Spotify

Q2 2025 Earnings Call Prepared Remarks
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Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Second Quarter 2025 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO, Alex Norström, our Co-President and Chief Business Officer, Gustav Söderström, our Co-President and Chief Product and Technology Officer and Christian Luiga, our CFO. We'll start with opening comments from the team and afterwards we'll be happy to answer your questions.

Questions can be submitted by going to slido.com (S L I D O.com) and using the code #SpotifyEarningsQ225**.** Analysts can ask questions directly into Slido and all participants can then vote on the questions they find the most relevant.

If for some reason you don't have access to Slido, you can email Investor Relations at ir@spotify.com and we'll add in your question.

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

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

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

Daniel Ek, Founder and CEO
Hello and welcome to our Q2 earnings call.

Overall, it was a solid quarter - especially when you look at our strong user growth - across both Subs and MAU. In fact, looking at the first half of 2025, Subs net adds grew more than 30% vs. the first half of 2024. This quarter also marked a huge milestone for us as we hit over 100 million subscribers in Europe - our largest region. And it was our second highest Q2 for MAU net additions. User engagement also continues to strengthen. This clearly demonstrates that the enhancements we've made to both expand our content and improve our product are having the intended impact on our business.

People come to Spotify and they stay on Spotify. By constantly evolving, we create more and more value for the almost 700 million people using our platform. This value not only benefits users but it's attracting more people to streaming…and as a result, it's also boosted the industries of music, podcasts, and audiobooks. However, as I look at our progress, the one area that hasn't yet met our expectations is our ads business – we've been moving too slowly and it's taking longer than expected to see the improvements we initiated take hold. It's really an execution challenge, not a problem with the strategy. While I am unhappy with where we are today, I remain confident in the ambitions we laid out for this business…we are working quickly to ensure we are on the right path. We are seeing some promising signs in our programmatic business, which will set us up nicely for 2026. Alex and Christian will share more details shortly.

As you also look at the underlying fundamentals of the business, this year is largely playing out as we expected. But in the spirit of transparency, you'll see a few places in our Q3 forecast where we're probably lighter than you may have anticipated.

So let me talk about that. First, big picture, the business is solid and our model holds up - and I feel really good about where we stand and how consumers view Spotify. We still expect 2025 to be a standout year for Spotify. And this quarter brings us one step closer to that goal of a billion subscribers. Looking ahead, we'll keep pushing boundaries through innovation, bringing even more value to users and creators. This expands the overall Spotify network as we build a larger, more vibrant platform that benefits everyone - where fans gain access to more of what they love and creators have a global audience to reach.

But let me also take a step back to remind you how we run Spotify: our approach has always been—and will continue to be—focused on creating lifetime value rather than optimizing for quarter-to-quarter performance. Lifetime value is such a powerful metric because it inherently captures the balance and trade-offs between chasing short-term opportunities and driving long-term strategic initiatives. It acknowledges that not every decision will yield immediate returns and our progress is not always linear. Many of the initiatives driving today's strong user and subscriber growth were started several quarters or even years ago. The exact timing of when these efforts flow into tangible results can vary—sometimes within our control, sometimes not. But the most important takeaway for you is that we don't make decisions to achieve specific short-term quarterly outcomes. But zooming out, we are well positioned and I feel very good about our business.

With that, I'll hand it over to Alex.

Alex Norström, Co-President and Chief Business Officer
Thanks, Daniel. I want to cover a couple of things.

As you heard, we are excited about the user and subscriber growth we saw this quarter. First, let me set the stage on our Subs growth story. Over 3% of all the world's population subscribes to Spotify. That's pretty astounding but also really encouraging when you think about how far we can still grow from here. And it's not implausible to imagine us reaching 10 or even 15% of the world's population. It's also awesome to see that we continue to uncover new Subs growth opportunities even in our developed, mature markets. And it's great to see the business crushing it - striking the right balance with our marketing mix. We also see this in our conversion rate from free to paid users, which is healthy and continues to tick up nicely.

