increase the months they spend on the platform.

And if we improve things like advertising, and we layer-in audiobooks and podcast paywalls, and some of the Marketplace work that Charlie was describing, we increase total company ARPU and margin.

And then you take the product of those two things and say, okay, I've taken someone who's going to stay for 14 months and made them stay for 18 months. I've increased their lifetime. Then, we also improve the margin profile.

If the margin profile for that user is €0.80 a month today, but I can increase that number to €1.40 per month by shifting that user's consumption mix so that they generate more margin for longer.



We've basically taken this user's LTV and doubled it. So we remain careful to increase the margin without reducing the lifetime of the user.

And the beauty of growing both numbers together is that our algorithms are also doing smarter things. For example, they don't want to show our users spam for a quick buck today if it will hurt their lifetime and hurt their future total LTV.

So, we're not just going after instantaneous clicks and engagement like some other consumer-facing or ad-tech companies – we're thinking about every decision, a thousand times a second, 24/7 – to grow the user and the business together for the long-term.

We recalculate the LTV of each user at Spotify based on how they are behaving and engaging on the platform right now, and, we have integrated those tables across most business units at the company.

You can think of the total forecasted LTV summed across all our users as approximately the total value of Spotify. And now with an understanding of the math behind LTV, you are likely asking: What are some of the future applications for this? And what are the implications for Spotify's business?

We are already using LTV to improve Marketing, Product, and Content decisions. Through our models, we're also improving acquisition, retention, ARPU and even gross profit across the business.

Let me share a few examples. Over here, LTV is used to estimate the total or average value of users in a cohort for marketing purposes.

So, let's say, Nina, a marketing exec, wants to know how the average per-user value of a cohort of users acquired through a campaign compares to the average value of the Spotify population.

So we look at many channels and compare our marketing spend across these channels – and that helps us be smarter about which ones give us the best incremental LTV.

On this next slide, we're looking to understand long-term financial outcomes from our A/B tests and our recommendation algorithms. So, in this hypothetical example, Frank's product area runs A/B tests on new user-facing features. He wants to know if a new algorithm that promotes Podcasts that are retentive and habit-forming is more valuable to users than the old algorithm. He sees that the LTV of the users who tried the targeted more retentive podcasts went up by €0.32. So, then Frank knows this is a better algorithm, and he rolls it out for all users across the world.

And then, in the third example, we're starting to understand how a piece of content like a podcast or an album contributes to our future LTV. For example, Julie, a leader on our podcast team, can make things like season renewal and promotion decisions based on the content efficiency of each podcast.

We run tests on some of our podcasts to help Julie know which ones generate more LTV per hour of streaming. And, we've found that click-bait content manufactured to fool users and algorithms can actually decrease LTV, and so we should never promote that content to our users.





And now we know which shows, in particular, we should acquire and renew to grow the LTV of our users and overall business. So in this example, we can look at a podcast like Alex Cooper's Call Her Daddy and say, what is its LTV impact to the business, divided by how much it costs us to acquire the show and to promote it?

And we will focus only on renewing shows that really have a great return for the business. Here's a snapshot of the data we use to track the cost efficiency of many of our podcasts.

So in summary, LTV is a powerful instrument that, number one: allows us to forecast the profitability of experiments and other initiatives and understand their potential impact on our bottom line. Number 2, it promotes a thoughtful approach to investment in innovation and content, and number 3, it predicts which content and experiences yield longer-term retention, engagement and happiness.

All of which are essential for Spotify to reach our goal of 50M creators and one billion listeners globally, while also ensuring the business grows.

We're making more and more of these decisions automated and letting machine learning basically mediate human creativity to quantifiably grow the total future LTV of the business. That is the Spotify Machine.

Thank you. And now it's my pleasure to introduce Spotify's Chief Freemium Business Officer – Alex Norström.



## **Alex Norström, Chief Freemium Business Officer**

Hello, I'm Alex Norström. It's so good to be here today.

I'm Spotify's Chief Freemium Business Officer. I'm responsible for the subscriber business, global markets, marketing and payments.

I'm here to expand on our plans to build up to a *much* bigger business than the one you might have imagined, beyond just a music subscription business.

Right now, we're on track to more than double our reach to over 1 billion users. And with our vertical platform strategy, over time our ambition is to build the business toward an annual ARPU of one hundred Euros. This means, on average, looking at both free and paid, we can significantly increase the total revenue across our entire user base.

Our music business is the foundation to this story. It is how we've built our relationship with users. And it is what has allowed us to expand geographically all around the world.

Today, we'll share how we plan to expand user and revenue generation, from this strong music streaming base into new verticals - podcasts and beyond.

This expansion into new content verticals will build bigger, and more engaged audiences for creators. And it will create new content experiences for users. And as you will see, it will enable revenue growth opportunities.

