Pandora (P) Q415 & CY2015 Financial Results Conference Call February 11, 2016

Scripts for: **Brian McAndrews, Chairman, CEO, & President**
Mike Herring, Chief Financial Officer, Pandora
Dominic Paschel, Vice President, Pandora

Dominic Paschel

Good afternoon, and welcome to Pandora's fourth quarter 2015 financial results call. Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on our current assumptions, expectations and beliefs, which include risks and uncertainties. For a discussion of the specific risk factors that could cause our actual results to differ materially from today's discussion, please refer to our press release.

Also, during this call, we will discuss non-GAAP measures of our performance. GAAP financial reconciliations and supplemental financial information are provided in the press release filed today with the SEC, and detailed financials are available on our Investor Relations site.

Today's call is available via webcast and a replay will be available for two weeks. We will also post the full text of today's prepared remarks once Mike concludes. You can find all of the information I have just described on the Investor Relations section of Pandora.com. With that, let me turn the call over to Brian McAndrews, Pandora's Chairman and CEO.

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Brian McAndrews

Thanks, Dom, and thank you all for being on the call today.

Pandora 2015 Recap

Pandora capped 2015 with a strong quarter, delivering solid financial and listener-hour growth while achieving much-needed certainty for the future.

During the quarter, we continued to produce record results with consolidated revenue reaching $336.2 million, an increase of 25% over the same quarter last year. For the year, we crossed over the billion dollar revenue mark and closed 2015 with consolidated revenue of $1.164 billion, representing 26% growth year-over-year on a GAAP basis, and 28% on a non-GAAP basis. From an earnings perspective, fourth quarter consolidated adjusted EBITDA was $24.8 million. Excluding the impact of Ticketfly, adjusted EBITDA for the quarter was $27.3 million, in-line with our guidance. For the year, consolidated adjusted EBITDA was $51.7 million. Excluding the impact of Ticketfly, adjusted EBITDA for the year was $54.2 million, also in-line with our guidance. Our non-GAAP fourth quarter net income was $10.2 million, or non-GAAP diluted earnings per share of $0.04.

Heading into 2016 and beyond, we are on a path to create the go-to music destination for listeners and artists alike – uniquely unifying the full music experience under one roof, spanning radio, on-demand, and live music. It will be a marketplace with potential to revolutionize the connections between listeners and music makers, creating the most powerful virtuous cycle in music.

And we are well on our way, with key investments and innovations around both music makers and listeners. The launch and expansion of our Artist Marketing Platform, our acquired capabilities with Next Big Sound and Ticketfly, and our recent publishing direct deals --- all mark significant gains in our engagement with music makers and position us as a valued partner.

And we have been similarly ambitious on the listener side, with exciting innovations like Serial, Thumbprint Radio and Browse – all of which have shown early positive results - as well as acquiring talent and technology assets from Rdio to accelerate and help ensure that our entry into the on-demand space is highly integrated and robust.

These investments in fan and artist engagement grow and strengthen the marketplace, building new revenue streams that result from exchanges between these parties – starting with advertising, then subscriptions and now transactions and commerce.

In doing so, we're significantly expanding the financial opportunity available to Pandora, from today's roughly $45 billion dollar US radio and digital advertising market, to a much larger $200 billion global music marketplace.

Simply put, it is a generational opportunity to drive the future of music for years – if not decades – to come. And in 2016 with a profitable core business – even with the step-up in royalty rates – combined with a strong balance sheet and clear path to grow profitability in our core business, we are confidently making the decision to invest now to fully capture that opportunity, which is why we are comfortable being temporarily EBITDA negative.

Fortunately, we are building off an incredibly strong foundation. Our core business is growing and profitable and has developed four significant competitive advantages: our expertise in **personalization and effortless discovery**, our **monetization**, our **scale** and our **data**.

Let me break those down:

- ***First***, our expertise in **personalization and effortless discovery** powers our best-in-the-world listening experience, resulting in the largest, most engaged audience in streaming music. Over the years we have seen more than 30 imitators and so-called Pandora-killers. And yet, Pandora has thrived where others have not, becoming the mobile service with the highest engagement across the consumer internet. And that's precisely because we've built so much expertise and technology over more than a decade, dedicated to delivering precisely the song listeners want to hear at the right time. And rest assured, this relentless focus will guide our expanded offerings in the future.

