



Pandora (P) 2017 Q4 Earnings Summary

February 2018

Sign Up For Additional Research From Evolution Media Capital



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Pandora Is Adding Interactive Features In Order To Maintain Their Listener Base

PREMIUM ACCESS

- **Premium Access addresses the largest reason listeners use other services, which is that they can't play the content they want**
 - Delivers a more complete experience to listeners and opens new promotional opportunities for artists
 - **Proven to be a very effective upsell conversion mechanism, especially for younger listeners**
- **Pay higher fees for interactive capability, but overall costs stay down as subscribers transition to the lean-back experience**
 - **Can increase the margin on ad-supported listening because there is a very high-value video ad in front of the content**

PODCASTS

- **Podcasts are a natural expansion because of their ability to address the biggest headwinds: discoverability and monetization**
 - There is no personalization of discovery as most people find podcasts through the top charts
 - **Strength in targeting and data will benefit quite materially for forms of content like podcasts**
- Will increase their activity around podcasts, but it's less about putting a bunch of titles onto their platforms
 - **More about investing to create similar discovery and monetization capabilities like they have for music**

ADVERTISING

- **Excited about the potential of programmatic efforts to enhance sell-through and optimize pricing by tapping into new demand**
 - **Programmatic video offering is in beta, and recently announced audio programmatic pilot program**
 - **Other important ad-tech initiatives include new ad formats, ROI measurement, self-serve and better automated tools**
- Self-serve opens up new revenue opportunities because right now it's not economical to work with smaller advertisers
- Focusing on stabilizing the user base in order to fully build the ad revenue growth trajectory

DEVICE PARTNERSHIPS

- **Big believer in building a business with partnerships and have a major focus on driving listening through connected devices**
 - In Q4, Pandora listening on voice-activated devices was up 145% year-over-year and expect the trend to continue
- During Q4, announced a number of device partnerships, including Comcast, XFINITY X1, Sonos, Amazon Fire TV and Android TV
 - **Think of them not only as devices that play back content, but as distribution partners who can help market the service**
 - **Limitations in ad tech and advertiser demand should evolve (similar to mobile) to allow better monetization in the future**