Before we dive into the growth of our business, let's take a step back. What's our operating playbook or maybe even more simply put: how do we drive this Spotify machine that Daniel and the team have been talking about today?

It starts with the value proposition. With our Freemium model we have created a value proposition for different stages of the user lifecycle, introducing users with Free and then layering the different subscriber offerings on top of it.

Secondly, we work on maximizing user intake. Once you're onboard, our personalization kicks in. Importantly, we make sure you can use our service on the devices you use throughout the day. This deepens engagement and retention.

And as we scale reach and engagement, we unlock growth for our advertising business. This drives ARPU.

As engagement grows, we're able to improve subscription growth, whether a free user moves to Premium or a Premium user upgrades to a multi-account plan. This is what expands our



monetization and subscriber base. And, yet again, it further improves engagement as users move up the ladder. This is a fantastic flywheel.

The fifth step is that we open up for “a la carte purchases”, which means that you can subscribe to specific creators, or buy things one-off. This uncaps ARPU.

We then go back to step one and bundle in a new vertical, rinse and repeat. We did this three years ago with podcasts. And when introducing a new vertical we adjust the offering where necessary to maximize our user growth and revenue opportunities.

In most instances we add to our existing propositions, which is super powerful. Anyone can cross-promote, but as Gustav mentioned earlier, our big difference here is that we do it on top of a super scaled base of users and their existing engagement.

So that’s the playbook. But how does this pay off in terms of revenue?

Well, you just heard Tony talk about Lifetime Value, how personalization increases engagement, and how Verticals drive gross margin.

I’ll focus on Users, ARPU, Verticals and Geographies today.

Let’s talk about Geographies for a minute. Our geographical markets are at different stages of growth. For a super-scaled platform - there is no such thing as a one-size-fits-all. We have tailored growth plans for a truly global business in 183 markets.

Another cool thing is that by addressing the opportunity in this way, there’s a powerful compounding effect as we improve each component in the equation. If we make changes in the product experience of a vertical globally, it means it is beneficial for geographies all around the world. Or if we improve monetization locally, it has benefits to all verticals locally.

And with regards to monetization and ARPU, there are two important factors to consider: one, the pretty unique and advantageous fact that we have always invested in multiple ways to monetize, whether it be subscriptions, non-recurring transactions or ad sales. This stacks our ARPU.

And two, as we add more verticals, this stacks our ARPU even further.

On this chart, we have hypothesized the potential monetization mixes for verticals, just to give you a sense of what this might look like.

So let’s spend a little bit more time on each area - to really give you a sense of where we are going.



Since our last investor day in 2018, we have continued to expand Spotify geographically. We are now available in 183 markets around the world. With 422 million users, Spotify is by far the largest audio subscription streaming service in the world. And there's still more room to grow.

Although music is universal, the geographies we operate in are distinct. They represent an incredibly diverse range of cultures and consumer habits. It's a complex job driving a truly global machine. But in this complexity, there is beauty.

For any given country or region, the music streaming paradigm and the industry starts at different points in time and each may move at a different pace. In the US, West Europe and in Australia and New Zealand, music streaming is the standard way of listening to music. In these markets we're the clear leader.

In Latin America we're well on our way. In the Middle East, Africa and Asia, some of the world's largest total addressable markets for music, we are just getting started - and as you heard from Madeline and Sulinna, artists from these markets are connecting with our listeners globally.

So for the purposes of this presentation, we will split the world into two groups: Established and Emerging markets. First, let's take a look at our music business in the established markets.

Our user growth in the more established markets has been spectacular and put us in a clear leadership position. We now reach nearly a third of all addressable consumers in the US, Western Europe, Australia and New Zealand.

As we grow our users, advertising sales grows. Dawn will be talking more about the fantastic opportunities in this space shortly.

And in the US, the growth has been fantastic in the last few years. Advertising is now almost a quarter of our revenue, compared to one tenth globally. We can see where this is heading.

Our subscriber growth has also been phenomenal. We have leading market share in paid users and we are double the size of the nearest competitor in almost all of these markets.

We've also proven over time, that we can manage down the churn of these subscribers. This happens as the base scales but also because we apply two "downward facing pressures:" engagement increases over time and we improve the available subscription options. As you saw from Tony, reducing churn is critical in growing Lifetime Value.

As free users convert, subscribers upgrade, and the ad business scales, the ARPU increases. So we see plenty of potential to further increase ARPU in these established markets.

To reach a mega-scaled audience we cannot ignore the Emerging markets. These have the most populous TAMs in the world. The TAMs are naturally gonna grow as more of the world



continue to adopt smartphones. And as you can see here, we've got traction but we've only scratched the surface. MAU over TAM is about 8% so clearly we're in the early stages of applying our playbook. For the purposes of today, we are calling LatAm, the Middle East, Africa and Asia our Emerging Markets set.

First let's take a deeper look at Latin America.

