Q4 2025 Earnings Call Prepared Remarks
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Bryan Goldberg, Head of Investor Relations

Thanks operator and welcome to Spotify's Fourth Quarter 2025 Earnings Conference Call. Joining us today will be our Founder and Executive Chairman, Daniel Ek, our Co-CEOs, Alex Norström and Gustav Söderström, and our CFO, Christian Luiga. 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 #SpotifyEarningsQ425**.** 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 differ materially because of factors discussed on today's call, in our Shareholder Deck and in filings with the Securities and Exchange Commission.

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

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

Daniel Ek, Founder and Executive Chairman

Hey everyone. Thanks for joining. As a short counting exercise has just shown me, this is my 32nd earnings call - and as you know, my last one in the role of CEO. Alex, Gustav and Christian will give you an overview of the business and cover the quarter. But before I hand it over, I want to share a few thoughts.

First - gratitude. To the incredible teams at Spotify. To the artists, creators and authors we build for. To the more than three-quarters of a billion people who listen with us daily. Thank you.

And thank you to all of you as well. I can say that I've genuinely valued these conversations - with our investors, with analysts - even the tough questions. Getting to build a company like this, and to share that journey with people who care about where it's going - it's been a real privilege.

From day one, our focus has been simple: build the best experience for listeners, be the best partner for artists and creators, and do it in a way that scales globally.

That remains true almost 20 years in. For those participating on the call – I know a huge portion of your role is scoring the companies you cover. So if you want a framework for evaluating Spotify going forward and what to hold us accountable to, I'd point to three key things. And then you must also layer on the culture that makes them possible.

First, we solve problems at the intersection of consumers and creators.

This is where we focus. If something is good for the consumer, and also good for the creator - that's where you'll find us. Every time.

Discover Weekly. Wrapped. Spotify for Artists. Our new Mobile Free Tier. These aren't just features - they're proof points. We build tools that help artists reach listeners they'd never find otherwise, and in turn, help listeners discover music they didn't know they'd love.

We've built an ecosystem where artists, listeners, creators, authors and advertisers reinforce each other. That intersection is where we've always won. And it's where the next decade gets built.

Second, we are first and foremost a technology company.

I've said for years that we aim to be the R&D arm for the music industry. And if I may say so, nearly 20 years in, I think we've earned that. We drove the shift from downloads to streaming and subscription. We proved the model could work at scale…

But here's what excites me most: our capabilities now extend far beyond music.

Today, what we've really built is a technology platform for audio - and increasingly, for <u>all</u> the ways creators connect with audiences.

And this identity will matter even more going forward. The next wave of technology shifts - AI, new interfaces, wearables, new ways of interacting with content - these will reshape how people discover and experience audio and media.

The hard problems ahead - in music, in podcasts, in books, in video, in live, and in things we haven't built yet - we're going to keep building the technology to solve them.

Third, we play the long game.

When we went public in 2018, I talked about long-term value creation. While I know many of you focus quarter to quarter, that's not how we grade ourselves. Never has been.

We chose growth over profitability for many years. I know that was painful for some of you. But in order to scale, it was the right thing for consumers and creators. And ultimately, for the business we're running today.

We acquired Echo Nest back in 2014 when most people didn't understand why a streaming company needed a machine learning AI company. That bet gave us personalization…something that's now core to everything we do.

We built our ubiquity play Spotify Connect starting in 2011, right as we launched in the US. At the time, every major tech platform was building their own walled garden for audio. The conventional wisdom was: pick an ecosystem and live inside it.

We bet the other way. We decided Spotify should work everywhere - your car, your speaker, your TV, your gaming console - regardless of whose ecosystem you're in. Apple. Google. Amazon. Samsung. Sonos. All of them. Seamlessly.

Today, Spotify works across more than 2,000 devices from over 200 brands. You can start a song on your phone and finish it on your TV. That doesn't happen by accident. It happens because we chose ubiquity over control, openness over lock-in - and we stuck with it for over a decade.

These weren't obvious calls at the time. But they compound. And that long-term orientation will continue to guide Spotify.

Which brings me to talent - because we take a long-term view there too.

At Spotify, we've built a culture that tries to build and reward trust. Trust to take risks. Trust to fail and learn. Trust to challenge each other and share the thinking behind our decisions.

Here's why that matters: moving fast isn't just about how much you ship - it's about shipping the right things. A culture of trust gives you both. People dare to try - but they also dare to debate, to push back, to find the better path together. That's how you iterate quickly without losing direction. If there is trust, most processes are easy allowing you to move very fast.

