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1 Pandora (P) Direct Licensing Agreements Conference Call September 13, 2016

2 Scripts for: Tim Westergren, CEO & Founder
3 Mike Herring, President & Chief Financial Officer
4 Palmira Farrow, Director, Pandora
5

6 FINAL – September 13, 2016

8 Palmira Farrow

9 Good morning and welcome to our call to discuss the announcement of Pandora's
10 direct licensing agreements. Some of our discussions will contain forward-looking
11 statements which may include projected financial results or operating metrics,
12 business strategies, anticipated future products or services, anticipated market
13 demand or opportunities and other forward-looking topics.

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

19
20 Today's call is available via webcast and a replay will be available for two weeks
21 following the conclusion of the call. We will also post the full text of today's
22 prepared remarks once Mike concludes. To access the press release, supplemental
23 financial information, or the webcast replay, please consult the Investor Relations

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24 section of Pandora.com. With that, let me turn the call over to Tim Westergren,
25 Pandora's Founder and CEO.

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26 Tim Westergren

27 Thanks Palmira.

28

29 First, thank you all for joining us this morning. Today we enter an exciting time
30 for Pandora and for the future of music as we have just taken a significant and
31 essential step forward in our strategic plan. Just moments ago we announced the
32 signing of landmark direct licensing agreements with Merlin Network, Sony Music,
33 Universal Music Group and more than 40 independent labels.

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35 As discussed on previous calls, we've been aggressively pursuing these
36 agreements and believe they represent a win-win solution that supports artists,
37 and satisfies the full range of music listening for the consumer, while profitably
38 growing our respective businesses. As a former longtime working musician this is
39 personal to me and I am particularly proud, not only of the quality of the deals
40 themselves but also the manner in which we achieved them. This was truly a
41 collaboration between parties looking for a long term, win-win solution. Working
42 together with the music industry, we can open up new revenue streams for artists
43 and labels and pave the way for Pandora to bring highly differentiated products to
44 market that enable enhanced subscription services, fuel unique new advertising
45 opportunities and deliver unprecedented flexibility and ease of use to listeners.
46 Our new partners join ASCAP, BMI and over 2,700 publishers in licensing their full
47 catalogs to us, ensuring a steady new stream of income to recording artists and
48 songwriters alike. As a result of these agreements, we are more confident than
49 ever in our ability to deliver the products we want while executing on a business

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50 that fully supports Pandora's five-year revenue and profitability targets outlined
51 earlier this year which Mike will discuss in detail shortly.

52

53 But before diving into the underlying economics, I want to provide some brief
54 context around our ongoing transformation.

55

56 The velocity of product innovation at Pandora has risen sharply over the past
57 year. In the last three months alone, the team has delivered more than a dozen
58 new features, programs and services to delight listeners, advertisers and music
59 makers including a hugely successful Uber integration and the recent launch of
60 Questlove Supreme. It's also driven by a growing product integration of live
61 events discovery on our Platform. Ticketfly continues to capitalize on massive
62 market momentum, becoming the preferred partner for 18 new marquee venues
63 and promoters. The things we build work. And with each incremental product
64 feature we see clear signs of an emerging marketplace: a self-reinforcing flywheel
65 of listeners, artists, advertisers and venues engaging directly on the platform with
66 all of the network effect benefits that it creates. Now, with these license
67 agreements in place, the team – hard at work making Pandora better for
68 everyone – is looking forward to unveiling some of our most exciting and
69 innovative new products and features to date.

70

71 Successfully delivering this fulsome experience will allow us to monetize users
72 across the demand curve including ad supported, on demand, and a myriad of
73 new ways fans want to engage. And only Pandora - with more than 78M users

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74 listening twice as much as any other streaming service - has the addressable
75 audience, data and business model to effectively capture this entire opportunity.
76 With the entire demand curve now ready for us to address, we can confidently
77 adjust our priorities as a business towards bringing these new services to market
78 with great speed and capture market share. We are confident in the product
79 roadmap and look forward to introducing the new services soon.