We are close to having a hundred million users in the region. MAU over TAM is 20% and the engagement is fantastic. We've also seen that our subscriber proposition has started to gain serious traction and with 60% subscriber market share we have a strong lead. The ads market is also showing signs of improvement. There's no ambiguity here. LatAm is clearly moving in the direction of the established markets. Our operating model is working.

India is earlier in its journey but showing strong signs. In the last two years we have raced past all competition, and we're now the clear #1 music streaming service in India, judging by engagement. And as engagement grows, our playbook momentum continues to increase. And with the explosive growth in brand awareness, we are also on our way to being the market leader in podcasts.

OK. Zooming out again, we can see that the way we are driving our machine is working. We have come a long way in the established markets. Engagement is phenomenal, and we have more than a third of music industry market share. This is because of the phenomenal strength of our subscriptions business and our fast growing ads business.

Looking ahead, the Emerging markets are on a path to follow the established markets. User growth is already strong, with a TAM that is almost five times as big as the established markets. We will continue to innovate across our propositions, tailoring our playbook to the needs of the regions to maximize our user and revenue growth opportunities.

So to sum it up, we are on a path to hitting over one billion users globally by 2030. Our playbook is working around the world.

I'd like to welcome my colleague and dear friend Dawn Ostroff back to the stage to spend a few minutes demonstrating how our growing ads business will add to our total ARPU.



**Dawn Ostroff, Chief Content & Advertising Business Officer**

Thank you, Alex.

I'm excited to be back to talk to you about Spotify's advertising business, the progress that we've seen thus far, and the massive opportunity ahead.

Spotify has proven time after time that when we put our energy and focus into innovating an industry, we succeed.

You've heard about music and podcasting, and how Spotify can leverage data from one vertical to improve the results in another.

This rests in our powerful direct relationship with our 422 million users.

Now, let's talk about a key engine behind our advertising business growth. As we've always said, the opportunity is bigger than many realize.

And that's because audio advertising has historically been undervalued, especially compared to the exploding consumer engagement in this medium. Digital audio consumption has been on the rise for years and ad spend has finally started to follow this growth.

Since we last spoke to you in 2018, we've tripled our ad revenue across music and podcasting. And, we've established an entirely new business with podcasting, growing it by 10 times since 2019. We started to globally scale our self-serve ads manager, Spotify Ad Studio, and all of this has helped to make Spotify part of the elite class of 1 Billion dollar plus platforms.

We've achieved this growth by leveraging our rich expertise in streaming to rapidly modernize audio advertising.

And we're continuing this revolution by focusing on three key product areas: Streaming Ad Insertion, Spotify Audience Network, and Reinventing The Audio Ad Experience.

Let's begin with Streaming Ad Insertion, or SAI. This delivers the intimacy and quality of traditional podcast ads, but solves the limitations of RSS and downloads that Maya mentioned earlier. I'll explain. SAI is able to record an ad impression in real-time, as soon as the ad starts playing.

So for the first time, podcast advertisers can receive insight into confirmed ad impressions. And now they know their ads were actually heard, instead of just crossing their fingers based on downloads. SAI unlocks valuable first-party audience data and insights delivering the most rigorous targeting and reporting available in podcasting today.



Next, we established the foundation of the Spotify Audience Network also known as SPAN. SPAN is our audience-first advertising marketplace that makes it possible for advertisers to connect with listeners across a broad range of podcasts.

Through this network, we use our powerful first-party data and variety of targeting solutions to enable advertisers to reach audiences at scale.

This means that they're able to reach a target audience across thousands of shows rather than targeting an individual show. Here, we're leading the charge to revolutionize podcast ad buying. SPAN was born out of our acquisition of Megaphone and strengthened by our more recent acquisitions of Podsights, Chartable and Whooshkaa.

That flywheel of having more creators adding more content to our network, means more listeners who will in turn attract even more advertisers. This is what makes SPAN so powerful, allowing us to grow our podcast advertising revenue by many multiples.

It's been in the market for just over a year and it's already delivered major results—for Spotify and for publishers. And we recently invited eligible Anchor creators in the U.S. to join SPAN and in the future, we'll be adding music inventory as well.

Third, we've started to innovate on the ad experience itself to make it more interactive for users and thus more impactful for advertisers. One recent example is Call-to-Action cards. Powered by SAI, this format makes it easier for users to engage with promo codes as they listen, and offers advertisers an even more direct way to measure campaign success via clicks.

We see this format as the foundation of future ad experiences in podcasting, music and beyond. Imagine shoppable ads, polls, and brand Q&As.

As Daniel has previously said, gone are the days of ads accounting for less than 10% of Spotify's total revenue. Advertising is now poised to become a key growth driver. Over the long term, we expect ad revenue to be significantly more than 10 billion euros annually.

