

# PANDORA®

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## 1 Pandora (P) Strategic Update Conference Call November 16, 2015

2 Scripts for: Brian McAndrews, Chairman, CEO, & President

3 Mike Herring, Chief Financial Officer, Pandora

4 Dominic Paschel, Vice President, Pandora

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6 November 16, 2015

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### 7 Dominic Paschel

8 Good afternoon and welcome to Pandora's strategic update call. Some of our  
9 discussions will contain forward-looking statements which may include projected  
10 financial results or operating metrics, business strategies, anticipated future  
11 products or services, anticipated market demand or opportunities and other  
12 forward-looking topics.

13  
14 These statements are subject to risks, uncertainties, and assumptions. Accordingly,  
15 actual results could differ materially. For a discussion of the risks that could cause  
16 our results to differ from today's discussion, please refer to the documents we file  
17 with the Securities and Exchange Commission.

18  
19 Today's call is available via webcast and a replay will be available for two weeks  
20 following the conclusion of the call. We will also post the full text of today's  
21 prepared remarks once Mike concludes. To access the prepared remarks, press  
22 release, supplemental financial information, or the webcast replay, please consult  
23 the Investor Relations section of Pandora.com. With that, let me turn the call over  
24 to Brian McAndrews, Pandora's Chairman and CEO.

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25 **Brian McAndrews**

26 Thanks Dom.

27

28 Before we begin our prepared remarks, I want to acknowledge that this was a  
29 very difficult and sad weekend and one that directly affected our industry. As you  
30 no doubt know, many of the victims were music fans, and others were music  
31 industry executives. We join with everyone in our industry in mourning the  
32 victims of this terrible tragedy, and our thoughts are with their families and  
33 friends.

34

35

36 While there is no easy way to transition from those thoughts, let me now move  
37 on to our prepared remarks...

38

39 Today is an important day for Pandora as we announce another step forward to  
40 strengthen our position as the world's most powerful music discovery platform  
41 and drive the company toward long-term growth. Earlier today, we announced  
42 our intent to acquire technology and intellectual property from Rdio, a pioneer in  
43 streaming technology and the on-demand space. With this acquisition, we will  
44 bring on board many talented employees as well.

45

46 I want to take this opportunity to provide the broader context of Pandora's vision  
47 and clearly lay out our strategy to deliver on the next chapter of Pandora's  
48 growth. We have an ambitious plan for our future. And our acquisition of Rdio's

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49 assets is the latest development in a series of initiatives, including our Sony/ATV  
50 direct deal announced last week and our acquisition of Ticketfly last month,  
51 designed to accelerate our progress.

52

53 Viewed individually, these are logical investments in our future growth. But when  
54 viewed collectively, they are key parts of a truly transformative vision for our  
55 future, positioning Pandora to become the definitive source for music enjoyment  
56 and discovery globally. We intend to be **the** go-to music destination, unifying the  
57 full music experience under one roof, spanning radio, on demand, and live music.  
58 In sum, we will provide music **where** you want it, **how** you want it, and for  
59 **everyone who** wants it.

60

61 But to fully understand where we are going, let me briefly touch on the strong  
62 foundation on which we are building. The first chapter of Pandora's growth story  
63 has been a tremendous success, as we built a platform loved by listeners, valued  
64 by advertisers and increasingly leveraged by artists.

65

66 For more than 10 years, Pandora has been the undisputed leader in a category we  
67 pioneered: Internet radio. We set out with an ambitious vision to reinvent radio  
68 for the digital age. With our prized Music Genome Project and the world's most  
69 talented team of musicologists at our core, Pandora fundamentally transformed  
70 the way that people discover and enjoy music. And in the process, we forever  
71 changed the landscape of radio as it had been known for nearly a century.

72

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73 With Pandora, listening to radio is infinitely more personalized and rich with  
74 discovery, which is why we delight more than 78 million music lovers for an  
75 average of 22 hours each month. That is one of the highest levels of engagement  
76 ever reached by any Internet service.

77

78 Additionally, we built a monetization engine without peer and created a  
79 subscription business with millions of loyal listeners. As a result, we generate well  
80 over a billion dollars in annual revenue and growing.

81

82 Pandora is also a growth engine for all kinds of artists, helping create substantial  
83 audiences and grow careers. This includes artists who, despite their great talent,  
84 historically would have never received airtime on terrestrial radio but now can  
85 generate substantial audiences on Pandora. We also invented a whole new  
86 category of artist marketing technology, all while paying out more than \$1.5  
87 billion in royalties since we started.