A culture of trust is hard to replicate. And it's why we develop leaders from within.

Alex and Gustav are proof of this. They've been at the center of nearly every major shift in this company - mobile, subscriptions, machine learning, podcasts, audiobooks, marketplace etc. They didn't inherit Spotify. They helped build it.

I'm not going anywhere - I'll be here as Executive Chairman, focused on the long-term. But this is their moment to lead.

I have deep confidence in them. Not because everything will go perfectly - of course it won't. But because I've watched them solve problems that looked impossible. And then do it again. And again.

They're not here to protect what we've built. They're here to build what we haven't imagined yet.

Their success is our success. I'm rooting hard for them.

With that - over to Alex, Gustav and Christian.

Alex Norström, Co-Chief Executive Officer

Thanks Daniel - and congratulations on a legendary run. Gustav and I thank you for the encouraging words.

We closed out what we dubbed as the Year of Accelerated Execution with another solid quarter…delivering a strong finish to 2025. In Q4, we met or exceeded guidance across all key metrics. We marked our highest quarter **ever** for MAU net additions. It's incredible to think that we now serve over three quarters of a billion people around the world. Since going public, I've been touting the importance of our flywheel and it all starts with MAU growth. Which in turn, fuels the growth of our overall business.

A driver of MAU outperformance is Wrapped, which was also record-breaking this year. While we saw impressive engagement in 2024, we also got feedback on the user experience. So this year, we turned up the dial. The response was redeeming: At the end of the campaign, more than 300 million users engaged, up 20%. And we saw more than 630 million shares across social media, up 42%. Even more, day 1 of Wrapped marked the highest single day of Subs intake in Spotify history. Lots of learnings and we take our responsibility seriously to deliver on this much anticipated moment for our users.

We're also driving significant business growth for creative industries. In 2025, we paid out more than $11 billion to music rightholders, once again setting a global record for the highest annual payment from a single source – taking us to nearly $70 billion since our founding.

In podcasting, video podcast consumption on Spotify has increased by more than 90% since the launch of the Spotify Partner Program. There are now more than 530,000 video podcast shows on our platform. And I hope you all caught the watershed moment at the Golden Globes, where Spotify and The Ringer's *Good Hang* with Amy Poehler won the first-ever Best Podcast award. This milestone underscores podcasting's impact on culture and we're proud to have been a key part of it.

Rounding things out with audiobooks, we expanded Audiobooks in Premium to more markets where we're already finding some of the world's most passionate listeners. As we continue to scale, leading global publishers have credited us with bringing in new listeners and driving double-digit growth in audiobooks.

You should expect Gustav and I to continue to optimize for - and be relentless about - creating value for our users. Because, when people spend more days in a month with us - across more moments, devices, and verticals - it proves our product is working. It means our investments into personalization and AI are paying off. It means we are doing a great job sharing the art made by our artists, podcasters and authors. What this ultimately translates into is greater engagement and retention, which unlocks more revenue growth. As our revenue grows, we bring more value back to our partners, artists and creators. And with scale comes more opportunity for innovation and margin expansion. Disciplined reinvestment of this pushes growth even further. This is our formula, rinse and repeat.

As we've mentioned before, we have one of the greatest TAMs in the world. That's because everyone has a relationship with music. And podcasts and audiobooks deepen that connection even further. We proudly count 3.5% of the world as subscribers. And there is still lots of room to grow. It's not implausible to imagine us converting 10 or even 15% of the world's population to subscribers.

With strong performance across all metrics, including user growth, revenue, gross margin, operating income and cashflow, I am confident about our position. And I'm optimistic about 2026 and beyond. We expect continued healthy MAU and subs growth throughout the year, while maintaining our consistently low churn. We will also make further progress on driving top line growth and expanding gross margin.

In close, you might be wondering about our focus for 2026. We're framing it as the Year of Raising Ambition. We were founded to solve what felt like the impossible, and ambition has been the driving force behind our success from our earliest days. And ambition will be a guiding principle of our next chapter. We are looking forward to telling you more at our Investor Day in May of this year. Though what I am certain about is that Gustav will take the opportunity to tease some of that, hopefully not giving away all of it.

With that I'll pass it over to Gustav.

Gustav Söderström, Co-Chief Executive Officer

Thanks, Alex. In 2025, we launched more than 50 new features and innovations (shout out to Prompted Playlists, Page Match and About the Song that all launched recently). So I think it's fair to say we more than delivered on our bold ambitions, pushing every boundary and driving engagement even higher.