And as Alex just explained, we're seeing very strong user growth across the world, and Spotify's ad machine stands ready to unlock huge value for creators, publishers and advertisers. In some of our largest markets, including the U.K., Germany, and Japan, we've just scratched the surface and we see a significant opportunity to implement and improve monetization in emerging markets across Latin America, Africa, and Southeast Asia.

In order to capitalize on this, we've been scaling our international sales and support teams and launching products like Ad Studio, SAI and SPAN in these markets.



We've also deepened Megaphone's footprint in Europe, Australia and Canada—signing up some of the largest publishers in these regions and bringing them into SPAN—extending our proven flywheel internationally.

As we fully realize our international investments over the next couple of years, we expect to see higher margins and faster revenue growth.

Next, we're upleveling our measurement offerings. This will help advertisers understand the value of their spend, and in turn, increase demand.

We're doing this most notably through our acquisition of the leading podcast measurement service, Podsights. Now, Podsights offers an advertising attribution solution that is built specifically for podcasting.

The product allows advertisers to attribute podcast ad exposures to actions taken on an advertiser's website or app, helping them to better understand their ROI. Long-term, we intend to extend Podsights' capabilities beyond podcasts to music.

We're also preparing to launch a dynamically-priced auction for a segment of audio ads. Here, we're enhancing our self-serve manager, Ad Studio. We'll introduce features that advertisers have grown accustomed to on other platforms, but with a Spotify spin.

Today, we have tens of thousands of advertisers on Spotify with the majority of our ad revenue coming from the larger brand enterprise category. By making it possible for advertisers to buy based on desired outcomes across music and podcasts, we'll begin to increase our stable of SMB advertisers.

And in turn, this will unlock bigger lower funnel media budgets, like direct response - a part of advertising currently missing from audio. If you look at this comparison—Spotify's ad ARPU relative to some of the digital ad industry—you see why we're so excited about the potential upside.

We're also starting to explore how we can increase our supply of inventory to meet the incredible demand that we're seeing we're looking at bringing ad monetization into audiobooks, video podcasts, and unlocking more ad-supported music listening as we continue to innovate across our free tier.

We'll have more to share on that in the future.

To summarize, with our deeply engaged, our logged-in global audience, medium-defining content and innovative technology, Spotify is the perfect platform to match the right advertiser... to the right listener... at the right time... directly in the Spotify app.





We're on track to do this for millions of advertisers across the globe.

And because we have a direct relationship with our users, we're less encumbered by the tracking headwinds affecting the digital ad industry.

These efforts will play a critical role in driving Spotify's powerful mixed revenue model and as you can see, we believe we have an opportunity to grow our Ads ARPU by several multiples.

And now, I'm going to pass it back to Alex who will tell you more about Spotify's growing array of verticals.



**Alex Norström, Chief Freemium Business Officer**

Thank you Dawn. It's exciting to hear our plans for the advertising business. This will naturally continue to raise our ARPU stacks around the world.

The power is in having multiple business models in our machine. And when you look ahead, the outlook is positive with our subscription, advertising and á la carte business models playing in concert to generate more revenue for the company.

We believe the music streaming market alone has room to grow from \$30 to nearly \$80 billion by 2030. And Analysts, they agree with us. So as the market grows, we will grow.

The most natural companion business to music streaming is "live experiences."

Post pandemic, fans are clamoring to see their favorite artists live and venues are steadily coming back.

The Live market is expected to be worth \$40 billion by 2030. We see this as a natural extension of Spotify's existing music business. Because of our scale, the data advantage we can offer to partners, artists and venues is powerful.

This is a potential area to grow total ARPU significantly.

But we don't stop there. As you may recall from earlier, the last step of our playbook is to bundle new verticals into our value proposition. We clearly see the chance to add more reasons for people to stick around and spend more time with Spotify. Our current business provides a strong foundation to enter new categories.

And, we're well on our way to making those categories, new verticals. Just like the challenge of putting out a hit second album, people doubted if we could add podcasts alongside music. But now we know the answer. About a third of our listeners listen to podcasts, and we're the global market leader.

Looking at where this is going, we will soon have hundreds of millions of podcast listeners on Spotify. This speaks to the power of our scale and the unified experience. We see podcasts becoming a \$20 billion global opportunity by 2030.

So, if you take the growth of music streaming over the next ten years and extend it with live experiences, then add the rapidly growing podcast market on top, we believe we will expand our total market by more than four times where we are today, going from \$33 to \$140 billion dollars.



What I'm saying here is that this bundled offering, monetized by our three modalities of revenue will double our total ARPU over time. So not only will the market expand, but the revenue potential of each Spotify user will expand as well.

And that's the size of the opportunity, before we even enter any new verticals.

So let's look beyond this. In the next ten years, there are additional markets and verticals that we believe are natural fits for our platform and audience. There's Audiobooks. There's News, Sports and Education. Those are vast markets that we can imagine Spotify playing in.

