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SPOT.N - Spotify Technology SA at Morgan Stanley Technology, Media & Telecom Conference

EVENT DATE/TIME: MARCH 04, 2020 / 4:45PM GMT

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PRESENTATION

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. I'm Ben Swinburne, Morgan Stanley's media analyst. Please note that all important disclosures, including personal holdings disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or at the registration desk.

We're really excited to have back at the conference Spotify. And I think for the first time, up on stage, their new CFO, who most of you, I think, know, Paul Vogel. Paul, thanks for being here.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Thanks for having me.

QUESTIONS AND ANSWERS

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

So you recently wrapped up 2019. You guys laid out guidance for 2020. And we're going to dive into the details of sort of the results and the outlook. But maybe starting more big picture, what's your message to investors as they think about Spotify's opportunity and how you're executing against that opportunity?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. First, thanks, everyone, for being here. I'm sure a lot of you guys had the same reservations that everybody else was coming out. So I appreciate everyone being here today.

At a high level, I think we feel really optimistic about where the business is right now. When you look at how we ended 2019 with 3 consecutive quarters of accelerating MAU growth, we feel really good about that, particularly when you think about the size of the business already. It's pretty rare to see a company with a couple of hundred million users accelerating growth, and we saw acceleration across all of our 3 largest regions, which is really encouraging for us. We also saw acceleration in some of our most mature markets like the Nordics. And so in general, feel really good about the trajectory of where the business is. And historically, we know that when top-of-funnel growth is growing and MAU is growing, it's a really good sign for the health of the business. So I think that would be point number one.

And then point number two, I think you mentioned guidance. And so we gave 2020 guidance on the call. We talked on the call about guidance being conservative. And so I want to be sort of clear about what we mean by that. And so our philosophy on guidance hasn't changed. And so for those of you who have followed us for the last couple of years as a public company, our plan is to always give you a guidance range that is indicative of what we actually think we're going to do as a company. And so we give you a range. Our goal is to always hit the upper end of that range. We're never trying to set up for beat and raise or play that game at all. We literally give you the expectations we're going to have.

Throughout 2019 we saw a number of metrics improve. We talked about the accelerating MAU growth. We saw retention improve across a number of areas. And so we feel really good about that. And so all of that goodness has been baked into the 2020 plan. So that's all there. But what we haven't baked in is, we continue to build out the podcasting business and we continue to see improvements in product and innovation. We don't bake those potential incremental benefits into our guidance. And so we feel really good about how we ended 2019. We feel really good about where the trajectory of the business is. And our expectation is that we could continue to see improvements from podcasting, other investments that we've made, but we're not going to bake those types of things into the 2020 guidance. So I just want to be clear about exactly what we meant by the guidance we gave out.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

That's very helpful. Let's stay on this top-of-funnel point. So I think you and your prior boss, Barry McCarthy, liked to highlight top of funnel as being important and something that we all should focus on. So it accelerated a lot last year. What do you attribute that acceleration to?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So I see a couple of things. One, I think one of the things that sometimes gets a little lost in our business is, we make product innovation, we make improvements all the time. And those improvements sometimes take a while to actually be seen throughout the entire process of the company. And so as an example, we launched an improved free experience about 18 months ago, a little over 18 months ago. And that was even kind of a year or 2 in the making to launch that. So you kind of go back and say, it took us 12, 18, 24 months to sort of develop and come up with what we wanted to launch as a new product. Then you launch it and then there's going to be some time of iterating and testing and improving and seeing how the data comes in and then figuring out how that's going to work its way through.

And we started to see a lot of the improvements we made on the new free tier in the last couple of quarters. And we've seen it in retention. We've seen it in some of the metrics around engagement. So those are the types of things where we make big investments. They sometimes take a long time. Sometimes they can take a short time, sometimes longer time to come to fruition, but they really help. So we've seen retention improve on the new free tier.

We think podcasting has helped. We've given some metrics around podcasting. It's still early. It's still growing pretty nicely. But we feel like we've seen that people who engage with podcast, they're more engaged. They have higher retention. They convert at higher rates. So all of the things that we are hoping to see, we're beginning to see.