80

81 With that, let me turn the call over to Mike to walk you through the financial
82 strategy behind these agreements.

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84 **Mike Herring**

85 Thanks Tim. And I'll echo the thanks to everyone for joining us this morning, our
86 excitement about these agreements and what our new partnerships mean for the
87 future of music. Let me reiterate, these new agreements allow us to preserve our
88 previously stated long-term margin targets for the core advertising business and
89 enable new subscription-based products, significantly expanding our revenue
90 opportunities.

91
92 This expansion is a story of revenue and business model diversification, allowing
93 us to optimize lifetime value (LTV) over the long term.

94
95 Before I get into more detail about the impact of these agreements on content
96 costs, our new performance metrics and Pandora's future economics, I'll quickly
97 review our long-term targets for both our core Internet radio business and our
98 expected subscription services as well as the timing for unveiling new products:

99
100 We see the core internet radio business expanding to over \$2.4 billion of revenue
101 in the next five years. We expect improvements in advertising monetization to
102 largely accrue to gross profit, with non-GAAP contribution margins approaching
103 60% on the core ad business within five years and non-GAAP operating margins
104 approaching 20%. On a blended basis, we believe our total business can achieve
105 greater than 15% non-GAAP operating margins beyond 2020. These financial
106 objectives are fully intact.

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108 In subscription, we anticipate revenue growth will accelerate as new product tiers
109 are launched and adopted over the coming months. We believe we can build a
110 \$1.3 billion subscription business over five years, based on 10% penetration of
111 Pandora's expected US audience. These projections along with \$300 million in
112 revenue from our ticketing business take Pandora to a \$4 billion-plus revenue
113 business in our current geographies alone in five years.

114

115 In terms of expanding our revenue opportunities, we expect to launch product
116 enhancements to both the core and subscription products soon, and unveil our
117 on-demand product before the end of this year.

118

119 In terms of content costs, we expect an LPM of approximately \$33 against our ad-
120 supported listening under the new licensing structure – consistent with the cost
121 structure of our ad supported business prior to the partnerships announced
122 today. For our subscription business, we expect content costs to represent
123 between 65-70% of revenue, consistent with developing industry economics.

124

125 Once our subscription services come online, we will adjust the way we measure
126 our business performance. Beginning in Q4 2016 and on a prospective basis, we
127 will report the following as our key metrics:

128

129 For our advertising supported service, we will continue to report advertising
130 RPMs and LPMs.

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132 For our subscription services, we will report average revenue per paying
133 subscriber, or ARPU.

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135 We will no longer report subscription RPMs and LPMs as neither revenue nor
136 costs are driven by listening hours for subscriptions given the terms of these
137 agreements. We will disclose our total paying subscribers at the end of each
138 reporting period on an aggregate basis.

139

140 We will continue to report our total active users across all services on a trailing
141 30-day basis and we will also continue to disclose our listening hours across our
142 advertising and subscription services.

143

144 I'll conclude with some thoughts on our future and how we can effectively
145 compete in the subscription market.

146

147 A hallmark of our hyper-personalized radio product – a unique asset to Pandora –
148 is its ability to drive market-leading engagement, repeat usage and ultimately the
149 long-term retention of our more than 78 million users. This ensures we have a
150 readymade audience for new product and service introductions- not only in terms
151 of scale and in our ability to communicate with them, but also our precise
152 knowledge of their music preferences will greatly increase conversion efficiency.
153 And product diversification will allow us to optimize the lifetime value of each
154 user, drive up revenue per user, reduce churn and enforce price protection.

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156 These competitive business advantages coupled with a balanced go-to-market
157 strategy across a robust ad-supported business, multiple tiers of subscription
158 services and additional revenue opportunities like live events and ticketing, give
159 us strong confidence that we have established ability to protect margins and grow
160 responsibly and profitably.

161

162 Finally, by working together with our new partners, we can reshape the digital
163 music market and grow a great business that provides tremendous value to the
164 music industry for decades to come.

165

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