



1 **Pandora (P) Q116 Financial Results Conference Call April 28, 2016**

2 **Scripts for:** **Tim Westergren, CEO and Founder**
3 **Sara Clemens, COO**
4 **Mike Herring, President & Chief Financial Officer**
5 **Dominic Paschel, Vice President, Pandora**

7 **Dominic Paschel**

8 Good afternoon, and welcome to Pandora's first quarter 2016 financial results call. Before we
9 begin, let me remind everyone that today's discussion will contain forward-looking statements
10 based on our current assumptions, expectations and beliefs, including projected financial
11 results or operating metrics, business strategies, anticipated future products or services,
12 anticipated market demand or opportunities and other forward-looking topics. For a discussion
13 of the specific risk factors that could cause our actual results to differ materially from today's
14 discussion, please refer to the documents we file with the Securities and Exchange Commission.

15
16 Also, during this call, we will discuss non-GAAP measures of our performance. GAAP financial
17 reconciliations and supplemental financial information are provided in the press release filed
18 today with the SEC, and detailed financials are available on our Investor Relations site.

19
20 Today's call is available via webcast and a replay will be available for two weeks. We will also
21 post the full text of today's prepared remarks once Mike concludes. You can find all of the
22 information I have just described on the Investor Relations section of Pandora.com. On today's
23 call we have Tim Westergren, Founder and CEO, Mike Herring, President and CFO, and Sara
24 Clemens, COO. With that, let me turn the call over to Tim Westergren, Pandora's CEO.

PANDORA®

25 Tim Westergren

26 Thanks, Dom, and thank you all for being on the call today. Before I turn to the corporate
27 update and the latest quarterly results, I want to offer some perspective on this company that I
28 founded with two friends over 16 years ago.

29
30 When I was twenty-nine years old, I was a keyboardist and songwriter in a traveling rock band
31 spending weeks on the road traversing Colorado, Idaho, Washington, Oregon and California on
32 the so-called “Crescent Moon” tour. We were one in a sea of bands driving thousands of miles
33 packed in with our equipment, playing small clubs, and doing the best we could with flyers and
34 staple guns to get locals to show up. The music was great, but like so many other bands we
35 shared the stage with, we were penniless and struggling to create a sustainable career. I saw so
36 many great bands that never made it past their first self-produced album. And I remember like
37 it was yesterday the moment I decided, somewhere on a stretch of I-80 in Nevada, to hang it
38 up.

39
40 Five years later, as the dotcom wave swept across the country, I hatched an idea that I thought
41 might fundamentally change the odds for musicians, and there was no way I wasn’t going to
42 pursue it. The Music Genome Project was the first recommendation methodology that offered
43 the promise of a level playing field and a powerful discovery engine if we could get it to scale.
44 Done right, we could do for musicians what eBay did for small merchants. It’s hard to put into
45 words just how profoundly gratifying it is to see this vision taking shape. Barely a day goes by
46 now that I don’t hear some anecdote about a working musician somewhere feeling the Pandora
47 effect – from a bluegrass band selling out a show for the first time, to a string quartet
48 unexpectedly selling a bunch of CDs, to a defunct band reuniting because of renewed interest in
49 their music. The vision of a thriving music economy is actually coming true.

50
51 I share this story not to be sentimental. It’s because in the 16 years with this business, through
52 thick and thin, I’ve learned the true power of an idea whose time has come. Pandora survived

PANDORA®

53 when almost no one did, and now we are completely changing the way listeners discover and
54 enjoy music and the way artists build sustainable careers.

55

56 I'm returning to the helm at a very exciting time for the company. Yes, we've had a rough
57 couple of years, and there are plenty of doubters, but not inside our four walls. I've spent the
58 first weeks of my tenure out with the teams across the country, and can say unequivocally that
59 we have never been more clear about our mission, nor more confident in our ability to achieve
60 it. The team is focused and hard at work on building the next era for Pandora.

61

62 I know this company, and our business environment, like the back of my hand and I attribute
63 much of the external perception to lack of understanding. Pandora's strategic position is not
64 obvious to the outside world. You have to look under the hood. The precision of our
65 personalization in which we have invested immeasurably for close to two decades is not
66 obvious. How hard is it to deliver a consistently satisfying personalized radio experience over
67 months and years? Just ask any of the dozens of so-called "Pandora Killers" that have come
68 and gone – it is a fantastically hard problem. That's why in the face of intense competition, our
69 hours listened per user is steadily rising. And this despite a glut of free on demand services with
70 little or no ad load that are creating a dangerous "gray market" for music. Our recommendation
71 engine is a formidable combination of painstakingly generated ground truth data, tens of
72 billions of precise listener signals and a large and growing corpus of original algorithms and data
73 science research.