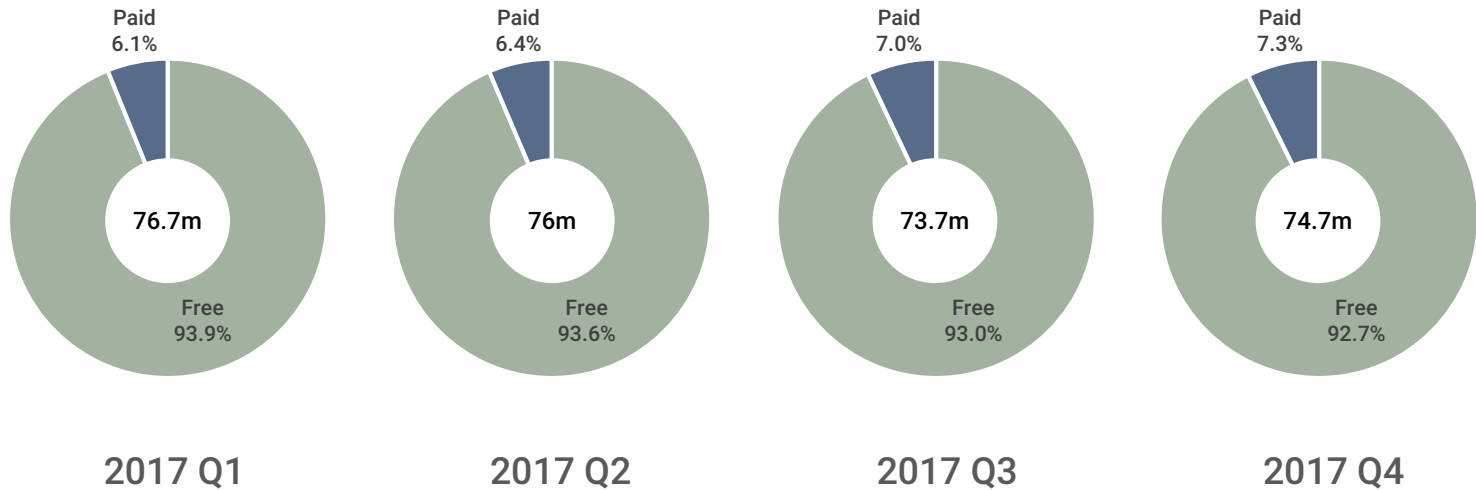
MARKETING

- **Will spend more on marketing, but skewed much more heavily than it has been in the past to performance-based marketing**
 - Were more conservative with marketing spend in the back half of 2017 to further refine Premium Access functionality
- **Investing in mar-tech tools that leverage its strength in data science, which powers its consumer and advertising offerings**
 - Connecting data with new product capabilities and technology to do outreach at scale and drive people on the platform
 - **Utilizing the personal preferences of their millions of accounts to drive more targeted marketing**

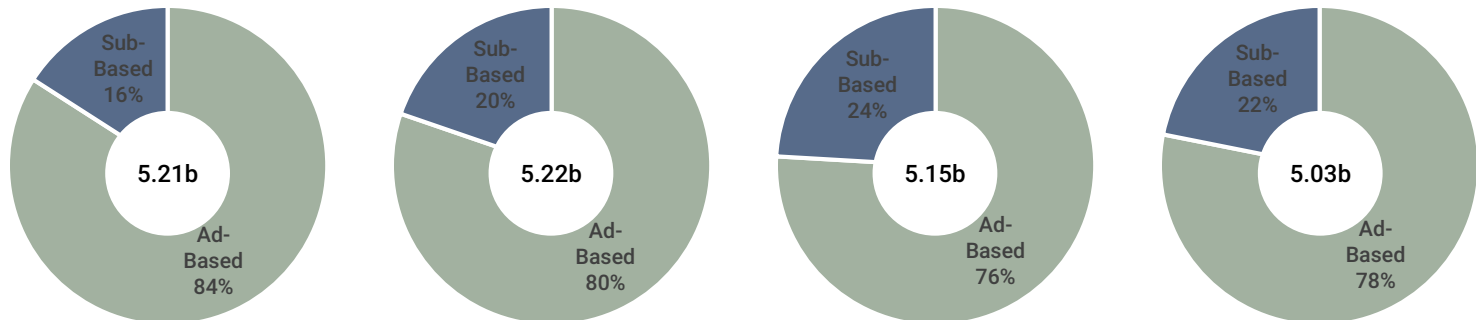
Since the majority of the audience are free users, improving ad tech capabilities is vital for further monetization

On-Demand Listening Capabilities Are Keeping Users From Switching To Other Services