88

89 Despite this success, we have only scratched the surface of the radio opportunity,  
90 both in the US and globally. As a medium, radio enjoys 240 million listeners  
91 weekly in the US alone and billions globally. Increased smartphone penetration,  
92 embedded connectivity in cars, and the expansion of the Internet of things will  
93 continue to drive a shift from broadcast and terrestrial radio to personalized and  
94 digital forms, and Pandora will continue leading this evolution.

95

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96 But this is only the beginning. And today, I want to outline the rest of our vision  
97 for the next chapter of Pandora. Stated simply, **we seek to be the definitive**  
98 **source for music enjoyment and discovery globally.** And we have four core  
99 beliefs that underpin our strategy as we lay the groundwork for our future.

100

101 **Our first core belief is that establishing productive and collaborative**  
102 **partnerships with music makers puts Pandora in the strongest possible position**  
103 **to deliver on our long-term vision.** This is why we've taken significant actions to  
104 strengthen our ties with the music industry by working collaboratively to  
105 demonstrate the power of Pandora to help break artists and increase music sales.  
106 This includes highly productive partnerships with great artists like ODESZA, Jack  
107 White and the Rolling Stones. We also launched our Artist Marketing Platform  
108 and recently introduced Artist Audio Messaging. Hundreds of labels and  
109 thousands of artists are utilizing these tools and realizing just how powerful they  
110 can be when combined with Pandora's scale and targeting precision.

111

112 To accelerate these efforts, we acquired Next Big Sound, the leading provider of  
113 online music and social analytics. The combination of Pandora's data and Next Big  
114 Sound's platform positions Pandora as the industry's go-to destination for musical  
115 insights.

116

117 Additionally, our settlement of the pre-1972 lawsuit and our direct deal with  
118 Sony/ATV are two more big steps forward in establishing a foundation of trust  
119 and good faith with the industry.

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121 As a result of these and other actions, we're having far more constructive  
122 conversations with the industry than we have ever had before, and we are  
123 building the partnerships necessary to unlock Pandora's next chapter of growth.

124

125 **Our second core belief is that we are a music company.** A singular focus on  
126 music gives us clarity of mission and aligns our ambitions with the music industry.

127 While we will be opportunistic about delighting our listeners with non-music  
128 content - as shown by our recent Serial announcement - the strategic expansion  
129 of Pandora will be in the service of music, its fans, and those who make it. We  
130 believe we've only scratched the surface of the value Pandora can bring to music.

131 That is why we made the decision to expand into live experiences through  
132 Ticketfly, knowing that enabling connections between our massive audience and  
133 the live performances of the artists they love will bring value to everyone.

134 Because music is our focus, we will work harder and be more innovative. As a  
135 result, the industry has no more dependable ally than Pandora.

136

137 **Our third core belief is that discovery, personalization and effortlessness are the  
138 greatest strengths of Pandora.** It is our proven expertise in these areas that

139 makes our listeners so loyal. These principles will also form the backbone of our  
140 efforts to expand our core business and enter new adjacencies, bringing  
141 immediate differentiation and competitive advantage. Listeners love Pandora  
142 because it is so easy to use, because it does such a wonderful job of picking the  
143 next song they love and because they consistently discover new artists.

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145 It will be these defining attributes – discovery, personalization and effortlessness  
146 – that set us apart as we significantly expand the playing field of our platform.

147

148 **And our fourth core belief is that the music industry’s brightest future lies in**  
149 **monetizing the entire spectrum of music listening; from ad-supported Internet**  
150 **radio to full on-demand paid subscription.** Nobody has the assets to monetize  
151 music like Pandora. We are the clear leader in ad-supported Internet radio, with  
152 massive scale. We are also the only streaming music company with a proven  
153 monetization engine. This will be a huge advantage as we introduce and monetize  
154 new parts of the listening experience.

155

156 It is notable that the more than \$1.5 billion dollars in royalties we have paid were  
157 largely generated by converting listeners from broadcast radio to our superior  
158 listening experience that pays significantly more in royalties to the music industry.

159

160 As we look ahead, we see the opportunity to match our audience with an offering  
161 that best suits their needs, and optimizes the average revenue per user of **all**  
162 music consumers.

163

164 Guided by these four core beliefs, Pandora is creating the world’s definitive music  
165 discovery platform, unifying the full music experience for fans in one place. We  
166 will do this by building off our industry-leading Internet radio offering and  
167 expanding into other listening options.