74

75 And just like the personalization engine, the depth and complexity of our monetization engine
76 is also mostly unseen. Its only symptom is a growing core business that makes almost as much
77 revenue per hour as broadcast radio, on one-fifth of the ad load. How did we hit a nearly \$50
78 RPM in our seasonally weakest quarter? It takes massive and highly efficient national and local
79 sales teams dovetailing with a sophisticated inside and programmatic selling arm, a highly
80 developed ad ops and client services layer, an intricate pricing and yield engine, and our end to

PANDORA®

81 end design and production expertise. It is an immense and very mature infrastructure that
82 makes that experience possible. These two dimensions - personalization and monetization –
83 are just two major strategic advantages for Pandora that manifest themselves over time. In the
84 coming year their significance will become increasingly apparent.

85

86 Finally, let me end my comments before handing it over to Sara and Mike with a high level
87 overview of our strategy. The strategic plan we laid out in February’s call is unchanged, and we
88 are already making rapid progress on every front toward our goals. The team that conceived of
89 and will execute the strategy are all here and fired up. We know exactly what we need to do,
90 and we know exactly where we’re going.

91

92 And it all starts with our core radio product.

93

94 Approximately 100 million unique listeners come to Pandora every quarter. They listen to an
95 all-time high average of over 23 hours per month. This represents the third largest logged-in
96 user base in the U.S., behind only Facebook and Twitter. Through their interactions with the
97 service, and the ability we have to cross-match data with third party services, we have a highly
98 developed understanding of their music preferences and their sociographic profiles – and with
99 the onboarding of our targeted local concert recommendations, we will add to that a precise
100 longitude and latitude. An audience like this represents a massive marketplace. And that is
101 what we are building. Every move we have made over the past two years, including the
102 acquisitions of Next Big Sound, Ticketfly and Rdio, has been a deliberate strategy to form a
103 centralized marketplace where listeners and music makers come for all things music. Our heavy
104 investment in artist tools through the Artist Marketing Platform (AMP) is designed to establish
105 Pandora as the go-to CRM platform for every musician looking to build fan connection and
106 patronage. This is a classic two-sided marketplace – listeners and artists engaging and
107 transacting on one centralized platform – a service that unifies the entire music experience –

PANDORA®

108 radio, on-demand, live performance and artist-to-fan connection on every device, in every car,
109 in every location. Music where and how you want to hear it.

110

111 Our foundation is the ad-supported radio product, which will do north of \$1.0B of revenue this
112 year, and generate north of \$500M in margin after content costs. That growing core business
113 generates capital to reinvest in our growth categories, and just as importantly supports a
114 sustained, highly addressable audience to upsell into higher ARPU products, in the form of short
115 and long term paid subscription upsells, concert tickets and more. We are a pyramid, not a
116 funnel. A pyramid with a large and sustainable base upon which to build new businesses. We
117 are upselling listeners, not trying to catch them as they fall.

118

119 Another critical ingredient of Pandora's future success is our strength as a mobile-first
120 company. We're consistently way ahead of the curve on this, going all the way back to 2007
121 when being an iPhone launch partner sent Pandora's business into the stratosphere overnight.
122 Not only do we build listener and artist products through a mobile-first lens, we've already built
123 one of the most powerful and effective mobile advertising platforms in the world. So as mobile
124 has become the primary way music is accessed, we never had to pivot. We were – and are -
125 already there. And we know how to build strong businesses around it.

126

127 This is the lens through which investors should view our strategy, operating priorities, and
128 investment plans. We are careful stewards of our capital, but we will not be shy about moves
129 that we view as driving strong leverage into what is well on its way to becoming one of the truly
130 great internet marketplaces. It was this kind of confidence and long term thinking that created
131 such great opportunity for the likes of Amazon and Netflix. Like us, they both quietly built huge
132 underlying strategic advantages and parlayed that into pricing and marketing advantage to
133 extend their businesses and capture adjacent markets. We are following a similar playbook.

134

PANDORA®

135 Now over to Sara and Mike, two members of the very talented management team that, with
136 me, are executing this plan for years to come.

