

Pandora's Advantage Over Spotify Holds Up

Spotify nearly matches Pandora in the U.S. in total hours streamed, but Pandora wins in ad-supported hours.

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Wells Fargo Securities

Based on our analysis of Triton Digital's June Domestic Ranker (released Wednesday), [Pandora Media](#) listener hours declined 2.7% year-over-year in June, comparing to an estimated 3.4% decline in May and a 5.8% drop in April.

Based on Pandora's (ticker: P) most recent 10-Q and our estimates, we believe Pandora's ad-supported hours declined about 12% in June, consistent with May, though a modest improvement from April. Off-setting this decline, we believe Pandora's subscriber-based listening hours (Plus and Premium) grew 62% in June, accelerating from estimated 56% in May and 50% in April. With June's growth, we believe subscription hours now likely represent about 21% of total Pandora listening, up from 13% in June 2016.

Spotify momentum continues, though Pandora maintains a comfortable lead in ad-supported hours. Though Pandora has a broad set of competitors in the streaming-music space -- including [Apple](#) (AAPL), [Alphabet's (GOOGL)] [Google](#), [Amazon.com](#) (AMZN), etc. -- Triton Digital's monthly streaming-audio tracker includes only Spotify among direct competitors. For June, our analysis of Triton data points to 53% year-over-year growth in total streamed hours for Spotify, the second straight month of accelerating growth (50% in April, 51% in May), and the seventh consecutive month of year-over-year growth above 40%. Though Spotify's public filings don't allow us to distinguish between ad-free and ad-supported hours, we applied comments made by Spotify executives to ad-supported versus subscription hour listening trends seen with Pandora to estimate Spotify's split of ad-supported versus subscription listening.

The output suggests that though Spotify has now nearly matched Pandora in the U.S. with regard to total hours streamed, that Pandora maintains a significant -- if slowly shrinking -- advantage when it comes to ad-supported hours of about 75%.

Though we believe Pandora maintains several significant advantages over Spotify as a digital-advertising platform, we believe the competitive pressure is building. Ad-agency contacts inform us that Spotify has increased its outreach to national radio buying groups in addition to pitching digital-media planners and buyers. And while we believe Spotify has not yet elected to build out a local market salesforce, local Spotify inventory is available through an ad-network selling relationship with Triton Digital. Further strengthening Spotify's advertising hand has been the company's first-mover status in rolling out a programmatic buying platform for national audio ads, and more recently a self-serve platform for marketers, neither of which are currently offered by Pandora.

Though we believe Pandora now trails Spotify in terms of these more advanced offerings, Pandora's scale and local selling infrastructure gives Pandora a substantial advantage in addressing the

relatively untapped -- though slower moving in terms of digital adoption -- local market. Looking ahead, we expect Pandora's new management team to focus on improving Pandora's ad platform in order to more significantly leverage its leading scale in ad-supported listening.