- ***Our second competitive advantage*** is **monetization**. We've proven Pandora's ability to monetize free-to-the-listener streaming radio better than anyone. In fact, our core revenue grew 27% in 2015 to $933.3 million. Total advertising RPMs for the year expanded 21% versus 2014 and gained momentum each quarter to reach $50.52 for the year. Just recently, we saw iTunes Radio cease to be a free advertising-supported product, underscoring what we have known for a long time — building a business like we have is very challenging, and we have a huge lead and advantage that is incredibly difficult for new entrants to overcome. And now we have an even stronger leadership position, and we fully intend to strengthen and grow our core business from here. Simply put, we are leading the disruption of a $17 billion dollar radio advertising market.

- ***Our third competitive advantage is*** our **scale and ubiquity** which are unmatched by any other US music service and continue to expand. We are at an all-time high of more than 10% share of U.S. radio listening. We reach more than 80 million active users and engagement continues to grow - now at approximately 22 hours a month per user, the highest of any US mobile application and more than double the next closest music service. And our footprint extends to over a hundred million mobile phones, over 1,700 consumer electronic devices and into more than 190 car models through native in-dash integrations. With the opportunity to double hours by achieving our fair share of listening in the car alone, it bodes extremely well for Pandora as the connected car becomes more and more of a reality in the coming years. There are tangible signs that our ubiquity is paying off. Consumer Electronics activations increased 38% to 32 million, while related listening hours grew 26% year-over-year. Auto activations increased 64% to 15.5 million with listening hours increasing 55% year-over-year. And this is driving engagement: for example, an analysis of auto listeners' hours before and after showed using an in-car Pandora integration increased listening by over 24%. We are growing and investing where the consumption model is heading, fueling future growth for years to come for Pandora.

- ***Finally, data***. Because we've amassed billions of hours of listening across well over 100 million cumulative users during 2015 alone, we've built a data set that is invaluable to delivering our listener and advertiser value propositions, and will be increasingly essential for music makers. This data will fuel new services and commerce on our platform, and create new revenue streams for Pandora, spanning live events, subscriptions, and other opportunities. The potential additional applications of our data are just beginning to be realized.

Each competitive advantage – **Personalization and Effortless Discovery**, **Monetization**, **Scale** and **Data** – is a powerful driver to expand our core business in the near and long-term. And each lay groundwork to support our newly acquired capabilities and expand into new markets, creating rocket fuel to build our multi-billion dollar music marketplace.

One example of this is our strategic expansion into live music, an already healthy, growing industry of $7.2 billion in North America alone. In 2015, we definitively proved Pandora can drive significant ticket sales by leveraging our personalization, data and scale.

Today, 40% of all live music tickets go unsold. And that's primarily because fans don't know their favorite artist is playing. So imagine what our marketplace can do when we apply Pandora's existing core strengths to Ticketfly's fast-growing business. Pandora will dramatically increase tickets sales, drive substantially more transaction volume across Ticketfly's platform, and strengthen Ticketfly's position as the partner of choice for new and prospective clients.

The marketplace approach of combining Pandora's competitive strengths with our new capabilities also applies to expanding our subscription business. We already have one of the most loyal and engaged subscription audiences in the United States. By applying Rdio's expertise and technology with our competitive advantages, we can address a far larger market and have a far greater impact through the introduction of new services to our audience.

And because we already deeply know and understand our users' music preferences, we are uniquely positioned to deliver an expanded experience including on-demand that is personalized and rich with discovery right from the start.

We believe we can convert millions of listeners to paying services by offering a truly differentiated, easy-to-use and incredibly enjoyable experience. We also believe having a broader offering will attract and retain even more listeners to our core Pandora radio business. There will be every reason for music lovers of all kinds to stay on Pandora.

So – now that I've outlined our marketplace approach - let me close by offering a few thoughts about what I believe Pandora can achieve over the next five years in the US alone:

- **First**, we will continue to grow our profitable core Internet radio business. We see that business expanding to over $2.4 billion in revenues in the next five years. Our cost structure today for this business is fixed and known, and thus we will operate at greater than 40% gross margin in 2016. Improvements in monetization will largely accrue to gross profit, and non-GAAP gross margins on the core business will approach 60% within 5 years.

- **Second**, we will continue to optimize our data to accelerate ticketing growth. Combining that with our opportunity in live events sponsorship and our powerful existing sales resources, we see a $300 million plus revenue opportunity in the next five years.