So you've got improvements in UI and all the investments we make in artificial intelligence and machine learning to make the experience better. We're constantly updating the product itself. Then you throw on top of it the new free tier. All of those things, we think, have contributed to better retention. And again, we've seen retention up across the board in all of our top 20 markets.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

One of the things that people pointed out at the end of the year, Paul, is that while you had MAU growth accelerate, there's been some ARPU pressure. You changed your promotional approach late last year or middle of last year and marketing was up. So when people look at LTV to SAC, which is something you and Barry, who I'm sure is crestfallen he's not here with us today, have focused us on, what gives you confidence that you're making the right decisions and trade-offs when you think about subscriber acquisition cost, discounting and user growth?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I mean, I think you hit on in the question, which is we really focus on LTV to SAC. We're looking at all the metrics that go into that. So it's growth. It's retention. It's gross margin. It's how long people are on the platform and then how much it cost to get them. And our LTV to SAC has been pretty consistent for the last couple of years for as long as we've been a public company. So it hovers around 3. There are some quarters it might dip below that. Some quarters it might be a little bit above that, depending on what we're doing in, as you said, on the cadence of some of the marketing and promotion. But we feel really good about where LTV to SAC is and it gives us the confidence that we're bringing in subscribers in a profitable way.

ARPU itself, we've talked about ARPU in the past. There's a number of factors that impact ARPU. The biggest factor here over the last couple of years has been product mix, right? As we've grown Family plan and Student plan, there has been some downward pressure on ARPU. And international growth and expansion can be a part. It's been a much smaller part. About 3/4 of the decline in ARPU has really been around product and promotion and a much smaller part around geographic mix. That will evolve over time. Geographic mix will probably be a bigger impact moving forward, but product and promotion can impact it.

But again, at a high level, we're always thinking of LTV to SAC. We're balancing all the investments we make, all the marketing, all the spend, all the pricing to hopefully grow subscribers and profitable subscribers.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

How much does sort of time horizon factor into that analysis because, again, you look at the full year and you've got 30% guidance for MAU growth, 20% guidance for user growth. So one could look at and say, well, the conversion is not that good. I know you love this question. But is this really just about what you're seeing in the data that we can't see and how long you are able to look out versus what we can see?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So there's a couple of parts to that. One I would say is, yes, I mean, we're looking at 5-year retention curves to influence us on some of those numbers. And so obviously, you guys don't have all the detail in terms of anything that we've seen historically or any change that might happen in terms of curves.

And then when it comes to this question around conversion, I think it's a fair question. It's an interesting question. I would say, ironically, when the last couple of years, we had subscribers growing faster than users, we always got the question, are you converting too many people and have you now lost -- there's not enough growth at the top of the funnel where you don't have a big enough pond to fish in for more subscribers. And then you start to reaccelerate the user side and people are like, oh wait, now your conversion is down. There's always going to be an ebb and flow to the growth in users and the growth in subs. We know a large number of our subscribers convert after they've been on the platform for a year. So there sometimes is a period of time it takes before we get people to convert. But I would say, again, to kind of highlight what I said at the opening, any time top of funnel is growing and any time we're seeing numbers are really strong, historically, that's been a very good trend for us in terms of what we would see 6, 12, sometimes 18 to 24 months later.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

And Paul, what do you think the opportunity is for subscription music penetration long term? Another question that used to really annoy Barry, the TAM question.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. Barry loves the TAM question.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