Secondly, I want to expand on Daniel's comments on our ads business. Bottom line, we see a ton of potential in this business and I believe in the strategy. But we're recalibrating because we have to move faster to accelerate its contribution to our financials. I've spent a lot of time over the last couple of months meeting with brand partners and there's a lot of excitement about working with Spotify - especially with automated ads and all the new tools we recently introduced. We have an enviable brand and a highly engaged, loyal user base that advertisers want to tap into. In fact, we've grown monthly active advertisers by more than 40% year over year. We will continue to build on this growth in the second half of 2025, which will be focused on improving our execution. And with the heavy lifting on our ad tech largely complete, we are focused on driving adoption, launching new tools for advertisers, and improving performance of all of our inventory in order to fully monetize our new biddable channels. We are creating a stronger, more sustainable ads business by accelerating our automation efforts and enhancing our world-class brand operations.

Now I'll pass it to Gustav to share some insights around some of the ways that we're increasing the value for users and creators.

Gustav Söderström, Co-President and Chief Product & Technology Officer
Thanks, Alex.

Our overall user growth story is a testament to our teams who have been hard at work to deliver the best possible experience to users, artists, creators and authors. We're solving for the real problems they face…while also driving meaningful impact to the business.

And there's no question that this multiformat strategy is working. The data clearly shows that the more content formats we deliver for users, the more engaged they become. This is especially true with super users who are not only spending more time, but even more days on Spotify.

Looking at our core business of music, excluding China and Russia, 45% of people who pay for a music streaming service subscribe to Spotify according to MIDiA research. And that percentage has been steadily growing over the years.

As you know, in 2024, we went all in on video. There are now more than 430,000 video podcasts on Spotify and video continues to outperform with consumption trending higher and higher…. Growing 20x faster than audio-only consumption since 2024. More than 350 million users have streamed a video podcast on our platform, a 65% increase year over year.

As we look to understand impact, user engagement is a critical metric for us….and as we rebuild our stack for the Generative AI age and bring personalization to a whole new level, we are seeing it improve significantly. For example, listeners have been telling us just how much they love Spotify's DJ - and user engagement with DJ has nearly doubled over the past year. Spotify Premium users wanted more than a one-way channel with DJ - they wanted a dialogue. So we delivered….and now, in more than 60 markets, DJ takes music requests, serving up suggestions using AI and insights from our global editorial experts. Now, you can ask the DJ questions that require Spotify to understand the wider world, like "Play me that song where Bruce Springsteen invites that fan up on stage in the music video" and DJ will understand that you are requesting Dancing in the Dark. We also clearly see that the more people interact with DJ, the better and longer their sessions get. This has resulted in a nearly 45% increase in DJ streams globally, driving tens of millions of interactions to date. We also continued to expand our popular AI Playlist to Premium listeners bringing it over 40 new markets and millions of users have responded by – creating playlists with this tool.

Previously, when we constructed algorithmic playlists for our users, we were confined to guessing the tracks the user would want based only on the user's past listening, signals such as plays, saves and skips. With Generative AI, the user can finally tell us - in plain english - what they *actually* want, what's on their mind, and even what they're doing, right now. These are often things that would've been impossible for us to understand from listening data. Imagine trying to guess "*Make a playlist with songs to pump you up on earnings day in late July when your family is on summer holiday without you* " just by looking at my listening history! This is a big deal because we can now use these datasets to iteratively improve these products continuously *after* launch in a virtuous loop - something called Preference Optimization - without any additional product or feature development needed. We've already done our first round of optimization on AI playlists and saw clear jumps in performance (such as people listening longer to the resulting playlists, saving them more often, etc.).

And because of the experience we deliver, and the combined strength of our subscription and free tiers, it's no surprise that, according to Luminate, 65% of global audio music streams happen on Spotify. Now I'll turn it over to Christian to walk you through the numbers.

Christian Luiga, Chief Financial Officer
Thanks Gustav, and thanks everyone for joining us today. Let me cover the Q2 results in a bit more detail and then share some perspective on our outlook.

MAU grew by 18 million to 696 million in total, exceeding our guidance by 7 million. We added 8 million net **Subscribers** finishing at 276 million, up 12% Y/Y and 3 million ahead of our guidance.