Now, I think it's important to zoom out as I know there's been a lot of commentary around AI over the last few weeks. Like any significant global shift, we know there will be winners and losers. There’s no question in my mind that we will continue to be one of the big beneficiaries of AI. I’m expecting a lot of questions on AI in the Q&A so let me share a bit more up front.

My view is that new technology is seldom disruptive on its own. Significant disruption happens when new technologies enable new asymmetric *business models*. For example, this is what Spotify did to music downloads, Uber to taxi service. So the question everyone should be asking is: Does this evolution create new *business models* or are we mostly just seeing new technologies? For example, in SaaS there is currently some fear that the per seat business model will be challenged by more outcome based models. However, in the consumer space that we are in, we believe the dominant business models will continue to be ads + subscription. Both places where Spotify excels. This puts Spotify in an outstanding position - because we have the right business model. Our job just becomes leveraging the new technologies to our benefit, something we’ve done consistently for the last 18 years.

Another reason we are in a strong position? We have been building for this moment for some time. In 2021, we saw the *potential* of AI that would be able to think and speak at the level of a human, so we acquired AI voice platform Sonantic in 2022. This put us on an early path to introduce agentic experiences to Spotify users.

One example is the wildly popular interactive DJ, which we introduced in 2023 and continue to enhance. About 90 million subscribers have used iDJ so far driving four billion hours of time spent on Spotify. More recently, we also launched Prompted Playlist, a new tool that has instantly taken off with power users. If iDJ is the chat interface to Spotify, where you can talk casually, Prompted Playlists is the Deep Research mode of Spotify. It lets you describe and set rules for your own personalized playlists - literally writing your own algorithm. It taps into **your entire** Spotify listening history, reflecting not just current obsessions but the full arc of your music taste and integrates up to the minute culture pulled from the Internet. There’s nothing else like it.

All this teases the next evolution of Spotify… Delivering the world’s most *intelligent*, agentic media platform. One that you can literally talk to, that fully understands each individual listener and puts them in the *driver’s* seat. It’s about moving from a passive experience to an interactive one. This is a stark contrast to most media services today. Innovation like this drives retention and time spent on Spotify, enhancing customer LTVs and monetization potential. The momentum is undeniable – looking at the U.S. alone, monthly streaming hours per user have grown more than 20% in the last five years, and we feel well positioned to make continued gains.

Another example of interactivity is the smashing success of our new Mixing Tools. We recently hit a milestone of 50 million mixed playlists and listeners are now making more than one million transitions per day, building yet another unique dataset that improves our experience. People don't just want to listen, they want to actively participate in the music, they want to shape it. This is now becoming possible in ways that were previously unimaginable.

On that note, there's obviously a lot of conversation around AI in music right now. So let me share how we think about it. We see two distinct categories emerging: one, artists making original music from scratch, and two, new versions of existing music...like covers or remixes. The first category means lots of net *new* music and more content than ever being delivered to Spotify. Importantly, a growing catalog has always been very good for us because it attracts new users, drives engagement and builds fandoms. As more artists incorporate AI tools, the lines around making music are blurring. But while the music may be generated on various AI platforms, the point is that regardless of where the music is made, the cultural moment always happens on *Spotify. That is where all music charts and finds an audience.* This is because Spotify has long been the place that delivers both the largest reach and monetization opportunities.

The second category is derivatives: new takes on existing music. Everything we see tells us listeners want to interact with their favorite music. And many artists want to let them, creating new revenue from their existing catalog. In other media, like movies and TV, existing IP is incredibly valuable. But in music, artists haven't had a real way to monetize existing catalog through AI, because the absence of a rights framework has kept AI mostly focused on net-new creation. We want to work with the industry to fix that.

If you're an artist looking to unlock this potential upside, you'd want to do it on the world's leading music platform. Your fans and the largest royalty pool already are there. We have the technology and capabilities ready to unlock this in a way that is additive for both IP rightsholders and Spotify. And as we've said before, we intend to do this in the right way, with artist support, not around them. In fact, many artists and industry partners see this opportunity and we are already working with them on realizing it.

With so much out there, you may be wondering if we can keep up with this pace in shipping. In fact, we think we can increase it. We've been embracing and investing in this technology evolution for some time, and it's allowing us to move with higher speed. As an example, an engineer at Spotify on his morning commute, from Slack on his cell phone, can tell Claude to fix a bug and add a new feature to the iOS app. Once Claude finishes that work, the engineer gets a new version of the app pushed to him on Slack to test, so that he can then merge it to production…all before he's even *arrived* at the office. We call this system internally "Honk" and we've been told by key AI partners that our work here is industry leading.

