



Spotify (SPOT) 2019 Q1 Earnings Summary

April 2019

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## Spotify Is Looking To Replicate Their Marketplace Strategy With Their Expanding Podcast Content

### PODCASTS

- **Users are starting to listen to podcasts, but there's still plenty of growth both in the U.S. and internationally on the demand side**
  - On the supply side, they don't think that the best talent has come to the podcast format, and they are seeing stronger growth on that side as well
- **Definitely think that the same marketplace tools and services that they are building out for musicians can be applied to podcasters**
  - A lot of podcasters are struggling and have to set up their own sales forces in order to succeed creating revenue for themselves
  - They have demographic data, so for the first time, podcasters are able to get actionable insights into who's listening to their content

### CONTENT COSTS

- **In renegotiations with labels, the key pillar is the adoption of their marketplace strategy because that's the future for margin growth**
  - Doing really well with the music industry in the adoption and testing of those tools
- **In every market where they launched, including the U.S. when they first launched, there are minimum guarantees that are paid**
  - Initially lose money in those markets but as long as they are able to achieve their growth objectives then the markets become profitable
  - Geographic expansion works for the business because margins across regions, independent of price points, are relatively equal

### SUBSCRIBERS

- **Personalization is one of the core pillars of their strategy and they see that user satisfaction is closely related to discovery**
  - Drives better user experiences and engagement, which, leads to lower SAC, which, of course, leads to lower churn and higher lifetime value
  - Last quarter, 42% of gross adds were previous users of the service, which means that more and more frequently, former users are rejoining
- **Some newer markets have gravitated towards shorter plans, and they are experimenting with weekly and daily subscriptions**
  - Piloted a premium plan called Premium Dual that is really built for 2 people living under the same roof, and have tested this in 5 markets

### DISTRIBUTION

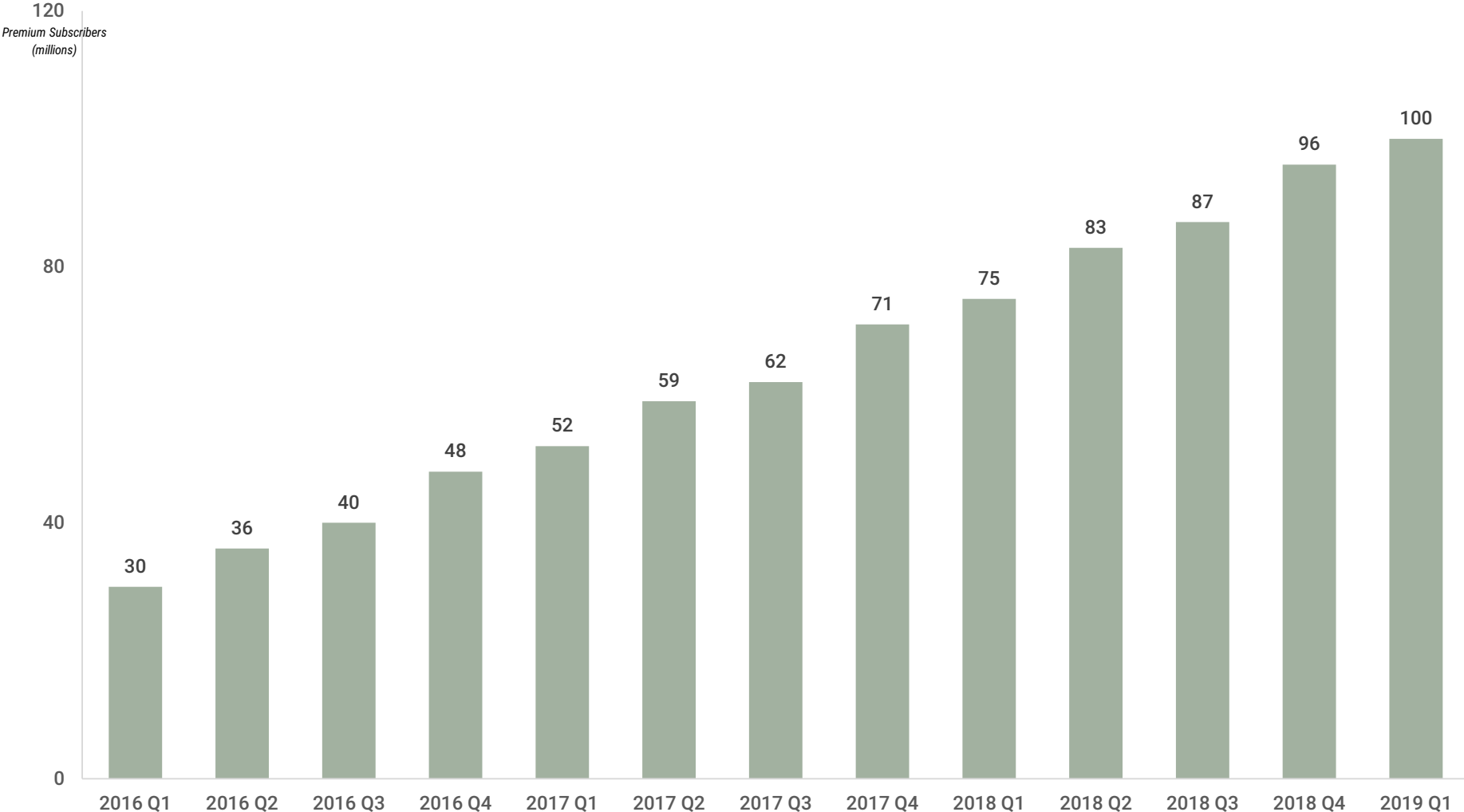
- **One of the core pillars of their strategy is ubiquity, so they want to be on all major platforms that you can imagine**
  - Promotional programs have been quite effective for expanding into voice-enabled products, and it drives user growth
- **Believe voice, really across all platforms, is a critical area of growth, particularly for music and audio content**
  - They are investing in it, and testing ways to explore and refine their offering in this arena
  - While the growth rate of voice speakers is impressive, it's still very small when you compare it to mobile