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169 This ambitious platform approach brings together music fans, music makers and  
170 advertisers in a marketplace that benefits everyone, with Pandora at the center.

171 This marketplace will be powered by data-enabled tools to help music makers  
172 grow, engage and monetize the massive Pandora audience across both live and  
173 recorded music experiences. This increased participation of artists, the expansion  
174 of listening options and the access and discovery of live music will in turn drive  
175 additional fan engagement. And then, this expansion of fan engagement across  
176 the entire music experience will attract additional advertising and sponsorship  
177 dollars. At the same time, all of these activities will provide important data with  
178 which the flywheel can be optimized. And the platform cycle repeats.

179

180 By taking a marketplace approach, we expand the total monetization opportunity  
181 available to Pandora from the \$40-plus billion dollar US radio and digital  
182 advertising opportunity to something that is multiple times larger.

183

184

185 Building the world's definitive music discovery platform means that Pandora will  
186 provide music where you want it, how you want it, and for everyone who wants  
187 it.

188

189 Let me explain our vision for how this all comes together.

190



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191 Music **where** you want it: Whether on mobile phones, car stereos, or live on  
192 stage, we intend to help fans discover and experience the music they love. This is  
193 why we bought Ticketfly, because we are confident that, together, Pandora and  
194 Ticketfly can do great things in the fast-growing \$11 billion dollar live events  
195 space, enabling artists and promoters to sell out more shows and drive additional  
196 revenue from streaming, merchandise and music sales.

197

198 Music **how** you want it: While radio remains, by far, the biggest source of listening  
199 today, many fans also sometimes want to be their own DJ. This is precisely why  
200 we're unifying the listening experience under a single roof. Our vast knowledge  
201 about listeners' musical preferences can do amazing things for both the lean-back  
202 and lean-in music experiences. This will give listeners every reason to make  
203 Pandora their definitive source for music.

204

205 We plan to substantially broaden our subscription business, rolling out a multi-tier  
206 product offering. And today's announcement of adding employees and assets  
207 from Rdio brings us much closer to this goal, and allows us to accelerate our  
208 product strategy significantly.

209

210 And finally, for **everyone who** wants it: Earlier this year we rolled out a vision to  
211 be the source of personalized music enjoyment and discovery for billions of  
212 people. Doing so requires unlocking the full global potential of our service.

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214 Making that happen requires securing agreements with labels and publishers. And  
215 that is exactly the path we are on.

216

217 As we find “win/win” agreements as we did with Sony/ATV, we believe that  
218 Pandora is uniquely well-suited to help our music industry partners achieve their  
219 own business objectives.

220

221 In terms of timing, we are engaged in productive conversations, but expect this  
222 new approach will take some time to fully materialize. And there is no guarantee  
223 that all potential partners will want to join us.

224

225 But we are aggressively moving full steam ahead, optimistic about what our  
226 evolving approach will do for Pandora and our music partners.

227

228

229 To wrap up, I’d like to say that this is a very exciting time for Pandora as we find  
230 ourselves in a strong strategic position. Our core business is massive and directly  
231 relevant to today’s listeners. Ad-supported radio is today - and will be in the  
232 future - an enormous source of revenue growth and listener engagement for  
233 Pandora. Perhaps more importantly, it is the perfect launch pad into every  
234 attractive adjacency of music consumption. With our industry-leading core  
235 business, plus the acquisitions of Ticketfly and the great talent, technology and IP  
236 of Rdio, we are aggressively forging into new categories, bringing to bear on these  
237 markets a technology stack, monetization engine and data asset without peer. In

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238 summary, we believe the more reasons we give people to engage on our  
239 platform, to stay on our platform, and to transact on our platform, the stronger  
240 and more compelling Pandora will become.

241

242 Bottom line, I couldn't be more excited about the future of music, and what's  
243 ahead for Pandora.

244 With that, let me turn the call over to Mike.

245

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246 **Mike Herring**

247 Thanks Brian. As Brian just discussed, today we announced our intention to buy  
248 the technology assets and intellectual property of Rdio for \$75 million. The Board  
249 of Directors approved the transaction, which is expected to close in the first  
250 quarter of 2016, subject to the satisfaction of customary closing conditions.

251

252 We are very excited about how Rdio fits into the overall strategy of providing  
253 music where you want it, how you want it and for everyone who wants it that  
254 Brian just outlined. The next generation of features and functionality enabled by  
255 the Rdio acquisition are an important part of our strategy, and the IP assets and  
256 teams we are bringing on board will advance that strategy.