137

138 Sara Clemens

139 Thanks Tim.

140

141 Today I'm going to focus on the investments we are making to expand the scope of our
142 music marketplace to service both Artists and Fans.

143

144 Over the past 12 months, we more than doubled our product and engineering teams to 568
145 talented people. As a result, we are shipping an accelerating stream of features that are
146 delighting our nearly 80 million monthly listeners.

147

148 One of those new features is Browse, which provides listeners an intuitive graphical
149 environment in which to discover new music. It is differentiated in the same way as all
150 Pandora content experiences: it is completely personalized to each listener, representing their
151 unique music tastes. We call this "Dynamic Personalization". Whatever a listener tells us, our
152 platform immediately responds and adapts in real time. By contrast, our competitors' offer
153 mass playlisting, which operates much like terrestrial radio, and does not reflect the unique
154 tastes of individual listeners.

155

156 Another excellent example of dynamic personalization is Thumbprint Radio, which leverages
157 both our ground truth data from the Music Genome, and more than a decade of listener thumb
158 feedback.

159

160 Thumbprint is more than a user's greatest hits. It is a playlist that dynamically weaves together
161 thumbed up songs with new music we are confident listeners will equally love. It adapts and
162 improves as we accrue precise signals from the tens of millions of listeners that visit us each

PANDORA®

163 day. Thumbprint is quickly becoming our most popular listener station, and showcases our
164 superior ability to deliver real time personalization at scale and to enable listeners to discover
165 new artists at the same time.

166

167 As we accelerate our product innovation, we will bring this dynamic personalization to new
168 offerings.

169

170 Nowhere will that be more obvious than with our on-demand product, the first wave of which
171 will be available later this year.

172

173 We are not building a “me-too” offering. We do not believe the basic thirty-million-songs-and-
174 a-search-box approach services consumers well. You can count on us to reinvent the on-
175 demand experience in a distinctly Pandora way, using our immense trove of preference data
176 and the power of dynamic personalization. It will be as effortless and intuitive as our radio
177 product, and introduce tens of millions of listeners to the joy of a truly interactive music
178 experience. The talent and technology acquired via the Rdio acquisition has been integral to
179 this roadmap and it has been exciting to see the teams come together to design a truly new
180 offering.

181

182 We are also using dynamic personalization and data to change the game in live events. Today,
183 40% of live music tickets across the United States go unsold, primarily due to lack of awareness.
184 With our trove of data, we are uniquely positioned to solve that problem.

185

186 We have started promoting Ticketfly events, enabling listeners to buy tickets to their favorite
187 bands, thereby benefiting artists, venues and promoters. We are bringing tools like Mixtapes
188 and interviews to enrich these promotions. And we’ve only scratched the surface.

189

PANDORA®

190 Together we and Ticketfly are joint selling, driving Ticketfly's business development pipeline
191 and winning new venues. The latest of these are New York's Bowery Ballroom and Mercury
192 Lounge – two legendary venues – who Ticketfly announced this morning are migrating to the
193 Ticketfly live events platform.

194

195 That is an excellent segue to our investments on the artist side of the marketplace.

196

197 You've heard about the success of our artist marketing platform – PandoraAMP – on previous
198 earnings calls. But I'd like to step back and explain how the PandoraAMP components really
199 connect together to create an industry changing marketplace.

200

201 We have built out four key functions that are mutually reinforcing as a powerful flywheel with
202 compelling network effects: Identity, promotion, content and data.

203

204 The first is the Artist Profile, where an artist claims their identity on the platform and manages
205 their brand. Think of this as their storefront – the place where fans can go to understand who
206 the artist is, what their influences are, see their discography, and learn about tour dates. We
207 are investing in a fully-featured environment artists can manage directly.

208

209 The second function of the marketplace is Promotional Tools. These enable artists to market
210 themselves, speaking directly to fans on Pandora. This incorporates both traditional tools like
211 email and push notifications, and new tools such as Featured Tracks and Audio Messages. This
212 quarter we upped the ante, launching AMPCast, our mobile messaging platform. AMPCast
213 allows any artist on Pandora to record and release an audio message targeted to their entire
214 fan base from a mobile phone. We are enabling geo and demo targeting, and messages can be
215 accompanied by linkable calls-to-action on the screen such as a local ticket sale, a new single,
216 an album release, or any other news they want to tell their fans. The results from early tests are
217 remarkable. The combination of scale, targeting, and the ability to place messages alongside an

PANDORA®

218 artist's music as a listener hears it is the magic recipe. G-Eazy was one of our beta artists and
219 there is a great video on our blog where he speaks to the power of the service. He used
220 AMPcast for ticket sales, an album announcement, and app download messages which
221 generated click through rates of over 10%.