There are a couple of common threads to these examples. They are big consumer markets, sometimes much bigger than music. And there's a secular trend in these markets being massively evolved by the Internet and software.

We have an opportunity to consolidate users' habits and purchases to Spotify, and also expand the pie, allowing broader and more convenient access to these new content categories. So take Audiobooks today, which is a niche market.

With our enormous user base, imagine the potential. With our monetization modalities and LTV optimization, we can ensure that users get access to the right content, at the right price at the right moment.

We believe there is a golden opportunity for an audio-first platform like Spotify to add value in these categories. As we consider the combined market size of these additional verticals, we think of our future opportunity as 10X.

So now that you understand the opportunities ahead, let's zoom in on consumer spend, or the general ARPU levels for some of the categories I just mentioned. We can see that they are an order of magnitude higher than Music. They are in the hundreds of euros per year. And these are markets that are big and have high ARPUs. To us this is incredibly exciting.

Within the next ten years, our goal is to enter and lead two additional verticals. With this, we will be building towards the 100 Euros and the 4X ARPU that we talked about.

I've saved some of the best, for the end. It is our super strength, our subscriptions business.

We have more than 182 million subscribers - the scale is astounding, we have a recurring relationship with 2% of the world's population. Our Premium subscribers are the most engaged, the highest retaining and the most passionate ambassadors of Spotify.

This is rare. And it gives us confidence in our resilience as a business.



As we continue to evolve our subscriptions portfolio, we expect to see strong growth in our subscriptions business around the world. This is a function of a strong performance in our existing streaming music offering and the emergence of new types of subscriptions offerings.

The key to any successful cross-selling strategy starts with a strong relationship with your customers. It is this unrivaled subscriber base we've built that will help unlock the next set of categories.

But let me sum up our plan for user and revenue growth.

Leading a category like music and winning engagement makes us top-of-mind with users around the world. And as a reminder, we believe we will be over one billion users by 2030, more than double where we are now.

Our current markets of music and podcasts, coupled with our multiple modalities of monetization and our extension into Live, will build revenue growth that will take us to a global ARPU of 2X.

But we're not stopping there. There are new categories with huge potential still out there.

Each of these categories already commands annualized ARPUs in the hundreds of euros. And the combined size of these new categories is in the hundreds of billions of euros.

As we expand into these new verticals, we'll deploy our Spotify Machine and we'll apply the same growth playbook. We believe this can unlock our full ARPU potential, creating the opportunity to reach €100. This would be 4X where we are today. This is our ambition and we will be updating you soon on new initiatives as they are ready for launch.

So to bring it all together, we believe we have an opportunity to double our ARPU with our current trajectory, and quadruple our ARPU inclusive of all of our new initiatives.

This is our future.

Thank you and now I'm going to turn things over to my amazing colleague, our CFO, Paul Vogel.



**Paul Vogel, Chief Financial Officer**

Good afternoon – thanks for joining us today. I'm Paul Vogel, Spotify's Chief Financial Officer.

Today, you've heard about the reasons for our successful growth since our direct listing and hopefully you've also gotten a better feel for the significant opportunities that lie ahead.

I'm going to spend the next 15 minutes on how that growth has impacted our KPIs and financial model, walking through updates to various metrics, and showing how everything you have heard today sets us up for strong and profitable growth.

But first, I want to remind you what we've achieved since our direct listing.

As you've heard, when we went public we were a music streaming company -- and it wasn't immediately clear how the landscape would evolve or which companies would emerge as 'winners.'

Since then, we've expanded beyond music to become the leading player in audio – with over 400 million monthly active users – roughly 2.5 times compared with just 4 years ago.

Our subscribers have grown at a similar rate topping 180 million. That growth has been consistent. Since going public, we have met or exceeded our guidance ranges for both users and subscribers over 90% of the time.

And while our growth has been very strong, some years we lean more on the users side, while other years, we see more strength in subscribers. That is the beauty of our Freemium model. The two parts work hand in hand to deliver long term growth for both.

The consistency of our performance is a testament to the foundation of the strategy we laid out to you 4 years ago—Ubiquity, Personalization, and Freemium. This continues to differentiate our positioning in the market today.

This foundation has also been a key driver of the steady improvements we've seen in retention and churn – two key factors in our user and subscriber growth.

First, looking at premium churn specifically, we've seen the trend line move consistently lower – from 5.5% at the end of 2017 to 3.9% at the end of 2021. And breaking it down further, in our developed markets, we've seen strong reductions in churn– declining to 2.4% with churn as low as 1 to 2% in our most mature markets.

We view this as a positive indicator for the rest of our subscription portfolio.



In our developing markets, churn tends to be higher initially, creating headwinds to overall premium churn. But, as these markets mature they have shown strong continual declines.

