

Q2 Update 2024

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Spotify Technology SA (NYSE:SPOT)

Spotify reported Q2 EPS of €1.33 vs. consensus €1.05 (beat by 26.67%).

Revenue grew 20% y/y to €3.81B vs. consensus €3.82B (slightly missed by 0.26%). Total MAUs: 626M vs. consensus 631.3M and guidance 631M (missed by 0.84%)

Q1 revenue growth (+20% Y/Y or +5% Q/Q) reflects: Premium Revenue growth of 21% Y/Y led by subscriber gains and ARPU increases; and Ad-Supported Revenue growth of 13% Y/Y driven by Music advertising and Podcast.

“Our business continued to perform well in Q2, led by healthy subscriber gains, improved monetization and record profitability. Although we did see another quarter of MAU variability, funnel conversion remained strong, particularly in developed markets where we recently adjusted pricing. As a result, Subscriber net additions of 7 million were 1 million ahead of guidance”

Key metrics:

- Total MAUs grew 14% Y/Y to 626 million, up from 615 million last quarter, but below our guidance by 5 million (<1%). Quarterly performance reflected: Growth across all regions, with Q/Q net additions led by Rest of World and Europe, Continued recalibration of our marketing activities
- Premium Subscribers Premium Subscribers grew 12% Y/Y to 246 million, up from 239 million last quarter and 1 million above guidance. Quarterly performance reflected: Y/Y and Q/Q growth across all regions, with outperformance led by North America and Europe, Strong Q2 promotional campaign intake due to top-of-funnel health.
- Premium ARPU was €4.61 vs. consensus €4.58. Ad-supported ARPU was €0.39 vs. consensus €0.40.

Gross Margin was 29.2%% vs. consensus 28.2%, up 510bps driven by improvement across music and podcasting, lapping of prior year charges related to efficiency actions, and reductions in Other Cost of Revenue, partially offset by audiobooks costs. Operating margin: 7.0% vs. consensus 6.2% and year-ago (7.8%).

Free Cash Flow was €490 million in Q2, a record high as a result of higher Net Income adjusted for non-cash items and favorability in net working capital. Capital expenditures were flat Y/Y at €2 million.

Q3 Guidance: 1) Revenue: €4.0B vs. consensus €4.01B (missed by 0.25%). Assumes ~100 bps headwind to growth Y/Y due to foreign exchange. 2) Operating income: €405M vs. consensus €298.5M (beat by 35.65%). Incorporates €15M in Social Charges based on a Q2 close share price of \$313.79. 3) Total MAUs: 639M vs. consensus 650.2M (missed by 1.72%).

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Source: APP Economy Insights

Spotify shares rose 12% on strong margin performance and strategic focus on premium subscribers and bundles, which offset lower-than-expected MAU guidance for 3Q24.

Spotify Technology SA (NYSE:SPOT) is held in Halo Technologies "Entertainment" thematic portfolio.