222

223 Layered on top of these tools is the third marketplace function: content experiences. This is
224 where we enable artists to step beyond the traditional Pandora radio playlist and provide
225 original content, including Mixtapes, pre-releases, concert streaming, interviews, and studio
226 session recordings. Live streaming has been so popular, we built an entirely new platform
227 capability which we lit up at SXSW. Over 4 days we had 39 thousand fans visit our Discovery
228 Den in person in Austin. But through live streaming, we extended that audience to over 250
229 thousand, with fans listening to their favorite bands and new talent for an average of 40
230 minutes.

231

232 Finally, the fourth function of our marketplace is analytics. Data provides artists with critical
233 intelligence about fans and explains how their efforts on Pandora are performing. Thousands
234 of bands regularly utilize our Artists Insights tool to schedule releases, plan promotions, and
235 build tours.

236

237 Next Big Sound amplifies our analytics capabilities, imbuing Pandora data with social and
238 contextual information, and enabling artists to see how everything they do across digital
239 platforms and traditional media impacts listener engagement and reach.

240

241 As we evolve the platform, fully integrated campaign tools will enable artists, their managers,
242 and labels to review performance in real time so they can drive efficiency, reduce risk and drive
243 deeper engagement every day.

244

PANDORA®

245 A great example of these tools in action is our recent collaboration with the Lumineers. We
246 designed a Mixtape as part of their album launch and designated their song Ophelia as a
247 Featured Track. We also did Artist Audio Messages for the Mixtape and album pre orders. The
248 results were huge. Ophelia had over 11M spins over 8 weeks and the band reached over 1B
249 spins on Pandora, with their music heard by close to 12M people over 90 days.

250

251 We have hundreds of case studies like this, proving again and again the incredible power that
252 comes from connecting artists and fans on Pandora. Through PandoraAMP we are helping
253 music makers grow, engage and monetize Pandora's massive audience. And we can do that
254 across both live and recorded music.

255

256 This increases artist participation, the expansion of listening options, and the discovery of live
257 music . . .

258 . . . this in turn drives additional fan engagement.

259 . . which in turn attracts new advertising and sponsorship dollars.

260

261 And of course, all of these activities feed powerful data back into the system to further
262 accelerate the flywheel. It is the marketplace operating with full force. A mutually reinforcing
263 ecosystem of listeners, music makers and advertisers, powered by data and creating benefit for
264 everyone in the industry.

265

266 As you'll see, we've had a very strong start to the new era. With that, I'll turn the call over to

267 Mike to discuss our financial results.

PANDORA®

268

269 **Mike Herring**

270 Thank you, Sara.

271

272 Last quarter we laid out a five-year plan to scale our platform to approximately \$4 billion plus in
273 revenue, including greater than \$1 billion in new services, and \$300 million in live events - and
274 the strategy and these targets remain squarely in our sites. During this time, we expect the core
275 Internet radio business to grow more than \$2 billion in revenue.

276

277 I'm excited by our early progress, we have the right strategy in place and the right team to
278 realize our vision.

279

280 Following the CRB ruling at the end of last year, we have certainty around our costs and clarity
281 on how to execute against our plan. We also have confidence in how to allocate capital in order
282 to most efficiently take advantage of the many business opportunities that Pandora is uniquely
283 positioned to capture given our expertise in monetization, our massive scale and our
284 proprietary data set.

285

286 While the CRB decision increased the royalty rates we pay for sound recordings going forward,
287 our ability to drive significant gross profits persists. We have a clear path to increase RPMs and
288 thus gross margins in the future, as first quarter total RPMs demonstrate. With LPMs now fixed
289 at approximately \$32 under current licensing terms adjusted for inflation, future growth in
290 RPMs will directly drive incremental contribution margins. Thus, we have a clear path to a 60%
291 gross margin and a 20% operating margin by 2020 in our core radio business.

292

293 The unique competitive advantage of our financial model is simple – the scale of the core
294 business funds the development of and provides the customer pool for new businesses.

295

PANDORA®

296 Now, I'll take you through our first quarter results.

297

298 **Q1 2016 Financial Results**

299

300 **Q1 Revenue**

301 Starting with revenue, we ended the first quarter of 2016 with revenue of \$297.3 million, an
302 increase of 29% compared to \$230.8 million in revenue for the same quarter last year.