In fact, after year 3, gross monthly churn has historically reached the same point on the churn curve as developed markets.

And looking at ad supported users, we have seen retention improve over 650 basis points from 2017 to 2021. This is a testament to our on-going investment in the free user experience – helping to drive user engagement, retention, and conversion.

So, next, I'd like to spend a few minutes translating our user and subscriber growth into P&L metrics.

Revenue has grown in line with our user growth, and our gross profit has grown even faster—more than tripling over the last four years. And if you exclude the impact of foreign exchange rates, our performance has been even stronger.

On a constant currency basis, Revenue grew at a compound annual growth rate of 26% and Gross Profit at a compound annual growth rate of 35% during the same timeframe.

Now moving further down our P&L. Operating Expenses have grown at a compound annual growth rate of 19% since 2017. And if you exclude the impact of social charges, our rate of expense growth has been decelerating since 2019.

In 2021, you'll see our Revenue growth outstripping Operating Expense growth.

Importantly, although we have incurred losses during this time, we have generated positive Operating Cash Flow in each year, including more than 1 billion in cumulative Free Cash Flow—even while investing into new areas like podcasting.

This is a key differentiator of our business and a dynamic you don't see in most direct-to-consumer entertainment companies.

We have a strong balance sheet and strong Free Cash Flow. This has enabled us to finance more than €900 million in M&A, while also returning more than €600 million in capital to date over the past 4 years.

In light of our strong free cash flow growth, we've been re-investing aggressively into our business.

And you may be wondering how we decide where to invest, and how much capital we should commit.



As you heard earlier, we are leaning into LTV as a tool to inform key business decisions – and it's helping us achieve better outcomes, from Marketing to Product to Content, even M&A.

Tony highlighted the positive LTV results we're seeing from podcasting. And they also extend to numerous other investments we've made.

Take Lyrics for example. Currently, there's not a lot of revenue associated with this feature. It's mostly an incremental expense. However, since launching globally in November, it has quickly become one of our most used features.

So, while the addition of Lyrics carries a short-term Gross Margin impact, we've seen an uptick in user retention across a meaningful portion of our user base.

And this points to a positive LTV benefit.

When we decided to grow our advertising business outside the US, we had a clearly defined model for the revenue uplift and the costs associated to achieve our goals. And in the short-term, this cost hits our operating expenses before we see the revenue uplift.

However, we see this investment, mostly in headcount, as driving LTV improvements. And on a more traditional financial return basis, we expect to generate a strong double digit ROI from this investment over the next 3 years.

Turning to our financial performance, I'd like to spend a few minutes talking about our music business. Our music business has been a real source of strength, driving strong revenue growth and strong gross margin expansion.

And this may not be immediately evident in our consolidated results. But, make no mistake, we have delivered against the expectations and the framework we rolled out at the time of our direct listing.

So, isolating just the performance of our Music operations, you'd see that our Music revenues, which consist of Premium Subscriptions, Ad-Supported Music, our Marketplace suite of artist tools, and strategic licensing grew at a 24% compound annual growth rate and inline with our expectations on an FX neutral basis.

And importantly, our Music Gross Margins have increased over the same time frame – reaching 28.3% in 2021. This is approximately 150 basis points higher than our total 2021 consolidated margin of 26.8%.

And when you back out the negative impact of currency movements since 2017, the music margin looks even more favorable at 28.5%.



And looking at our progression another way, since 2018, the last year before our major podcast investments, our music margins have expanded, on average, by approximately 75 basis points per year.

At our last investor day, we told you to expect Gross Margins in the 30-35% range over the long-term. This was—and still remains—the goal for our music operations. As you can see from these numbers, we are clearly on our way.

So let me unpack how we've expanded our music gross margins.

At the beginning of 2018, we announced the development of our Marketplace business – all of the tools and services that Charlie described earlier. Our thesis back then, was that by providing increased value to artists, creators and labels – they would see material benefit, and so would Spotify.

And that is exactly what we are seeing today. We've long maintained that our success is not solely tied to renegotiating new headline rates.

It's about our ability to innovate—right along with our partners—to grow a business that benefits both artists and Spotify. And that's what we've done with Marketplace.

In 2018, our Marketplace contribution to gross profit was only €20 million. In 2021, it grew to more than €160 million, 8 times the size in just 4 years. We expect that number to increase another 30% or more in 2022.

We see tremendous upside in Marketplace and anticipate that its financial contribution will continue to grow at a healthy double digit rate in the years ahead. Marketplace is the quintessential example of our approach to capital allocation.

There was a significant upfront cost to build and launch these offerings. But, we saw compelling data, which gave us the confidence to double down, and invest aggressively against our goals.

And it may have taken time to build up momentum, but our patience and conviction has paid off, and we're seeing a material benefit from our investment. So next, I'd like to spend a bit of time unpacking podcasting.