- **Third,** in 2016, we will integrate the technology assets from Rdio in preparation to launch an expanded listening experience. As we roll out new services, we expect subscription-based revenue growth to accelerate as our new product tiers are launched and adopted. We believe we can build a $1.3 billion subscription business over five years, conservatively based on 10% conversion of our current US audience

The above projections take Pandora to a nearly $4 billion plus revenue business in the US alone in five years. During this period, we also intend to have significantly expanded our global footprint, bringing Pandora to tens of millions of music lovers in many markets around the world. In 2016 our focus is on building a strong foundation from a licensing and product standpoint, enabling us to begin lighting up new markets in 2017.

So to wrap up, let me simply say that we have a big year ahead, and we have huge ambitions to help drive the future of music and greatly expand our revenue and profit potential.

We are crystal clear on our strategy and how we intend to achieve it. For the first time in many years, we have essential certainty about our cost structure. We have a strong core business with key differentiators that are nearly impossible to replicate. We have invested in technology, capabilities and talent to propel our entry into very large new markets. And - perhaps most importantly - we have a very strong team of talented employees who are energized by what’s ahead and laser focused on executing.

Delivering on our ambitions won’t happen overnight, but nothing big and worth doing ever is. I want you to know I’m incredibly bullish on our future. I have 100% conviction that we are on the right path to capture the enormous opportunity ahead.

With that, I’d like to turn the call over to Mike Herring, our Chief Financial Officer.

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Mike Herring

Thank you, Brian. With cost certainty we now have business model clarity – and thus the blueprint for driving significant cash flows through our core business over the next few years. I'll provide color around what that blueprint might look like, then I'll discuss our Q4 and calendar year 2015 financial results and provide guidance before opening the call to your questions.

To echo Brian's comments, we are entering a unique and exciting time at Pandora with the CRB decision behind us and publishing deals in place. We have certainty around our costs and confidence on how to operate in order to capture the many business opportunities that Pandora is uniquely positioned to capture, given our monetization expertise, massive scale and proprietary data set. While we will see a step back in the substantial gross margin expansion progress we've made recently, we expect the business to drive gross profit of $550 million in 2016. After sales expenses of 20% or $200 million and subscription commissions of $50 million, we expect the core business to generate $275 million of contribution margin in 2016. As we look forward, however, we see significant potential to drive RPMs much higher and with LPMs now fixed at the $32 level, under current licensing terms and adjusted for inflation, we will directly drive substantial expansion of contribution margins in our core business. We are already well in excess of $70 RPM in many markets and high value demos. For example, in the San Francisco Bay Area for ages 25-34 we have driven mobile RPM growth 69% to $83 in Q415 from $49 in Q413. With advances in programmatic and novel ad units, we believe we can drive total ad RPM well above $70, but we will optimize to drive revenue and profits over the long term. With cost structures known and new products coming to market we don't have to monetize at all costs. With LPMs fixed, as we push to $70 RPMs and beyond, the majority of the increase in monetization accrues to profit, and thus we have a clear path to $1.4 billion plus in annual gross margin and 20% operating margin target in 2020.

As Brian discussed, given our confidence in our profitable core model we believe now is the time to invest towards our goals. In subscriptions, we have the opportunity to leverage Pandora's data and audience to convert millions to paid services. We expect lower profit margins but higher unit economics, with our customer acquisition costs viewed as an internal trade-off versus the advertising opportunity. In live events, we see an opportunity to leverage data and audience for commerce. Ticketing is just our first foray in this direction.

We have a five-year plan to scale these upsell and cross-sell paths to approximately $4 billion in revenue, including greater than $1 billion in new services and $300 million in live events, and a 20% operating margin by 2020. During this time, our plan expects the core internet radio business will grow to more than $2 billion in revenue. Our core business funds new business line development and provides the customer pool for these new business lines. We are excited about our plan for the next five years and believe this is the optimal time to build on the strong foundation we have exiting 2015.

Now, I'll take you through our fourth quarter and calendar year 2015 results.

Q4 2015 and Full Year 2015 Financial Results

Q4 2015 Revenue

Starting with revenue, we ended the fourth quarter of 2015 with consolidated total revenue of $336.2 million. Excluding revenue from ticketing services, revenue was $326.0 million, in line with guidance, an increase of 22% compared to $268 million in total revenue for the same quarter last year.