He loves the TAM question. But you guys see more than we do. Your guidance, I think, if you take that 70 percentile has got net adds down a tick this year versus last year. So do you think growth has peaked or do you see a long runway even in markets where you are more mature?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So it's a couple of things. I'd say, one, obviously, we feel really good about the net additions, and last year, 28 million net subscriber additions in 2019. Looking at some third-party data, it would suggest that we grew faster. We added more net additions and significantly more net additions than our 3 largest competitors combined, which is a pretty important, we think, statistic in showing sort of the growth of our business. So we feel really good about that. I'd say, we don't think we've peaked in any market. Even our most mature markets, we still think there's plenty of room for growth in terms of users and subs. Obviously, not at the same growth rate we've seen in some of our other markets, but we still think there's plenty of room to continue to move up there. So we feel like we haven't peaked at all. As I mentioned, I feel like a little bit of a broken record here, but when you do see that top-of-funnel growth, we do believe we'll be able to convert those users over time in maybe 2020, maybe 2021, but we will get there.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Do you think you need new markets to accelerate growth? You guys I don't think have launched anything significant now maybe about a year or so. What's on the company's sort of focus list in terms of new market expansion?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I mean, so we want to continue to launch new markets. We've talked about South Korea and Russia, 2 markets that we're not currently in that are focus areas for us to eventually be in. At the end of the day, our goal, obviously, to be in every market that would make sense for us to be in globally, and that's something that we will work towards. So that's the plan. But that growth in users and subs, it hasn't been disproportionate from growth in new markets, right? So as I said, we saw acceleration in our 3 largest regions in MAU. All that upside to MAU we saw in the last 2 quarters didn't come from new markets. They grow really, really well. They did grow really, really well, but it was really a function of actually our existing markets actually grew really nicely and accelerated, and we saw retention improvements there. So we think it's a balance. We think there's plenty of room to grow in our existing markets, and we feel really good about that. And obviously, there's still huge opportunity for growth in some of our emerging markets, in some markets we haven't launched in yet.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. Let's talk gross margins or the other sort of big topic that comes up all the time, 30% to 35% long-term gross margin expectations. What are the drivers of that near term and long term as we think about sort of the movement of gross margins in the company?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So we still are pretty optimistic that gross margin is a good target to have. And so we get this question all the time. We we put that target out at the Investor Day and it's something that we're still striving to, and we feel confident that we'll get there.

So the gross margin is going to be a mix of a number of things, right? And I'm sure we'll touch on a bunch of these. But we think the growth of podcast and having podcast content and some fixed cost content around podcasting will be important for us. Growth in marketplace is another area. A third area of continued growth in advertising and bringing the advertising gross margins up to levels that are equal to our premium gross margin over time. And then the evolution of label deals over time. I mean, we'll see where those go. But there's a number of factors that we think could really impact gross margins. We think a lot of them are in our control, right? So marketplace is in our control. Podcast is in our control. Advertising growth and profitability in those markets is in our control. And then, obviously, we have a partnership with the labels and we'll see how that evolves over time.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

So doesn't sound like you necessarily, correct me if I'm wrong, do you need to lower your royalty rates, so the rev share payments to labels and publishers, to achieve that guidance?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I mean, I'm not going to get into specifics of which components matter the most. I would say, I think there will be, like anything else, there's been an evolution over the last 10 years. There'll be another evolution on how that relationship goes. I think there's a partnership there that will work for both parties that could help potentially both of our businesses going forward. So that will be a component of it. And then like I said, there's lots of things that are actually in our control that we think will help to improve the gross margin.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Tempering the expectation, well done, Super Tuesday.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

I watched a lot of CNN coverage last night.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Let's talk about pricing. How do you guys decide where to land on price points when you enter a new market? And what are the kind of pros and cons of tiering the service? One thing you haven't done is like a high fidelity premium tier, which would seem kind of interesting.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So I would say from a pricing standpoint, we want to be competitive in every market. And our goal is still to grow top of funnel, to grow users and subscribers. And the most important thing for us still is growing from that standpoint. Our pricing is going to be reflective of the pricing in that individual market. We will toggle it up or down depending on taxes or inflation and those types of things where we need to be, but we want to be competitive in every market.