*While streaming has been the driving force behind the resurgence in music, label renegotiations remain fragile*

# Subscribers



Subscription Growth Is Coming From Developed Markets Where Consumers Have More Disposable Income



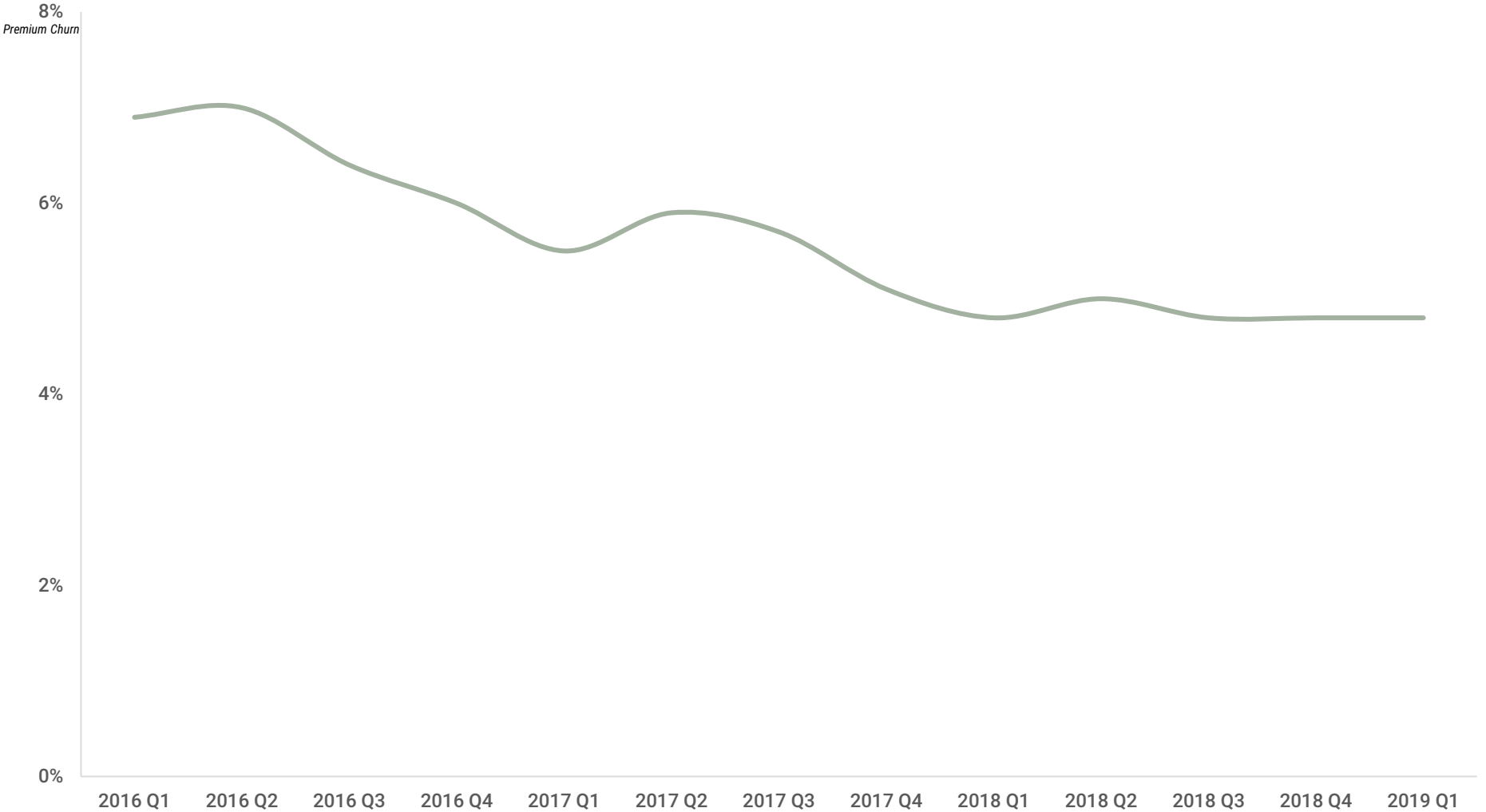
*Experimentation with different types of plans can help reduce sign-up friction from customers in new markets*