Advertising revenue increased 22% in the fourth quarter of 2015 to $269.0 million, compared to $220.1 million in revenue in the same quarter last year. Revenue from local advertising represented 25% in the quarter, up from 23%. Fourth quarter subscription and other revenue was $57.0 million, an increase of 19% over $47.9 million in the same period in 2014. Ticketing service revenue for the two month period ending December 31, 2015 was $10.2 million, as a result of our acquisition of Ticketfly, which closed on October 31, 2015. Our end of period paid subscribers increased from 3.6 million to 3.9 million, an increase of approximately 10% year-over-year.

CY2015 Revenue

For the year ended December 31, 2015, Pandora delivered consolidated total revenue of $1.164 billion. Excluding revenue from ticketing services, revenue was $1.154 billion or growth of 25% on a GAAP basis and growth of 27% on a non-GAAP basis compared to prior year. Advertising revenue was $933.3 million, a 27% increase, while subscription and other revenue was $220.6 million, or 17% growth on a GAAP basis and 27% growth on a non-GAAP basis year-over-year. For the year, local advertising revenue was at an all-time high of 25% of total annual revenue with 154 local sales people now in market, up from 111 at the end of 2014.

Q4 2015 Adjusted EBITDA

For the quarter, consolidated adjusted EBITDA was $24.8 million. Adjusted EBITDA for the quarter excluding Ticketfly was $27.3 million, compared to $43.8 million in the same quarter last year and in line with guidance. Consolidated adjusted EBITDA excludes $32.2 million in expense from stock-based compensation, $9.3 million of depreciation and amortization expense, $2.9 million of Ticketfly and Rdio transaction costs, approximately $1.8 million in benefit from income taxes, and approximately $1.6 million in other expense.

CY2015 Adjusted EBITDA

For the year, consolidated adjusted EBITDA was $51.7 million. Adjusted EBITDA for the year excluding Ticketfly was $54.2 million, compared to $58.2 million last year and in line with guidance. Our full year consolidated adjusted EBITDA excludes one-time cumulative charges to cost of revenue – content acquisition costs of $57.9 million for the pre-1972 sound recordings settlement and $23.9 million as a result of management's decision to forgo the application of the RMLC royalty rate from June 2013 to September 2015, $111.6 million in expense from stock-based compensation, $24.5 million of depreciation and amortization expense, $3.7 million of Ticketfly and Rdio transaction costs, approximately $1.6 million of benefit from income taxes, and approximately $1.2 million of other expense.

Q4 EPS

Fourth quarter 2015 GAAP basic and diluted net loss per share was ($0.09). Basic and diluted non-GAAP earnings per share were $0.05 and $0.04, which excludes approximately $32.2 million in stock-based compensation expense and approximately $3.3 million in amortization of intangibles and amortization of non-recoupable ticketing contract advances and $2.9 million in Ticketfly and Rdio transaction costs, offset by $8.7 million in income tax effects of non-GAAP adjustments. GAAP basic and diluted and non-GAAP basic EPS were based on 220.6 million weighted average shares outstanding. Non-GAAP diluted EPS was based on 229.4 shares outstanding.

CY2015 EPS

Full year 2015 GAAP basic and diluted net loss per share was $(0.79). Basic and diluted non-GAAP earnings per share were $0.10 and $0.09, which exclude one-time cumulative charges to cost of revenue – content acquisition costs of $57.9 million for the pre-1972 sound recordings settlement and $23.9 million as a result of management's decision to forgo the application of the RMLC royalty rate from June 2013 to September 2015, approximately $111.6 million in stock-based compensation expense and approximately $4.1 million in amortization of intangibles and amortization of non-recoupable ticketing contract advances and $3.7 million in Ticketfly and Rdio transaction costs, offset by $11.0 million in income tax effects of non-GAAP adjustments. GAAP basic and diluted and non-GAAP basic EPS were based on 213.8 million weighted average shares outstanding. Non-GAAP diluted EPS was based on 222.7 million shares outstanding.