And in terms of tiering, I mean, we'll see. I think, for us, I think one of the things about our company is, we're not afraid to innovate. We're not afraid to take risks. We're not afraid to try things and see if they work. And if they do, lean into them. And if they don't, pull back. I think sometimes to the investment community, in particular, it can be tough to know what's a test, what's something you're going full bore with, but I think we're always experimenting with different types of things, and we'll continue to do that and figure out what the right mix of pricing and product is going forward.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Yes. Okay. Let's talk some more about podcasting. You guys have done some acquisitions, including Bill Simmons recently. It's an exciting area, lots of growth. Everyone seems to have a podcast. At the same time, I think, 16% as of the end of the year of your users listen to podcasts, not an enormous percentage today. Why is this such a big opportunity and focus for Spotify? Why are you putting so much money to work in this space?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So I think if you take a step back and you look at where we are. First of all, we obviously think that podcasting, in general, is a huge opportunity. We've seen the growth. It was 16% of our users. That was 14% just a quarter ago. So on percentage basis, that's pretty good growth. We saw 200%

year-over-year growth in Q4 in terms of time spent, which is a really encouraging number. We've seen in other markets as well. We believe now that we are the podcast leader in over 20 markets around the globe right now. So we feel like it's being additive to the business.

But I think if you take a step back and you look at podcast in general, there's been very little innovation in the podcasting space over the last 15 to 20 years. And one of the things that we think had really helped us become successful in the music space, particularly going against some really formidable competitors for a long period of time, is our ability to actually influence discovery and demand generation and help you have an experience where you're discovering old music, new music and having an experience that you wouldn't get anywhere else. And we think that's what really drove Spotify to be a differentiated product on the music side.

Well, nothing like that has happened at all in podcasting, right? And so most people, there's nothing that's helping them discover new podcasts. So you either find out some podcasts from a friend or you read about it somewhere, but you're not going somewhere and the service is serving you podcasts. But we think given the experience we've had in music and given all the resource we have dedicated to AI and machine learning and all the things that we bring to the table, we think we can actually create a similar type of experience in the podcasting world that people are getting in the music world. Where you come to Spotify, we help you find the podcast you want to listen to and then we help you discover new podcast you didn't know you were going to want to listen to, which will broaden your experience and make it a better experience for you. It will help the creators grow their listenership and it will help the users have a better experience. So from that standpoint, we think there's a huge opportunity. And then as I mentioned, it's all the statistics we're already seeing, right? We believe and the data would suggest that podcast users are more engaged, that podcast usage is leading to overall larger audio listening. Those users tend to retain at a higher amount. They convert to premium at a higher amount. So we're seeing all the benefits, again, still early stages. To your point, it's 16% of users. So we feel really good about how it's impacting our business, how it's growing. And we just think the overall opportunity for audio growth and podcast growth is massive.

I think When you think about music, how it shifted on demand. You look about video, how it shifted on demand, I'll try and not make too many Netflix references. I probably should make a couple in honor of Barry. But we've seen in other areas, and we think the same thing is going to happen in audio. You're going to see continued shift to on demand, and we think podcasts are really going to take share from everybody.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

So there's a lot of different ways to sort of structure a business model around podcasting for you guys. But when you cut a check for around $200 million for Bill Simmons Media, I mean, how do you think about the return on that, the risk associated with it, and particularly because the talent is sort of walking in and out of the door every day?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So for us, there's a couple of factors. One is, we are going to continue to have a model where there's things we're going to need to own, there's things we're going to need to license, and there's things that we'll just have on our platform that's sort of ubiquitous everywhere. And the challenge that we're building out and developing is, how do you identify the right content, right? How do you know the value of each piece of content on your platform? How do you know what you need to buy and own versus what you need to license and so forth? And so that's the exercise we're going through right now.

With respect to some of the acquisitions we've made, we feel really good about it because we feel like we've bought the premier asset in that category. With Bill Simmons, you've got basically the #1 sports entertainment podcast company out there. We know that the listeners of sports podcasting come back much more often, they're much more engaged and they stay on the platform much longer. So sports in general is a great category to be in and dominate.

And then you take a platform, someone who has been as unique and thoughtful about growing his business, as Bill has been, and you add it into the platform of Spotify in 79 markets and you say, how can we take what's been a phenomenal platform and grow it even more? And the same thing with Gimlet, right? You've got an asset that is probably best-in-class or is best-in-class in developing original content and how do you then help them become even bigger and grow the platform even more. And so that's how we think about it.

And then from there, we're tracking everything, so obviously the revenue side and the cost side, but there's other components too that we'll benefit from. So are they helping to continue to grow users? So are we seeing that the podcast investments we're making are growing top of funnel? Are people who are engaged in those podcasts retaining at higher rates? Are they converting to premium? Are they lowering churn? And those are all the things that will go into the calculation of how important these assets are.