As Daniel said, we are a Tech Company – and we consider ourselves the R&D department for the music industry. Our job is to understand new technologies quickly and capture their potential, which we've done time and again. The entire industry stands to benefit from this paradigm shift but we believe those who embrace this change and move fast, will benefit the most.

Now I'll pass it over to Christian to take you through the numbers.

Spotify

<u>Christian Luiga, Chief Financial Officer</u>

Thanks Gustav and thanks everyone for joining us. I'll cover the Q4 results and provide some perspective on our outlook. Unless otherwise noted, *all referenced growth metrics are presented on a year-over-year constant-currency basis*.

Q4 OPERATING PERFORMANCE

Overall, we are pleased with our strong Q4 finish. **Total Revenue** grew at an accelerated 13% to €4.5 billion. Premium revenue rose 14% vs. 13% last quarter, and was driven primarily by subscriber growth. Our advertising business grew 4% vs. flat last quarter. On a like-for-like basis—excluding the effects of our podcast optimization strategies—we had roughly 7% advertising growth. We are encouraged by the progress we're seeing in terms of market adoption of our new advertising tools and continue to expect improved growth in the second half of 2026.

Moving to profitability, **Gross Margin** came in at 33.1%, expanding just over 80 bps Y/Y. Our outperformance here was primarily driven by content cost favorability.

Operating Income of €701 million was €81 million above forecast, of which Social Charges had a positive impact of €67 million, due to share price movements. The remaining variance to guidance was driven by Gross Margin outperformance.

Finally, **Free Cash Flow** was €834 million in Q4 and we ended the quarter with €9.5 billion in Cash and Short Term Investments. We repurchased $433 million dollars worth of shares in Q4 and will continue to opportunistically return capital via share buybacks.

In summary, Q4 capped off another year of healthy growth with profitability and cash flow improvement for us. On a full year basis, 2025 Revenue grew 13%. Gross Profit grew 20% and Operating Income grew in excess of 50% to deliver a Full Year margin of 13%. And our Free Cash Flow generation improved by approximately €600 million to a record €2.9 billion.

BUSINESS OUTLOOK & GUIDANCE

Looking ahead to Q1. We are forecasting 759 million **MAU**, an increase of 8 million from Q4, and 293 million **Subscribers**.

In Q1, which is seasonally our smallest quarter, our Subscriber outlook implies net additions of 3 million. This is within our historical range for Q1. The effects of new pricing implementation in Q1 are considered in our forecast and, as Alex mentioned, the churn with respect to these price increases is in line with our expectations. In addition, we remain very encouraged by the early benefits we're seeing to our funnel thanks to the enhanced free tier that we rolled out in late Q3. We are well positioned for conversion and continued healthy subscriber growth in 2026.

We are also forecasting €4.5 billion in **Total Q1 Revenue**, representing an improved growth rate of ~15% vs. the 13% we just delivered in Q4**.** We are forecasting ARPU growth in the 5-6% range. Our Revenue outlook also incorporates the effects of unfavorable currency movements, which result in an incremental €35 million headwind when compared to prior quarter exchange rates.

We expect a Q1 **Gross Margin** of 32.8% and **Operating Income** of €660 million. While we do not give full year guidance for Gross Margin and Operating Margin, we are expecting both to improve in 2026. For Gross Margin, we expect our recent pricing adjustments to help drive Revenue growth that outpaces net content cost growth in 2026. That said, the quarterly progression of our margins could again be variable depending on the timing of disciplined investments in our core and monetization activities. Finally, we expect our Free Cash Flow generation to meaningfully exceed what we generated in 2025, while reflecting progression towards a normalized long term tax rate.

In conclusion, we are confident in our path into 2026 and will make further progress on driving top line growth, disciplined reinvestments and expect improved margin and cash flow.

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, #SpotifyEarningsQ425. 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.

[Q&A]

Alex Norström, Co-Chief Executive Officer

Thanks, Bryan.

From any vantage point at Spotify, there's a lot to look forward to. In March, we'll kick off our 20th anniversary at SXSW. And we're excited to share more about our Year of Raising Ambition and our longer-term vision at our Investor Day on May 21 in New York. Please hold the date. Gustav, Christian and I look forward to seeing you there.

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.