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Q4 Content Costs

We continued to leverage our content costs to drive gross profitability and in the fourth quarter they represented 43% of total revenue, an improvement of approximately 50 basis points over Q4 2014 based on total consolidated revenue. As we have previously emphasized, our ability to leverage these costs is dependent on our ability to increase RPMs in excess of our LPMs. Q4 2015 total RPMs reached a record high of $60.75 increasing by $9.21 or 18% compared to the year ago period. For the quarter, total LPMs increased by $4.47, or 20% compared to the same quarter last year. Total web RPM and total mobile RPM for the fourth quarter were $69.31 and $59.11, respectively. Web advertising RPM reached $68.42 and mobile advertising RPM reached $55.14.

CY2015 RPM

For the year, total RPMs were $54.65 increasing by $8.68 or 19% on a GAAP basis and 21% on a non-GAAP basis compared to the year ago period. Total web RPM and total mobile RPM for 2015 were $68.63 and $52.13, respectively. Web advertising RPM reached $67.99 and mobile advertising RPM reached $47.56.

Q4 Gross Margin

During the fourth quarter, non-GAAP gross margin was 50% compared to 51% in the year-ago quarter.

CY2015 Gross Margin

Content costs, excluding the pre-72 and RLMC-related charges, were $528.5 million, or 45% of revenue. For full year 2015, non-GAAP gross margin was 48% of revenue, compared to 44% in 2014.

Q4 Operating Expenses

Turning to operating expenses, we increased headcount 57% year-over-year to 2,219 employees at the end of the fourth quarter of calendar year 2015, which includes 96 and 165 employees that joined in the fourth quarter from Rdio and Ticketfly, respectively. This is up from 1,414 employees in the same period last year.

For the fourth quarter of 2015, non-GAAP sales and marketing expense was $96.5 million, or 29% of revenue, compared to $63.4 million, or 24% of revenue in the fourth quarter of 2014, as we continued to ramp our sales team and our brand and direct marketing activities. Included in sales and marketing expense are commissions on subscriptions that we pay Google and Apple totaling $11.1 million, and $22.2 million in brand, direct response and SEM activities.

Non-GAAP product development expense was $20.2 million for the fourth quarter, or 6% of revenue, an increase of 110% compared to $9.6 million in the fourth quarter of 2014. As we have said previously, we believe product development is an investment to drive revenue 13 to 36 months out, and thus we remain committed to increasing our spending in this critical area.

Non-GAAP G&A expense was $31.0 million or 9% of revenue, compared to $24.1 million in the same quarter last year, and consistent on a percentage of revenue basis.

CY2015 Operating Expenses

For the calendar year 2015, non-GAAP sales and marketing expense was $343.6 million, or 30% of revenue, compared to $235.2 million, or 26% of non-GAAP revenue for the calendar year 2014. Included in sales and marketing expense are commissions on subscriptions that we pay Google and Apple totaling $42.6 million, and $63.5 million in brand, direct response and SEM activities for the year 2015.

Non-GAAP product development expense was $60.3 million for the calendar year 2015, or 5% of revenue, a 100 basis point increase compared to the calendar year 2014 on a non-GAAP basis.

Non-GAAP G&A expense was $119.9 million or 10% of revenue and consistent with calendar year 2014 G&A expenses as a percentage of non-GAAP revenues.

Cash

Turning to the balance sheet, Pandora ended the fourth quarter with $416.9 million in cash and investments compared to $442.6 million at the end of the prior quarter. Cash used in operating activities was $71.0 million for the fourth quarter compared to $25.1 million of cash generated by operating activities in the year-ago quarter, as a result of timing of royalty payments related to the settlements entered into in the third quarter of 2015. Capital expenditures were $4.7 million in the fourth quarter. Lastly, we completed a convertible debt financing in the quarter for approximately $300 million, optimizing our capital structure into 2016.

Guidance

Now, I'll wrap up with some thoughts regarding our guidance for the calendar year 2016 and the first quarter. I am going to run through numbers related to the profitability profile of Pandora's core business and our investments. To make it easier for you, we have posted them on our IR site.

As a result of the Web IV/CRB decision, expected growth in hours, the pre-1972 settlement and the recently signed direct publishing deals, content costs in 2016 are increasing $160 million from 2015. Our progress made in driving gross profit and EBITDA growth over the past few years will take a step back due to this cumulative $160 million in additional expense in 2016, but these events have significant long term upside as they have created the certainty and fixed cost framework that will allow us to drive improving profit margins over the next few years.