303 Excluding contributions from ticketing services, revenue was \$275.0 million, an increase of 19%
304 over the year-ago quarter.

305

306 Advertising revenue increased 23% in the first quarter of 2016 to \$220.3 million, compared to
307 \$178.7 million in revenue in the same quarter last year and exceeded our expectations due to
308 stronger than expected momentum in local markets. Local revenue accounted for 28% of
309 advertising revenue in Q1.

310

311 First quarter subscription and other revenue was \$54.7 million, an increase of 5% over \$52.0
312 million in the same period in 2015. Our end of period paid subscribers increased approximately
313 150 thousand to 3.9 million, an increase of approximately 4% year-over-year.

314

315 Ticketing revenue in the first quarter was \$22.3 million as we completed our first full quarter
316 operating the Ticketfly business. First quarter Gross Ticket Value excluding box office sales was
317 more than \$170 million, growing approximately 20% year-over-year. We transacted
318 approximately 3.8 million tickets excluding box office sales in the quarter which were
319 purchased by approximately 1.6 million unique ticket buyers for approximately 35,000 live
320 events - a remarkable growth of approximately 30%, 25% and 30% year-over-year, respectively.

321 We are off to a good start.

322

323 **Q1 Adjusted EBITDA**

PANDORA[®]

324 Consolidated adjusted EBITDA for the first quarter was a loss of \$57.4 million, compared to a
325 loss of \$20.9 million in the same quarter last year. These results were better than expected due
326 to the revenue over-performance in the period. Adjusted EBITDA excludes \$38.7 million in
327 expense from stock-based compensation, \$13.3 million of depreciation and amortization
328 expense, approximately \$5.3 million in other expense, and approximately \$400,000 in provision
329 for income taxes.

330

331 **Q1 EPS**

332 First quarter 2016 GAAP net loss per share was (\$0.51). Non-GAAP basic and diluted net loss
333 per share was (\$0.20), which excludes approximately \$38.7 million in stock-based
334 compensation expense, approximately \$5.1 million in amortization of intangibles,
335 approximately \$1.2 million in amortization of non-recoupable ticketing contract advances, and
336 includes an income tax benefit of approximately \$24.9 million, attributable to the income tax
337 effects of the non-GAAP net operating loss before income taxes. GAAP and non-GAAP basic and
338 diluted EPS were based on 226.7 million weighted average shares outstanding.

339

340 **Q1 Content Costs**

341 Content costs represented 58% of total revenue in Q1, an expected but nevertheless significant
342 increase from the fourth quarter and year over year as a result of hours growth, the increase in
343 rates due to the CRB ruling in December 2015 and direct publishing deals signed at the end of
344 last year. As we have previously emphasized, our ability to leverage these costs is dependent on
345 our ability to increase RPMs in excess of our LPMs. Q1 2016 total RPMs reached a record first
346 quarter high of \$49.84 increasing by \$6.31 or 14% compared to the year ago period. For the
347 quarter, total LPMs increased by \$7.28, or 31% compared to the same quarter last year. While
348 in 2016 we will see LPMs grow faster than RPMs, this is unique to this year due to the step up in
349 royalty rates. Going forward for the next four years LPMs will only grow at a rate equal to the
350 CPI index while RPMs will grow based on our ability to continue to improve the monetization of
351 our service. This dynamic is what gives us so much confidence in our financial model to expand

PANDORA®

352 future margins. I do want to call out one change - going forward we will no longer speak to
353 mobile versus web RPMs as mobile traffic has become so dominant on Pandora's platform,
354 representing approximately 85% of Pandora's inventory, that the distinction is no longer
355 important internally and thus neither is it externally. We had previously emphasized these
356 metrics in order to demonstrate the potential monetization expansion as mobile markets
357 matured, but as we enter 2016 we are fully committed as a predominantly mobile platform and
358 are focusing internally on overall performance metrics rather than platform specific metrics.

359

360 **Q1 Gross Margin**

361 During the first quarter, non-GAAP gross margins were 31.4%, compared to 38.9% in the year-
362 ago quarter primarily the result of costs associated with content, as discussed previously.

363

364 **Q1 Operating Expenses**

365 Turning to operating expenses, we increased headcount 40% year-over-year to 2,269
366 employees at the end of the first quarter of calendar year 2016, from 1,624 employees in the
367 same period last year. Note we more than doubled the number of employees involved in
368 product development, primarily due to the addition of engineers related to the Rdio
369 acquisition, from 275 to 568, positioning Pandora for accelerated innovation going forward.