Total Revenue was €4.2 billion and grew 15% Y/Y on a constant currency basis. Currency movements during the quarter impacted reported Revenue by €104 million relative to our guidance. Our Premium revenue rose 16% Y/Y on a constant currency basis, driven by subscriber growth and ARPU gains associated with price increases. Our advertising business delivered currency neutral growth of 5% Y/Y. Our automated sales channels were the largest contributors to overall advertising growth. If we exclude the near-term impacts from strategic initiatives, like optimization of our licensed podcasts and the rollout of the Spotify Partner Program, we had low double digit constant currency advertising growth. As Daniel and Alex mentioned, we believe there is an opportunity to grow our advertising business more quickly and 2025 is very much a transition year onto our new tech stack.

Moving to profitability, **Gross Margin** came in at 31.5%, in-line with guidance and expanding roughly 230 bps Y/Y as we strategically invest to accelerate our long-term growth ambitions. Our margin expansion was driven by Premium Revenue growth outpacing music and audiobook costs, partially offset by Spotify Partner Program costs. Additionally, our Ad-Supported margin expanded due to podcast and music gains.

Operating Income of €406 million was €133 million below guidance, primarily due to Social Charges in the quarter, which were €98 million above forecast due to share price appreciation. As a reminder, we don't forecast share price movements in our outlook for the business since they are outside of our control. The remaining variance to our guidance was largely driven by lighter ad-sales contribution and a tax-related charge.

Finally, **Free Cash Flow** was €700 million in the quarter. Y/Y performance here was driven by our growth in Operating Income, as well as improving net working capital. We ended the quarter with €8.4 billion in cash and short term investments.

Looking ahead to guidance. In Q3, we are forecasting 710 million **MAU**, an increase of 14 million from Q2, and 281 million **Subscribers**, an increase of 5 million over Q2. We are also forecasting €4.2 billion in **Total Revenue.** Our Revenue outlook incorporates a sizable headwind of approximately €200 million due to unfavorable currency movements over the last quarter. We are also forecasting ARPU to be flat Y/Y on a constant currency basis.

Moving down the P&L, we expect a Q3 **Gross Margin** of 31.1% and **Operating Income** of €485 million. Consistent with our previously stated expectations, our Gross Margin guidance reflects a more variable rate of sequential Gross Margin progression over the course of this year as we undertake strategic investments to support long-term growth. Q3 Gross Margin guidance also reflects a regulatory charge of ~40 bps, consistent with the prior year period. Excluding the regulatory charge, our expected Q3 Gross Margin is in line with Q1 and Q2 levels. We remain confident in our business and while investing in future growth we will deliver full-year margin expansion in 2025.

Our Operating Income guidance reflects temporarily elevated growth in Operating Expenses in Q3 due to timing factors, and we remain well positioned to deliver year-on-year expansion in operating margin for the full year 2025.

With respect to capital allocation, our liquidity remains strong and we expect 2025 to see healthy Y/Y growth in Free Cash Flow. We continue to focus on prioritizing growth opportunities while managing our balance sheet to support our long term strategy. We are also planning for the upcoming maturity of our Exchangeable Notes in March of 2026. To the extent excess capacity arises above these needs, we will take our shareholders into consideration. In support of this, and as an initial step, the Board has approved an upsizing of our share repurchase authorization to a total $2 billion dollars, of which about 100m had been utilized prior to Q2. The mandate is giving us enhanced flexibility to be opportunistic in this regard.

In conclusion,Q3 will be more reflective of our near-term investments, and we anticipate that they will bring healthy returns over the medium and long term. Our top-of-funnel and subscriber performance are strong, and we remain confident in our ability to drive healthy growth.

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

Bryan Goldberg, Head of Investor Relations

Thanks Christian. Again, if you have any questions, please go to Slido.com, #SpotifyEarningsQ225. We'll be reading the questions in the order they appear in the queue, with respect to how people vote up their preference for questions.

And our first question today comes from ...

[Q&A]

Daniel Ek, Founder and CEO

Thanks, Bryan. It's been a great first half of 2025 and we are focused on delivering a strong finish. The business is healthy and well-prepared, and I genuinely believe we're in one of the best positions we've ever been to capture the opportunities ahead.

Thank you for joining us today and look forward to chatting with you again soon.

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.