We're going to continue to look at acquisitions or licensing or not depending on what's out there and what we think makes the most sense. And then for us, it's being able to track all these things and have an ROI. To some extent, we'll make some mistakes. And the hope is that the mistakes are somewhat contained, and we're going to hopefully have some big home runs that are going to way outweigh that.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

So you probably won't answer the question of whether you would keep Bill's content exclusive or not, but what are the factors that you guys will think about in deciding whether something is going to be exclusively on Spotify or distributed broadly?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I think a lot of it's going to be what's right for Spotify and what's right for the creator. And it's a combination of the 2. And I think some of it, as we grow and as our audience grows, the ability to actually leverage the scale we have will be important. So it's kind of a give and take on that.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Yes. How about on the advertising side. I mean, on one hand, it would seem like podcasting should demand attractive CPMs. It's a high-quality audience. Is that going to be your priority to try to make money and broadly distribute these or are you looking at maybe trading off some of that revenue for the exclusivity that can drive customer growth and retention?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

From an advertising standpoint, I think one of the most interesting things is, if you go back to the comment I made a few minutes ago about, there hasn't really been any real innovation on the discovery side of podcasting. There's been absolutely no innovation on the advertising side of podcast, right? It's the same RSS feed with the same host red ad where every user gets the exact same ad no matter who you are. And so there's no personalization. There's no customization at all.

And so we think there's a tremendous opportunity to really develop an ad platform, an ad stack on top of podcasting that will do a couple of things. One, we'll be able to serve advertising to a user that is relevant to them and to what they're interested in. We launched at CES streaming ad insertion, which is a tool that will allow you to dynamically insert ads into podcasting so that you and I see different or hear different advertising if we're interested in different things. So we think there's a huge innovation there. And we don't think anyone else in the podcasting space is spending the resources or the time to actually innovate on the advertising side.

And so then it also gets to the part where then it's actually just a better experience, right? It's a better experience for you as a user so you have a better overall experience. And you view Spotify, your experience at Spotify in a more positive light. And it's a way then for the creators to actually monetize at a higher level, right? So if we're able to serve you an ad that's targeted to you, it should have a higher ability to monetize than what they're serving up right now. So we're spending a lot of time and resources on the advertising side. And don't forget, we've been in the audio ads business for a long period of time with music. And again, there are other players in the podcasting world who don't have that capability or DNA in their company that we think we bring to the table.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

It seemed like, I mean, today, the podcast advertising model is you monetize what you own or produce and just distribute everybody else's. It would seem that there'd be an opportunity then to build an off-platform or off-network, however you want to describe it, third-party monetization business around podcast. I don't know if you would agree with that.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I mean, there may be. As I mentioned, so the streaming ad insertion which we launched, we feel really good about. It's a product that is, it's right now only for Spotify-owned content. So we're using it for our own content. But when we launched it, the number of third parties who reached out to us who said, hey, this is a really cool product, how can I use it in my podcast, was really, really high. And so you think about this and say, okay, is there an opportunity over time where the creators of content actually want to come to you so you can actually help them embed the right advertising in their podcast? Do they come to you to say, hey, we want to use your technology. We want to use Anchor to help build our podcast. We want to use your advertising tools to help monetize our podcasts. I mean, we're not there yet, but you can clearly see an environment where that's the case.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. I think with podcasting, people understand it. There are views on both sides. I think with marketplace, which I'd like to go to next, people still are trying to figure out what it is. So maybe you guys did provide some dollar numbers around marketplace on your earnings call, but what is the strategy there, Paul, and why does it manifest itself in margin expansion and when?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So the strategy there is simple. It's to be able to create an environment where creators are able to better connect with the fans and users on Spotify. And that will come from the tools and services that we develop on the marketplace. So we've talked about the sponsored tool that we have out there right now and the people who are using it and the acceptance has been very high. It's still very small at this point in time, but it's a product that we've seen really strong growth in that product. We've seen that the click-through rates are 10x what you'd see in a normal type of a click environment. We've seen real artists, Justin Bieber, I think it's Lil Wayne, right, Lil Wayne. I know you probably saw an ad from Lil Wayne I'm pretty sure. You, right, Lil Wayne specifically, Lil Wayne haven't you?