Our investments in Podcasting have fueled both user and revenue growth, but they've also created a temporary drag on gross margin expansion. Taking a step back, one of the dynamics we mentioned early on was that if we were seeing success with our investments in growth initiatives – we would “double down”.





And that is exactly what has occurred in our podcasting business. We continue to invest in this vertical because we believe the long term margin profile will be accretive to our consolidated margins.

Let me show you some of the positive signs we're seeing thus far.

As Dawn and Tony said, we see that users who engage with both music and podcasts have a higher LTV than those who just engage with music.

So, part one, we see the benefits to user retention and churn, and this translates into a clear benefit to LTV. This higher LTV gives us the confidence that the investment strategy is working.

And the second part of the equation is the impact on our financial model.

In 2021, podcasting revenue grew more than 300% year on year to nearly €200 million. However, this growth came with a €103 million negative impact on Gross Profit. And in 2022, that impact will be higher—consistent with the Gross Margin outlook we communicated to you on our Q1'22 earnings call.

But this drag will not last. Based on our current forecast, we believe 2022 will be the peak in terms of the negative impact on Gross Margins, with podcast Gross Margin turning profitable over the next 1-2 years, with a meaningful ramp from that point onward.

Additionally, our podcast investment should become accretive to consolidated Gross Margins—i.e. higher than our Music Gross Margins—within a 3-5 year timeframe.

We are building a massive podcast audience, which is the foundation for monetizing our investments.

As of Q1, 30% of our monthly active users engage with podcast content globally, and podcast consumption accounts for more than 7% of all listening hours on our platform.

And we see substantial headroom for both of these metrics to move meaningfully higher.

So, over the next 3-5 years, podcast listening hours are poised to grow materially on our platform. And we're just getting started in terms of monetizing these listening hours.

Only a minority of podcast time spent was monetized by us in 2021 – either through our O&E inventory or monetizable SPAN impressions.

In fact, of the 7% of listening hours coming from podcasts, approximately 14% are currently monetized by us on a global basis.



As Dawn laid out earlier, we are hard at work expanding our capabilities here.

Now, moving forward, I will walk through the high level expectations for our financial results in the intermediate and longer-term.

To be clear, for us, the intermediate term reflects the next 3-5 years with longer term implying the next decade.

Our goal continues to be to deliver 20% plus revenue growth over the long term. When looking at how we will achieve this target, there are a number of factors that should contribute to growth.

First, we see continued subscriber growth over the next 3-5 years and that growth will be aided by new product SKUs and ARPU initiatives.

And additionally, we see significant growth ahead for our advertising business, thanks to a combination of our investments in new product offerings, further penetration on and off Spotify – and growth in both developed and developing markets.

All of these factors give us confidence that our advertising business has a strong upside.

And finally, as we've mentioned throughout the day, we see new verticals as further additive to revenue growth.

Now let's look at Gross Margin.

As we showed earlier, our Gross Margin, led by our marketplace tools and services, has grown nicely; hitting 28.3% in 2021.

And moving forward, we see continued expansion of our marketplace offerings. That, along with other favorable margin drivers – such as improving international ads monetization – should lead to further expansion of our music margin, first to 30% and then over time, to 35%.

And with regards to podcasting, we see podcast gross margins expanding over time for two main reasons.

First, we see leverage on the fixed cost content from our O&E business.

And second, we see SPAN continuing to grow, and with it, a strong gross margin based on current take rates of the product.

And podcasting has two benefits.

First, it will see a significant reversal from a margin detractor to a margin enhancer.



And second, as it grows to become a larger percentage of our business, the mix shift will further benefit our consolidated Gross Margin.

Over the next 3-5 years, we believe podcast margins should top 30% and our long term view is that this business could reach 40-50%.

And, as Alex discussed, we plan to launch 3 new verticals over the next 10 years, with audiobooks being first on the agenda.

We see many of our newer incremental verticals as having even better gross margins than our current portfolio.

So summing up our gross margins, we see music margins at roughly 30% or above in the intermediate term.

We also see a podcast business that will flip from a drag to a benefit, also topping 30% with upside from there.

Based on the current visibility we have on these businesses and other initiatives, we expect our consolidated gross margin to top 30% during this timeframe.

And over the long-term, our roadmap has a number of initiatives that we believe will yield even higher incremental margins.

We are building a strong business with significantly higher gross margins.

And we won't hesitate to invest when we see something big to grow our business.

And this may create lumpiness in our margin progression, and as you have seen it, our growth is not always linear. 2022 is a great example of this.

But hopefully you now see why we are so excited about the long term financial model we are building.

So, what does all this mean for where we're headed with profitability and cash flow?

So let's start with Operating Expenses. As we hit the middle of 2021, we identified a number of initiatives that we wanted to pursue more aggressively.