ACTIVE USERS



LISTENER HOURS

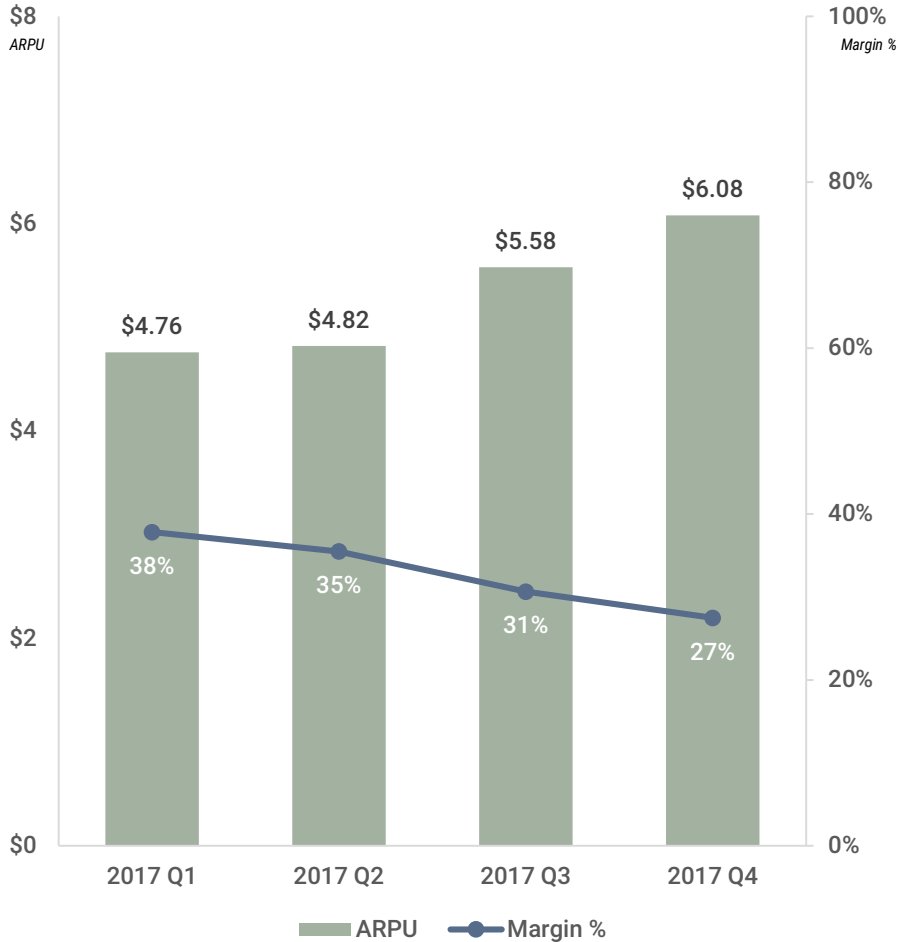


Not surprisingly, paying subscribers are increasingly listening to more music than passive listeners

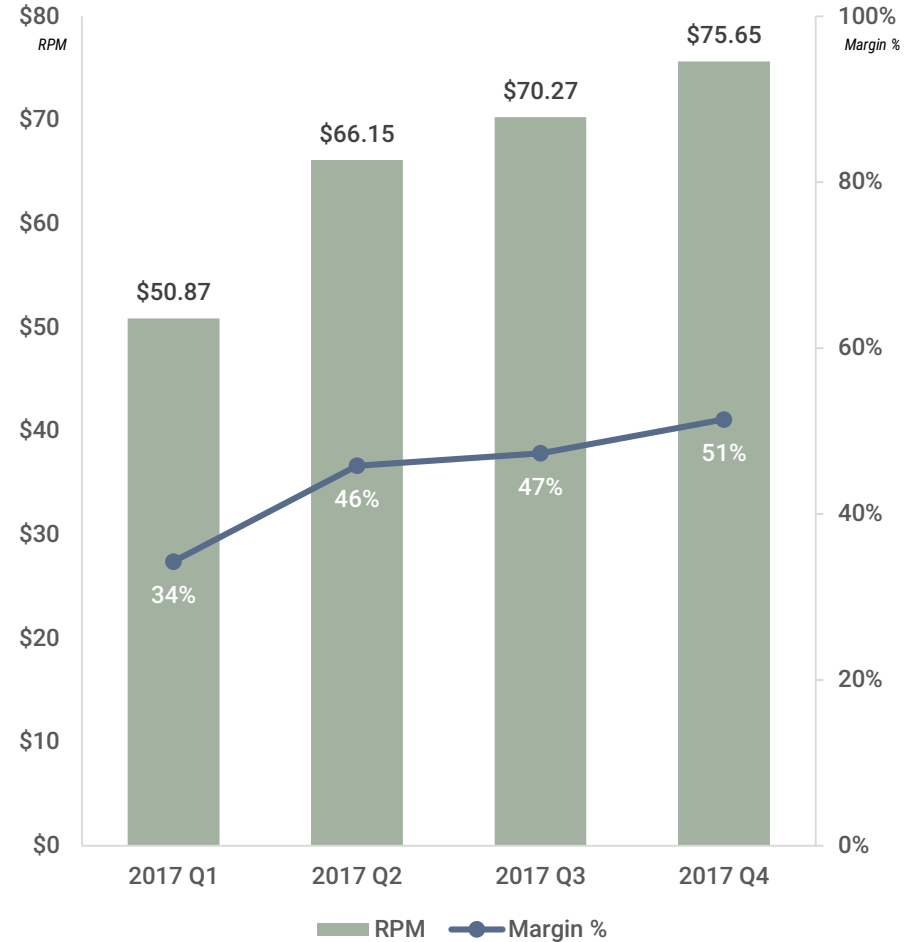
Margins

With Different Costs Of Content, The Margin Profiles For Each Tier Are Going In Opposite Directions

