Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify’s Fourth Quarter 2022 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO, and Paul Vogel, our CFO. We’ll start with opening comments from Daniel and Paul and afterwards we’ll be happy to answer your questions.

Questions can be submitted by going to slido.com (S L I D O.com) and using the code #SpotifyEarningsQ422. Analysts can ask questions directly into Slido and all participants can then vote on the questions they find the most relevant. We ask that you try to limit yourself to 1 to 2 questions, and, to the extent you’ve got follow ups, we’ll be happy to address them, time permitting.

If for some reason you don’t have access to slido, you can email investor relations at ir@spotify.com and we’ll add in your question.

Before we begin, let me quickly cover the Safe Harbor. During this call, we’ll be making certain forward-looking statements including projections or estimates about the future performance of the Company. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed on today’s call, in our Letter to Shareholders and in filings with the Securities and Exchange Commission.

During this call, we’ll also refer to certain non-IFRS financial measures. Reconciliations between our IFRS and non-IFRS financial measures can be found in our Letter to Shareholders, in the financial section of our Investor Relations website and also furnished today on Form 6-K.

And with that, I'll turn it over to Daniel.

Daniel Ek, Founder and CEO

Hey everyone. Happy New Year and thanks for joining us.

We had a great Q4 and ended 2022 strongly. Our user and subscriber numbers continued to climb, showing the value of our investments in the platform over the past few years. We are now in an even stronger competitive position and I am confident in our future prospects. I’ll let Paul fill you in on the specific details.

A notable call out in the quarter was our 8th annual Wrapped campaign which was a big contributor to our Q4 success. We broke all sorts of records and reached several all-time-highs
with an increase of over 30% in user engagement. Wrapped was trending all over social media but it wasn’t just about Wrapped. By the end of the year, we had more than 100 million tracks on our platform, 5 million podcasts and more than 300,000 audiobooks being enjoyed by almost half a billion listeners.

In 2021, we said that 2022 would be an investment year… and it was. In light of our recent news on cost and staff reductions, I am sure some are wondering if we believe that investment was a mistake. The answer is…No and yes. I still believe it was the right call to invest. And I would do it again. In the last 12 months, we grew our users substantially, enhanced our capabilities, developed a better product and brought more content to creators and users around the world. We’ve also made tremendous strides in setting Spotify apart from everyone else in our space. In addition, my expectation was never that these investments would have great impact in the short term, yet they have. But more importantly for our shareowners, I fully expect that they will continue to pay dividends in the months and years to come.

But things change. And the macroenvironment has changed significantly in the last year. In hindsight, I probably got a little carried away and overinvested relative to the uncertainty we saw shaping up in the market. So we are shifting to focus on tightening our spend and becoming more efficient. This remains consistent with the plan we outlined at Investor Day, but you should expect us to execute on it with even greater intensity given what I just said.

However, to be clear, this doesn’t mean we are changing our strategy. We will continue to work to build the platform of the future and that will take investment in the new opportunities we outlined including podcasting and audiobooks. And if anything, thanks to our position in users and subs, this should allow us to both increase revenue per user over time, as well as improve our stickiness with consumers even more. But, going forward we will do it with an intense focus on efficiency. And that marks a pretty big shift in how we will act.

To meet this objective, we are rethinking how we operate. We’ve set up a new org structure that streamlines decision making and prioritizes speed and efficiency.

2023 marks a new chapter for us but our commitment to achieving our goals remains the same. I am really optimistic about the direction we’re headed in and I will continue to focus my efforts on guiding the long-term success of the company.

With that, I’ll hand it over to Paul to go deeper into the numbers and then Bryan will open it up to Q&A.

**Paul Vogel, Chief Financial Officer**

Thanks Daniel, and thanks everyone for joining us. I’d like to add a bit more color on the quarter and then touch upon the broader performance of the business and our outlook.
Let’s start with Q4. User growth was very strong in the quarter. Total **Monthly Active Users** grew to 489 million in Q4. This was 10 million ahead of guidance, up 33 million quarter over quarter, and the largest Q4 net additions in our history.

Moving to Premium, we finished the quarter with 205 million **Subscribers** – 3 million ahead of guidance – thanks to broad-based strength across several regions, particularly in Latin America.

Our **Revenue** grew 18% Y/Y to approximately €3.2 billion in the quarter. Reported results were aided by a 600 bps currency benefit, however this was 200 bp less than forecast. So while reported revenue was a touch below forecast, our organic growth on a currency neutral basis modestly outperformed due primarily to advertising.

Turning to **Gross Margin**, Gross Margin of 25.3% was above guidance by 80 bps due primarily to lower podcast content spend along with broad-based favorability in our core music business led by strength in Marketplace.

Moving to **Operating Expenses**, growth in the quarter was lower than forecast due mainly to currency movements and to a lesser degree lower marketing spending. When combined with our better Gross Profit, **Operating Loss** was ahead of guidance by €69 million.

As we previewed last quarter, **Free Cash Flow** was negative in Q4 due primarily to timing shifts around certain payments, however, we continue to generate roughly €200 million in Free Cash Flow on a trailing 12 month basis and we expect to be Free Cash Flow positive for the full year 2023.

Looking ahead, we are pleased with our momentum into 2023. When combined with our increased focus on speed and efficiency, we are confident in our ability to continue our double digit top-line trajectory in conjunction with improvements in profitability.

With respect to first quarter guidance, we continue to see strong momentum in MAU and anticipate reaching half a billion users by the end of Q1. On the Subscriber front, we expect to add about 2 million subscribers in Q1, bringing Total Subscribers to 207 million. We are also forecasting €3.1 billion in Total Revenue, a Gross Margin of roughly 25% excluding severance charges, and an Operating Loss of €194 million, with the latter reflecting €35-45 million in severance charges within our operating expenses.

While we no longer give full year guidance, Full year 2023 user growth should be close to the average of the last few years and we expect strong subscriber growth as well. So we are feeling good. Gross Margin and operating expenses are expected to improve throughout the year as we have mentioned previously, while Free Cash Flow is expected to be in line with historic averages.
Given many of the adjustments we made at the start of 2023, including our decision to reduce our workforce by 6%, we see our Operating Expenses growing slower with a material improvement in our Operating Loss compared with 2022. This is according to plan, but as Daniel mentioned we are entering into a new era with even more focus.

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

**Bryan Goldberg**

Thanks Paul. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ422. We'll be reading the questions in the order they appear in the queue, with respect to how people vote up their preference for questions.

And our first question today comes from ...

**[Q&A]**

**Bryan Goldberg**

That’s going to conclude the Q&A section of our call, and now I’m going to turn it back to Daniel for some closing remarks.

**Daniel Ek**

Thank you all for joining the call. I’ll close by reiterating my confidence in our business as we enter into this next phase. And while it’s great to close out 2022 on such a high note, the fourth quarter is just one of many proof points that shows our investments over the last year are paying dividends. We look at the totality of what we’ve done… because it’s not always linear. This is the multi-year approach we laid out for you last June at our Investor Day and the one that we are tracking consistently against.

I look forward to sharing more about our evolution and all the things we are building at our upcoming Stream On event on March 8th. In the meantime, please check out our podcast, For the Record, for more details about the quarter. Thank you everyone for joining us.

**Bryan Goldberg, Head of Investor Relations**

Ok, and that concludes today’s call. A replay of the call will be available on our website and also on the Spotify app under “Spotify Earnings Call Replays”. Thanks everyone for joining.