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

I saw big Wayne.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

But so we've actually seen kind of real artists now using this tool and more and more people who want to use it. So some of it is just about, again, we are testing and we're learning and we're going to continue to develop and build out those tools. I think we acknowledge that we probably haven't been able to give you guys as much of a concrete road map for what all of those tools and services are going to be. A lot of that is because we are testing and learning and working through that. And we don't want to be out with -- too out front with products that we're not sure what we're going to run with. But we still feel really good about the opportunity in marketplace, the tools, the services. And so we're pretty optimistic of where we'll go.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

You guys talk about the trust of your listeners as something you take very seriously. How does something like sponsored recommendation fit into that? And are the labels and artists at all anxious about paying for promotion on the platform? Sounds like no.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. No. What we've actually found is the exact opposite, right? So what we've actually found is the users seem to really, really like it. As I said, the click-through rates are exceptionally high for that product. That's number one. Number two is, it is something that is served to both our ad-supported users as well as our premium users. And the premium users have the ability to opt out of it if they don't want it. The opt-out rates have been tiny, basically nonexistent. And what we're actually seeing, the feedback is, not only do people not view it as an advertisement, but they're actually viewing it as something that's really helping their experience improve, right? So if Post Malone drops a new album and you get something that says, hey, he's got a new album and you click through it, that's great for you because it's something you actually wanted to know was out there. At the highest level, we'll never violate the trust of our users in any way, whether it's through a sponsored recommendation or a playlist or anything. That's always paramount and sacrosanct and we would never change that.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

I know you mentioned, Paul, that it's early in this rollout, but are you seeing more interest and money spent from existing popular artists? I mean, if someone puts out a new album who's world famous, clearly, people probably know. Or is it coming from the up and comers who are trying to build their own?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

So we've seen up and comers do it. So when we talked around the shareholder letter, distributor Caroline had an artist come out and hit #1 on the track thanks to, in part, due to using the sponsored recommendation tool. So we're seeing it across the board. And I think what we feel confident is that artists are going to want to use this. They want to engage with their fans. They know that you need to break and you need to break big on Spotify. This is something that can help them gain users and listeners. It's going to help them eventually algorithmically end up on our playlist because they've got people listening to it. It's going to help them drive more traffic to listen to their streams, which then will eventually help them tour and make money through listening and concerts. So we actually think demand is going to be really strong from the creators who are going to almost demand that their partners help them participate.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Let me ask you about Spotify's relationship with labels and artists, which is central to our success long term. And it's been interesting now that you've been a public company, there's just a lot of noise out there. So how would you describe the relationship? Do you view each other as partners? Are you working together on a regular basis? Or is it something where people think of it as a zero-sum game within the business?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

No. I mean, we're definitely partners. And it's definitely, look, we know that they help our business thrive and grow. And we know that streaming is the only part of the music ecosystem that is growing right now. So we feel really good about our position considering that within music every category is pretty much declining except for streaming and we're the largest contributor to streaming growth. So we feel really good about that. But that being said, our partners are very important to us. And getting creators and they're working their art out on our platform is really important to us. So we feel good about it.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

And are there people at Spotify whose primary or even exclusive role is to interface with artists, interface with labels?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. We have a whole team, an artist relations team that does a really good job of reaching out to artists. They sit down with artists all the time. They're listening to their albums before they release. We're working with them to think about the right launch strategy and what would work. And so yes, we definitely feel like we're partners with them.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