370

371 For the first quarter of 2016, non-GAAP sales and marketing expense was \$101.1 million, or
372 34% of revenue, compared to \$72.9 million, or 32% of revenue in the first quarter of 2015, as
373 we continued to ramp our sales team to 491 QBSRs at the end of Q1, 154 of which were
374 focused on local markets, and our brand and direct marketing activities. Included in sales and
375 marketing expense in the first quarter are commissions on subscriptions that we pay Google
376 and Apple totaling \$11.2 million, and \$16.2 million in brand, direct response and SEM activities.

377

378 Non-GAAP product development expense was \$25.5 million for the first quarter, or 9% of
379 revenue, an increase of 126% compared to \$11.3 million in the first quarter of 2015, driven by

PANDORA®

380 significant organic investment in engineering resources and the acquisition of Next Big Sound
381 and Ticketfly and the employees from Rdio in 2015. As we have said previously, we believe
382 product development is an investment in innovation to drive revenue 13 to 36 months out, and
383 thus we remain committed to increasing our spending in this critical area.

384
385 Non-GAAP G&A expense was \$31.1 million or 10% of revenue, compared to \$30.5 million in the
386 same quarter last year or 13% of revenue a year ago.

387

388 **Cash**

389 Turning to the balance sheet, Pandora ended the first quarter with \$382.5 million in cash and
390 investments compared to \$416.9 million at the end of the prior quarter. Cash used by operating
391 activities was \$13.1 million for the first quarter compared to \$27.0 million of cash generated by
392 operating activities in the year-ago quarter. Capital expenditures were \$14.4 million in the first
393 quarter, primarily driven by office buildouts and internal-use software costs, were \$7.2 million
394 in the first quarter, driven by capitalization of engineering costs associated with the
395 development of new subscription services.

396

397 **Guidance**

398 Now, I'll wrap up with some thoughts regarding our guidance for the calendar year 2016 and
399 the second quarter.

400

401 Starting with the calendar year 2016, we estimate total revenues in the range of \$1.41 billion to
402 \$1.43 billion, or year-over-year growth at the mid-point of approximately 22%. We expect
403 calendar year 2016 adjusted EBITDA loss to be in the range of \$70 million to \$50 million.

404

405 Adjusted EBITDA excludes forecasted stock-based compensation expense of approximately
406 \$152 million, and forecasted depreciation and amortization expense of approximately \$62

PANDORA®

407 million, and a provision of income taxes of approximately \$2 million, and assumes minimal cash
408 taxes, given our net loss position for the year.

409

410 Basic shares outstanding for the calendar year 2016 are expected to be approximately 231
411 million. We are also forecasting a non-GAAP effective tax rate between 30% and 35%
412 cumulatively for each quarter and for the year.

413

414 For the second quarter of 2016, we expect total revenues in the range of \$345 million to \$355
415 million, achieving year-over-year growth at the mid-point of 23%. With content costs
416 approximately flat quarter over quarter we expect the sequential quarterly revenue growth to
417 flow directly to gross profit and materially to the bottom line, thus Adjusted EBITDA for the
418 quarter will improve sequentially to a range of a loss of \$30 million to a loss of \$20 million for
419 the second quarter.

420

421 Adjusted EBITDA excludes forecasted stock-based compensation expense of approximately \$37
422 million, and forecasted depreciation and amortization expense of approximately \$15 million,
423 and a provision for income taxes of approximately \$500,000, and assumes minimal cash taxes,
424 given our net loss position for the second quarter.

425

426 Basic shares outstanding for the second quarter of 2016 are expected to be approximately 230
427 million.

428

429 In summary, Pandora is successfully operating its core business and progressing well across our
430 new initiatives as we build a powerful music marketplace. We continue to be focused on the
431 following:

- 432 • Operating the core business to generate significant cash flow
- 433 • Bringing new products to market that have compelling competitive differentiation
- 434 • Demonstrating the power of Pandora's scale and data to drive live events demand

PANDORA®

- 435 • Building and maintaining the scale necessary to execute on the opportunity

436

437 As Sara said, we believe these factors are coming together to create that music marketplace
438 operating with full force. We have a strong team in place and we're well-prepared for the
439 challenge and excited about the opportunity. And with that we're ready to take some
440 questions. Operator?