This was mainly headcount in R&D, as well as a step up in marketing. The increase in headcount began toward the end of last year and continued into the first part of this year.



And on the marketing side, we identified a number of markets where we believe we could accelerate our growth to gain meaningful share.

With that being said, we are clearly aware of the increasing uncertainty regarding the global economy. And while we have yet to see any material impact to our business – we are keeping a close eye on the situation and evaluating our headcount growth in the near term.

And when it comes to marketing, the situation will be a bit more fluid. Our longstanding use of LTV/SAC will remain a guiding factor in how, and how much we spend moving forward. Historically, we have maintained an LTV/SAC of between 2.5-3.0x.

And our aggressive approach to 2022 was potentially going to cross the lower bound of that range this year. But, given the current environment, we will be evaluating our level of marketing spend moving forward.

So that's the short term, but before getting into our long term expectations, let me walk you through how we think about operating expense growth.

We will invest as much as possible when we see potential to increase LTV. That could be in new users, retention drivers, ARPU opportunities, or activities that increase our gross margin. Everything you have heard us mention before.

And secondly, we are focused on a consolidated level, on growing gross profit faster than the rate of revenue growth.

And lastly, we're focused on remaining free cash flow positive. This is an important metric because it essentially helps you to think about how we modulate our investments.

With that in mind, looking out over the intermediate to longer-term, our expectations for Opex have moderated slightly since our first investor day.

We now see R&D around 10-13%, staying at our current levels or even potentially increasing, but below our prior long-term guidance.

Sales and Marketing of roughly 6-7%, and G&A at 3% or below.

So, if we achieve our gross margin goals, we would expect an operating margin of roughly 10%, with the potential for operating margin to scale up significantly as Gross Margin improves further.

As I discussed earlier, we have been Free Cash Flow positive for each of the past 4 years and expect that to continue moving forward.



2022 will be one of our smaller Free Cash Flow years given the already mentioned investments. But, we expect it to be positive.

And addressing another question we often get, much of our Free Cash Flow does come from a favorable working capital mix.

We think this is an advantage of the way the music streaming market operates, and we expect that dynamic to remain for the foreseeable future.

But regardless, we expect more of our Free Cash Flow to increasingly come from growth in Operating Income—much like what we saw in 2021. We view our Free Cash Flow trend over the next 5-years as remaining positive and strong – and we expect to generate billions of cash flow over this time frame.

We believe the positive and growing Free Cash Flow in our business is somewhat unique in direct to consumer companies. This is a core advantage of our model moving forward.

So in conclusion, we are excited about the business we are building at Spotify. We have strong momentum with the potential for meaningful user, revenue, and bottom line growth, in both the short and long term.

Coming into this investor day, our goal was to detail how we are able to marry our industry leading product with a strong and growing financial profile.

And hopefully, you leave today more convinced that we have the team and the plan to deliver growth in users, subscribers, revenue, and margin. And doing so with positive and growing free cash flow. We have never been more enthusiastic about the opportunity ahead.

So with that, let me turn it back over to Daniel for some closing remarks.



**Daniel Ek, Founder, CEO & Chairman**

Thanks, Paul.

So we've laid it all out for you. And it probably comes down to just one fundamental question for any investor—why should you bet on Spotify?

Well, we are running faster and we are more focused than anyone else in audio. And as you could hear, audio and long form content is a much bigger business than what many would have thought.

As a consequence, we are building a model that no other platform has dared to attempt. And this strategy to ensure our success, isn't just based on just one thing, but literally hundreds if not thousands of things.

We think by embracing complexity and using machine learning and technology, that we are making a new type of company possible. A bigger and better company.

And we are shooting for the stars. Literally and figuratively. And the opportunity out there is massive. And I continue to believe it's ours to win, and we will do so with the machine we are building.

So from everything I see, I believe that over the next decade, we will be a company that can generate \$100 billion in revenue annually, and that we can achieve a 40% gross margin and a 20% operating margin.

And I know it seems challenging to put all this into a financial model, because frankly this type of company has never existed before, that is exactly my point. The businesses that *never* existed before are always the most valuable to have invested in over the long term.

And this is the Spotify machine: a unique, highly scalable machine that enables a unique platform.

And we are accelerating our move from a one-size-fits all, to a much more dynamic and open platform. A platform that will entertain, and inspire and educate more than one billion users around the world. And as the world's creator platform, we will provide the infrastructure and resources that will enable more than 50 million artists and creators to grow and manage their own businesses, to monetize their work and effectively promote it.

And doing this well will make us more attractive as a home for top and emerging talent. And in turn, these services will also improve the gross margin across our portfolio.



So with every innovation and enhancement, we will turn more listeners into super fans, giving a voice to more types of creators and offering our users multiple ways to interact and engage with the talent that they love.

Thank you so much for taking the time to join us today.

And now I will invite Paul back up to the stage again and we will take some questions from the audience.