And how do we all interpret the fact that you still have some label deals that at least some people think were expiring almost a year ago now and they haven't been "renewed" at least publicly?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So I would say a couple of things there. One is, clearly, it's taken a while to get some of these deals done. I think Daniel has said on a number of occasions that we tend to be really good about understanding what the eventual economics and what the terms of the deals are going to be. And we tend to be really bad about predicting the time line of that. And that hasn't changed in this round at all. I would say we get a lot of questions around, is there anything going on with respect to labels that is impacting your ability to grow your business in the way you want to? And I would say the answer to that is no, not at all. I mean, we're able to grow and innovate and launch products and grow marketplace and everything that we are trying to do. Nothing at all is being impacted or slowed down by anything going on with our negotiations with the labels.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. Let me ask you one more and then we'll see if the audience has any questions. So if you do, please raise your hand and wait for a microphone. Advertising revenue growth was healthy last year. It did lag premium and you guys have talked about some execution issues over the course of last year. What are you guys doing to make sure, including putting some new -- you have new people in charge of the business -- to make sure that business accelerates since it's kind of core to revenue growth and margin expansion?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. So as you mentioned, we do have some new management in place there. Lee Brown came over to take over the global sales role and Lee's fantastic. And so he's really got a great mix of both understanding the big picture and the business, but also being a guy who can get into the numbers and know what's going on in products and regions. So that's been really, really great. And we're building out all the technology, the underlying technology, right? So we have programmatic, which is about 1/4 of the advertising business now. We think that will continue to grow. We think you'll start to see, over time, more and more self-serve products that will enable the advertising business to grow. We think being able to change some structures up globally will help as well. And then in general, I think as the platform expands, you start to hit a critical mass where you have enough scale that you can attract even bigger global buys. And then when you throw on top of it podcasting and the growth in podcasting, we think podcasting will help the advertising accelerate. We do have a ramp in advertising throughout the year as the platform grows and as the podcast business grows, the advertising will grow throughout the year. So we feel good about where we are, both from a technology standpoint and a leadership standpoint.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. Great. Let's start over there in the middle and wait for the mic, please.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

I can't see. Oh, in the back there.

Unidentified Analyst

Your Wrapped campaign seems to have kind of gone parabolic on Instagram and things like that. Maybe you can talk about some of the success that you've seen with things like that. And then social sharing between friends and the platform still seems to not be as easy as some might hope. Maybe you can talk about how you approach that going forward?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

I missed the first part of the question.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Wrapped.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Oh, yes. So Wrapped was phenomenal. We had over 60 million shares.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Maybe explain this.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

So Wrapped, for those who are new, is our year-end campaign. And each individual user gets a full -- and it's a big marketing campaign about the year in music with artists and songs. And then each individual user gets their own personalized Wrapped which shows what songs you listened to, what your top artists were, what your top songs were, what your top genre was, how much time you spend listening, and it's a really unique product.

It's actually something that we're the only to do it and can do it in the way we do it. And a lot of that has to get to something we didn't really talk about today, which is just that we think we have a massive data advantage to a lot of the folks out there in the space in terms of the amount of data we get in, but then the resources we dedicate to actually taking that data and using it for the product.

And so the Wrapped campaign was unbelievably popular. It was shared a number of times. We actually think it did contribute a little bit in the very back end of December in terms of some of the MAU growth at the very end of December based on people who weren't on Spotify who were seeing everybody share their Wrapped campaigns socially. So it was great.

And then for us it was pretty funny because you would see -- I mean, I got an e-mail from -- I said e-mail, I shouldn't say that, a text from one of my daughters 7:30 in the morning that every single person in her high school was sharing their Wrapped on Instagram, every single person, right? So it becomes a very viral thing, particularly within the young people, to the high school and college age, which is really, really cool. And then for us, it's always somewhat entertaining to see people who may be subscribers of different platforms that are out there tweeting, hey, how come we don't get anything like this. But I think it just kind of goes to the unique product offering we have and the data we have. And then the second part of it?