257

258 For this same reason, we are also incredibly excited about how our recent  
259 Ticketfly acquisition adds to our momentum of Pandora becoming **the** go-to  
260 music destination, creating the world's definitive music discovery platform.

261

262 In light of our broader strategy and vision outlined today, I thought it would be  
263 useful to revisit Ticketfly within this context.

264

265 Live events are a natural extension of our platform and leverage two areas of  
266 Pandora's core expertise – data and audience reach. Ticketfly has a footprint that  
267 is in the sweet spot of where Pandora can deliver the most incremental demand  
268 for live events – in the middle and long tail of the market or all venues outside of  
269 major arenas and stadiums. This is the fastest growing segment of the live events

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270 market. 80% of artists on Pandora have never been played on terrestrial radio,  
271 but have engaged fan bases on our platform, and we can drive significant  
272 awareness and subsequent ticket purchase and event attendance for these  
273 artists. The extremely positive experience we had with artists and events this  
274 year, whether with live streams or in person live events, highlighted the  
275 opportunity for Pandora to create value across the board – for fans, artists,  
276 promoters and venue owners. As Brian noted, nearly \$11 billion is spent annually  
277 across the U.S. live events market through concert ticket fees, sponsorship and  
278 advertising, and ancillary revenues like merchandising, and this market is the  
279 fastest growing segment of the music industry. The majority of this revenue is  
280 earned in our target market segment - small and medium sized venues - and at  
281 the growing number of festivals across America. In 2014 the live events industry  
282 in the US grew 22%, with per capita spend on live music reaching \$48. We're  
283 excited about our ability to directly participate in this opportunity through the  
284 addition of Ticketfly and, in particular, the unique business model benefits and  
285 revenue diversification that it brings to Pandora. To understand why we are  
286 excited it is important to understand how the live events technology platform  
287 business model works.

288  
289 Ticketfly's revenue model operates like many consumer internet marketplaces: it  
290 provides a SaaS software platform to its clients and earns a share of the ticket  
291 value for all transactions across the platform. Unlike with legacy ticketing  
292 providers, Ticketfly's clients use its software to manage much of their technology  
293 infrastructure including fan CRM, hosting of their websites, and tools to book

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294 artists and process ticket sales. The ticket service fees collected by Ticketfly are  
295 directly connected to the number of online tickets sold, which today represents  
296 about 30-40% of total ticket capacity. As Pandora drives additional online sell-  
297 through with our unique scale and data-driven targeting, there is significant  
298 revenue uplift potential to promoters and venue owners and subsequently to  
299 Ticketfly within the existing customer base. There is thus an opportunity for  
300 meaningful revenue growth and earnings leverage. As an adjacent revenue  
301 opportunity, Ticketfly aligns directly with our strategy to invest in initiatives that  
302 leverage our competitive strengths while helping the overall music industry  
303 improve fan engagement, and, by extension, revenues. In this case, by driving live  
304 events revenues through better tour planning for artists and increasing  
305 attendance and tickets sold on those tours. It is a perfect strategic fit.

306  
307 We've thought carefully and acted deliberately regarding our strategy, including  
308 the timing of Rdio and Ticketfly, particularly in advance of the CRB outcome. To  
309 speak to this directly, it was our analysis that, if the CRB outcome is unfavorable,  
310 the contribution margins we can expect over time from our ad-supported line of  
311 business will obviously decrease. In this scenario, having other revenue streams  
312 to focus on such as subscription businesses and live events promotion gains  
313 importance. On the other hand, if the rates are reasonable our ad-supported  
314 business will provide continued investment dollars and we will have more options  
315 to invest those dollars.

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317 In either scenario, having executed on both these strategic acquisitions advances  
318 our strategic plan. We think that using cash was the right decision in both  
319 deals. We will have a total cash balance of approximately \$180 million at the end  
320 of 2015 and are confident we have sufficient cash to close the Rdio transaction,  
321 continue to operate our business and invest in new initiatives into 2016. We have  
322 a well-developed strategy that has progressed over the last 18 months, and we  
323 feel strongly it was the right time to execute to extend our market leading  
324 position.

325

326 I'm very excited about the future of Pandora, and the future of music, as we  
327 strengthen and diversify our platform with Rdio and Ticketfly and execute on our  
328 vision **to be the definitive source for music enjoyment and discovery globally.**

329

330 Now I'll open the call for your questions. Operator?