Subscription-Based



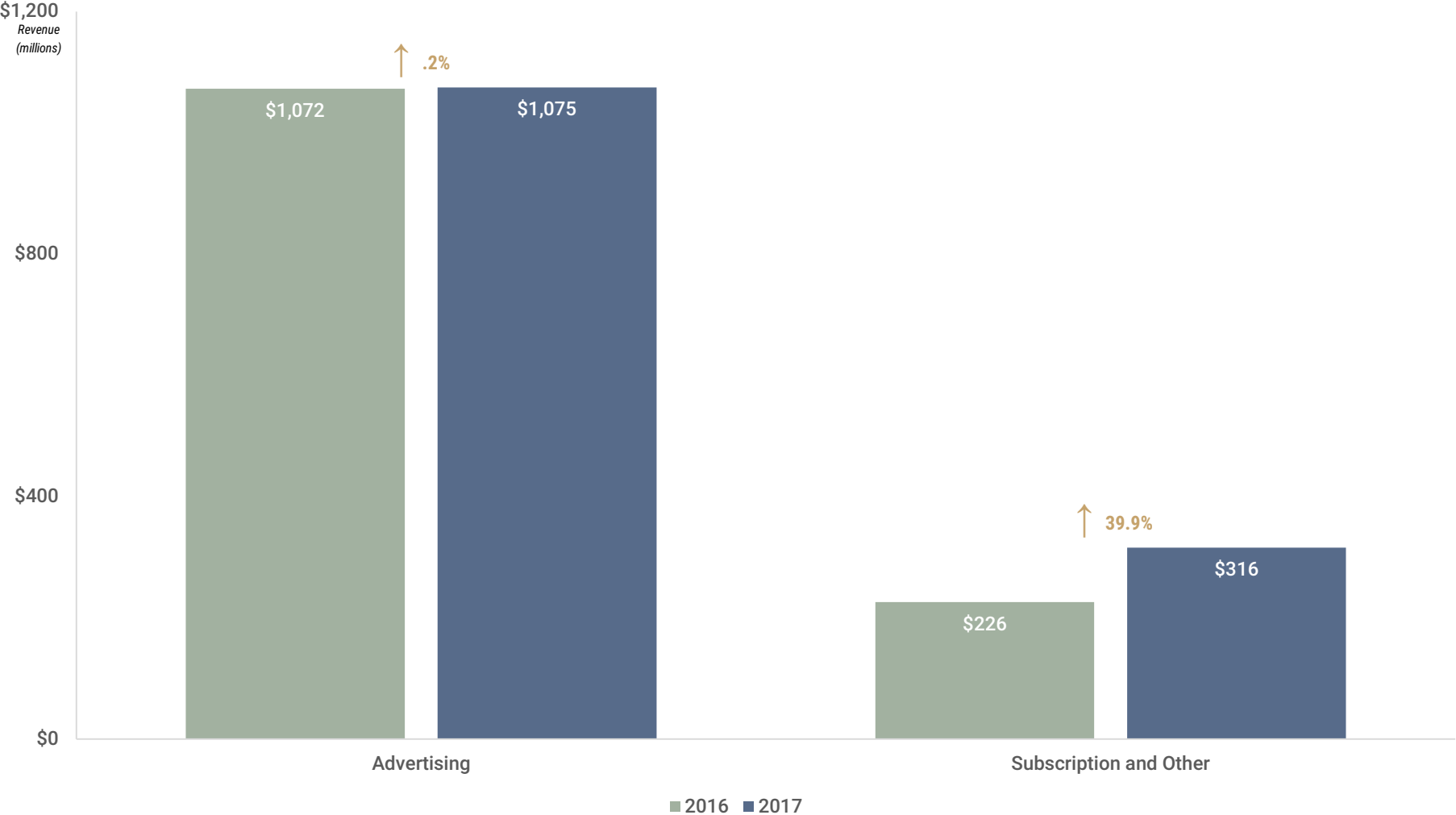
Advertising-Based



As the subscription business grows, there will be opportunities to negotiate lower content costs with record labels

Note: Subscriber Margin is ARPU minus LPU (Licensing Costs per User); Advertising Margin is RPM (Revenue per Thousand Listener Hours) minus LPM

Subscription Revenues Should Drive Most Of The Top Line Growth In 2018



Audience data can be utilized in many different ways to help grow the overall business