Despite this large increase in royalty costs we expect our core business to reach $1.325 billion in revenue and $50 million in EBITDA in 2016, or 4% EBITDA margin. And as we look forward we believe we can drive the business profitably over the next few years to achieve over $2.4 billion of revenue and $480 million in operating profit in 2020, or 20% non-GAAP operating margins. To grow beyond our core business and increase revenue to $4.0 billion in 2020, we are initiating investments in our scaling infrastructure and in new lines of business, totaling $345 million in 2016. Those investments in 2016 include the following:

- $120 million in Marketing, including $80 million in external marketing spend, to maintain and grow our audience base and position Pandora's brand for the next phase.
- $100 million in Product Development, an increase from 5.0% to 8.0% of revenue, a step function in investment driven by the acquisition of the assets and key talent of Rdio last month. These investments are focused on bringing new products to market and supporting our growth initiatives.
- $125 million in G&A, from 10.2% to 9.4% of revenue, to build infrastructure for the future including content licensing and reporting infrastructure.
- Ticketfly will see significant investment covered by its own revenue performance, so we expect an additional $80 million -$90 million in revenue in 2016 and minimal impact to EBITDA after investment of its contribution margin into sales and marketing and product and development. .
- Of the investments we are outlining, $120 million is earmarked specifically to develop and launch new music services that we believe will accelerate revenue growth in 2017 and beyond.
- Thus, with $275 million in contribution margin from the core business, $345 million in investments and minimal impact from Ticketfly we are expecting an approximate $70 million EBITDA loss in 2016. However, as we look to the next few years we have a clear path to drive significant cash flow as these investments show returns.

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Also, to clarify the impact of the new publishing arrangements for the U.S. based core radio service, the majority of the deals are structured based on a pro rata share of 20% of the sound recording pool so publishers are paid based on usage of their works, out of that pool. The deal is a different structure than previous PRO industry deals, which have traditionally been based on a percentage of a service's revenue. Under those deals, if a service does not earn significant revenue, the total payments to the publishers are low and there is no incentive to earn. This structure, which is based on a percentage of the pool of sound recording payments, guarantees publishers that they will receive revenue from the service, while allowing Pandora to keep the upside when we are successful in monetizing above the per play rates. It is a great model for services like Pandora that are able to monetize well and a structure the publishing industry has embraced, a win-win solution that has ended years of acrimony

Now, moving to our revenue and adjusted EBITDA guidance, and starting with the calendar year 2016, we estimate total revenues in the range of $1.40 billion to $1.42 billion, or year-over-year growth at the mid-point of approximately 21%. We expect calendar year 2016 adjusted EBITDA loss to be in the range of a loss of $80 million to a loss of $60 million. Adjusted EBITDA excludes forecasted stock-based compensation expense of approximately $164 million and forecasted depreciation and amortization expense of approximately $62 million and a provision for income taxes of approximately $2 million and assumes minimal cash taxes given our net loss position for 2016. Basic shares outstanding for the calendar year 2016 are expected to be approximately 231 million. We are also forecasting a non-GAAP effective tax rate between 30-35% cumulatively for each quarter and the year.

For the first quarter of 2016, we expect total revenues in the range of $280 million to $290 million, achieving year-over-year growth at the midpoint of 23%. Adjusted EBITDA is expected be in the range of a loss $75 million to a loss of $65 million for the first quarter. Adjusted EBITDA excludes forecasted stock-based compensation expense of approximately $38 million and forecasted depreciation and amortization expense of approximately $14 million and a provision for income taxes of approximately $0.5 million and assumes minimal cash taxes given our net loss position for the first quarter. We are also forecasting a non-GAAP effective tax rate between 30-35% for the quarter. Basic shares outstanding for the first quarter 2016 are expected to be approximately 227 million.

In summary, we believe at a high level that there is huge upside for Pandora. Building off of our music platform for engagement and discovery, we have a tremendous global market opportunity in music. There are major, multi-billion dollar markets to address: the global radio advertising market, the mobile advertising market, paid music services and live events.

As we've outlined on this call, Pandora has a clear path to success, and we are focused on the following:

- Operating the core business to generate significant cash flow
- Bringing new products to market that have compelling competitive differentiation
- Demonstrating the power of Pandora's scale and data to drive live events demand
- Building and maintaining the scale necessary to execute on the opportunity

We're well-prepared for the challenge and excited for the future. And with that we're ready to take some questions. Operator?