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Social sharing.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

So the social side, we've experimented with social in the past. When we first came to the U.S., we had a partnership with Facebook which definitely helped us gain credibility in the U.S. and grow subs. I think we're still trying to figure out what might work in social. Historically, and again, this may change that sort of fan-to-fan, peer-to-peer social has not been something that has been all that demand or we've seen that much of an impact. Where I think it really could matter and will matter is social from artist to fan and helping to facilitate that connection between the artists and their fans, and that's something we definitely are interested in.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Great. Yes. Got one up in the middle, maybe while the microphone's headed up. One thing we didn't talk about, doesn't seem like a huge factor for Spotify is anything around the virus and macro that impacts the company or how you guys work or anything else?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I mean, it's still early. Right now, we don't think so. I mean, look, obviously, it affects everybody. It affects employees. As a company, we're trying to figure out how much people should travel and those types of things. But we obviously don't manufacture product. We have no supply chain issues. We have no people issues. Everyone's able to work. There's no change in the product, I think, of that sort. And honestly, I think a service like ours is probably, and we don't know this because we haven't really experienced yet, somewhat countercyclical or at least we would survive well in that type of environment. Because if you're at home more or if you're not going out more, you're probably not going to cut off your streaming services, whether it's audio or video or things that actually you get enjoyment from, that you don't need to actually go out and be with people. So we'll see, but right now, we don't see an impact on the business.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Go ahead.

Unidentified Analyst

I wanted to find out on the label renegotiations, the deals you've signed have been very short in nature, which is kind of surprising as you're speaking about the label being partners. So why not lengthen those deals and align yourself on the partnership and get that out of the way?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. It's a good question. I mean, I think they've been short for 2 reasons. One is, we're constantly innovating and there's so many things that we're launching all the time, products and services that aren't always contemplated at the signing of a deal. And so in order to be able to adjust for those types of new products, again, whether it's marketplaces or growth in other areas, we need to be able to come back kind of more frequently to be able to think about those label relationships. Whether or not the deals were 1 year or 3 years or 10 years, we're constantly talking to the labels all the time about ways to work together. And even once the deals are signed, a couple of weeks later, we're back with them talking about what's going to happen in the next deal or what we may want to adjust before the next deal. So that's just part of the give and take. And so that's probably the main reason.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Paul, maybe to wrap up, we got a minute left. The shares haven't done a whole lot since you guys listed a couple of years ago. You spent 20 fantastic years, I'm sure for you, on the buy side and the sell side. What do you think the market may be missing in understanding the competitive position of Spotify or maybe more importantly, the long-term earnings power of the company?

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Yes. I would say a couple of things. I would say one is, I think, just in general, we feel really good about where we are and where we are competitively. We fully recognize that our main competitors are the largest tech companies out there globally. But our singular focus on audio and growing audio, we think, has differentiated our product in a way that you've seen it in the numbers. You've seen it in the MAU growth. You've seen it in the subscriber growth. And so we feel really good about the underlying fundamentals in the business. So I'd say that's number one.

I would say number two is, I think sometimes it's been a little bit lost that we've actually feel like we've done a really good job of actually delivering on the results that we said we were going to deliver. If you go back and look at the Investor Day, we've pretty much met or exceeded every expectation we had for 2 years out in terms of where we thought we'd be and where all the sell-side was in terms of their models. And so that message I don't think has gotten out as much as we think it probably should have given we think the performance of the business. We've been pretty consistent quarter in, quarter out. We try and hit the upper end of our guidance range. For the most part, we do that in most quarters. We've had a couple of quarters where numbers have been a little bit better. We've had 1 or 2 quarters where maybe a metric or 2 was kind of right in the middle of the range. But in general, we feel like we've tried to be respectful of the investment community and we've tried to give you guidance that we thought was reasonable. And then hit the upper end of that range. And I think one thing that probably has maybe hurt us a little bit is, we intentionally are not trying to play a game of beat and raise. It's just not a game we're ever going to play. And as a result, I think sometimes coming out of some of the quarters that we think have been really, really strong, we don't necessarily get that momentum of, oh, hey, Spotify blew through the numbers or Spotify blew through the quarter and are raising expectations because that's just not how we operate our business, right? Our goal is to hopefully build up trust with the investment community that when we say something, we're going to deliver on it. We're going to be honest and transparent with you. And for us to be honest and transparent and do what we say, we think we need to give you guidance and try and hit those expectations. And so that said, we feel really good about where we are, we feel really good about how we ended 2019, and we're optimistic about the future.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Okay. Well, thank you very much, everybody. Paul, thanks so much.

Paul Aaron Vogel - *Spotify Technology S.A. - CFO*

Great. Thanks, everyone.

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