# Churn



Churn Has Stabilized Through A Combination Of Student/Family Plans And An Aging Customer Base

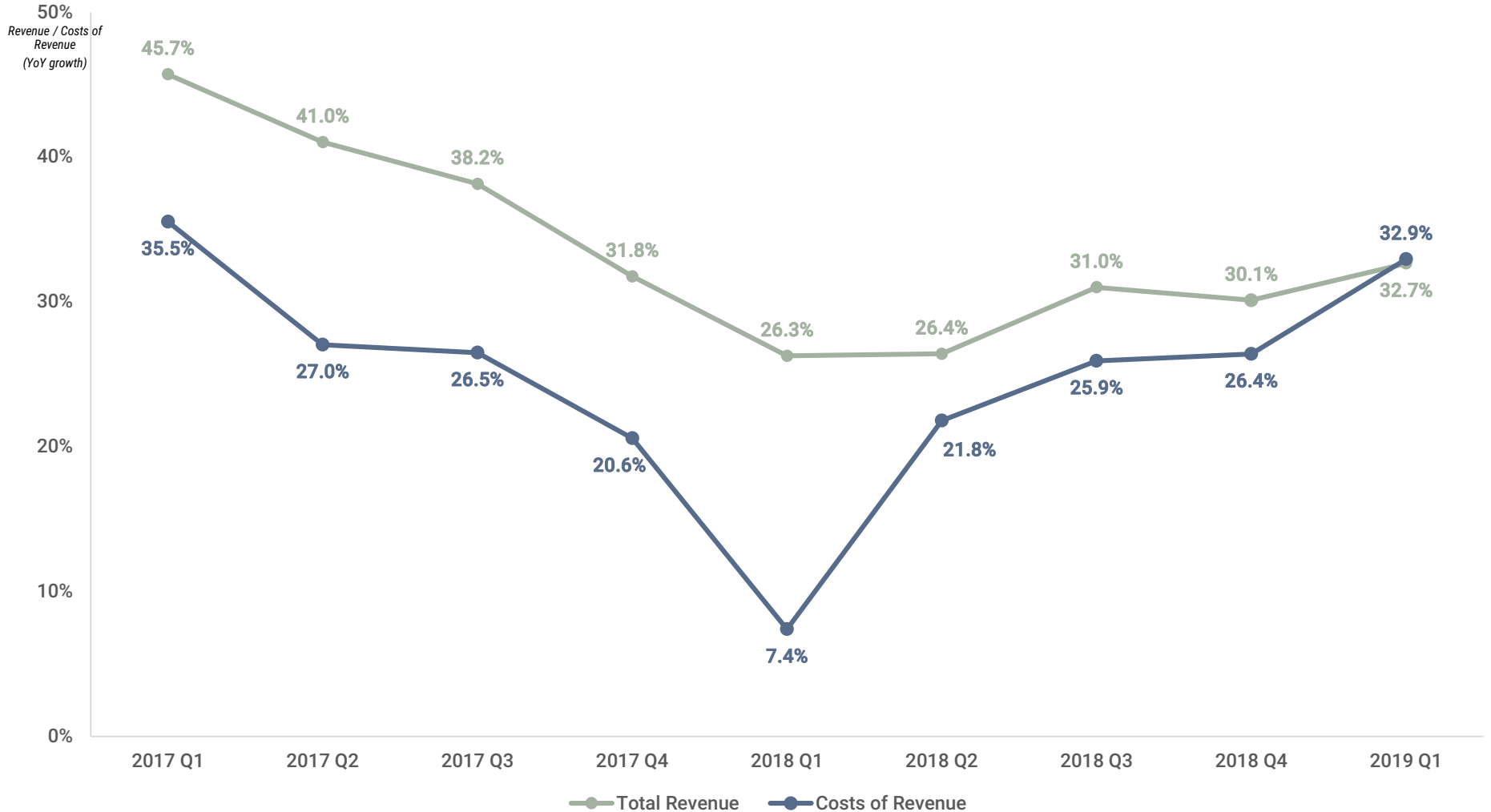


*While these bundles drive down ARPU, they increase customer stickiness, which results in higher lifetime value*

# Gross Margin



Aggressive Expansion Into The Podcast Space Has Contributed To The Decline In Gross Margins



*There is a big emphasis on digital ad sourcing technology to improve the monetization of podcasts*