Spotify

Initiation of coverage

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The king of audio streaming

We initiate coverage of Spotify with a Reduce recommendation and a target price of USD 470. Spotify's impressive transformation into a profitable business with strong free cash flow generation, coupled with sustained high growth in its user base, underscores the platform's strength and solid fundamentals. However, we believe the current valuation already reflects these achievements, warranting a more cautious stance at this point.

From music distruptor to a leading audio streaming platform

Since its 2008 debut, Spotify has revolutionized the music industry by replacing the transaction-based model with an access-first streaming approach. With its freemium model, Spotify quickly gained ground and rapidly scaled its user base. Over the years, the company has developed strong personalization capabilities, but also expanded beyond music streaming to podcasts and audiobooks, while tapping into more engaging video content. Spotify aims to add more verticals in the years to come to enhance its value proposition further while also expanding in new markets to boost revenue growth. Spotify is currently the leading audio streaming platform globally, with over 30% of the music streaming subscriber market, and more than 640 million users across 180+ markets.

Shift from growth-at-all-costs to profitability and record free cash flow

For much of its history, Spotify was praised for its user-friendly platform but questioned as a business due to low gross margins and profitability challenges. However, in 2023, the company effectively transitioned from a focus on growth-at-all-costs to prioritizing profitability. The company executed significant cost-cutting initiatives and increased subscription prices across key markets, while remaining focused on enhancing its value proposition for users. These initiatives have not only propelled Spotify to record levels of profitability and free cash flow, but also eased investor concerns about the business and demonstrated its ability to balance growth with profitability.

On the path to 1 billion users by 2030

Spotify's 2022 goal of reaching 1 billion users by 2030 appears within reach, driven by its consistent user growth, underlying growth of global paying subscribers and ongoing platform improvements. While mature markets such as the U.S. and Europe face increased saturation, Spotify is leveraging localized content and flexible pricing to capture market share in the faster-growing emerging markets, where digital streaming adoption is on the rise. This, coupled with investments in personalization, vertical expansion, and new subscription plans, are expected to further increase Spotify's user monetization potential and support high revenue growth. However, Spotify's long-term outlook is not without risks. Potential strains in its relationships with the music industry, competitive pricing pressure, and challenges in expanding into non-music verticals could impact the growth trajectory.

Risk/reward depleted following stock rally

Over the past two years, Spotify's stock has appreciated significantly, reflecting investors' heightening confidence in its growth and profitability initiatives. Based on our 2025e estimates, Spotify is trading at forward EV/FCFF and EV/EBIT multiples of 29x and 42x, respectively, which we believe to be on the high side. Our DCF model indicates a value per share of USD 468, assuming sustained double-digit growth in the foreseeable future with improved margins. While long-term drivers such as expanding its user base and enhancing margins remain intact, we are on the lookout for a more attractive risk/reward.

Recommendation

Reduce

470 USD

Share price:
480 USD

Key indicators

	2023	2024e	2025e	2026e
Revenue (MEUR)	13,247	15,554	18,046	20,828
growth-%	13%	17%	16%	15%
EBIT adj. (MEUR)	-446	1,362	2,022	2,471
EBIT-% adj.	-3.4 %	8.8 %	11.2 %	11.9 %
Net Income (MEUR)	-532	1,249	2,192	2,521
EPS (adj.) (EUR)	-2.7	6.2	10.7	12.0
P/E (adj.)	neg.	74.0	43.0	38.2
P/B	13.1	24.5	15.5	10.9
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	64.8	42.3	33.3
EV/EBITDA	neg.	58.8	39.9	32.0
EV/S	2.3	5.7	4.7	4.0

Source: Inderes

Guidance

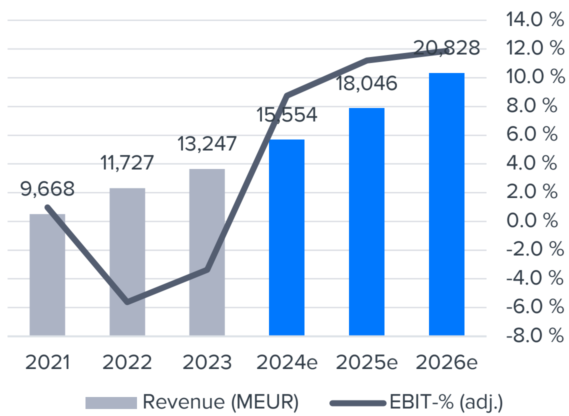
(New guidance)

For Q4'24, Spotify expects:
MAU: 665m (+25m q/q)
Premium subscribers: 260m (+8m q/q)
Revenue: 4.1 BNEUR
Gross margin: 31.8%
Operating income: 481 MEUR

Share price

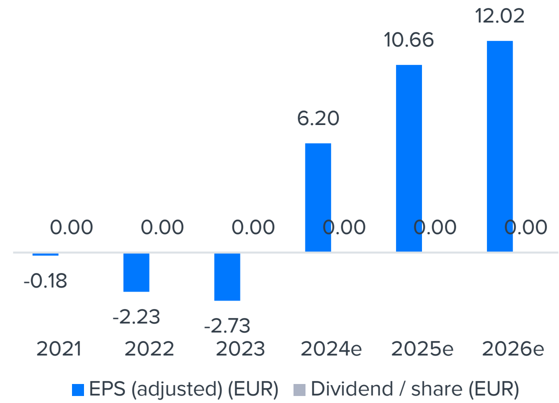
Source: Millistream Market Data AB

Revenue and EBIT-% (adj.)



Source: Inderes

EPS and DPS



Source: Inderes

Value drivers

- Top-of-mind brand in audio with a market-leading position
- On track to reach one billion users by 2030
- With the most loyal and engaged customers in the space, Spotify has an untapped potential in its advertsing business
- The shift to podcast profitability and ramping up Marketplace contribution enable incremental leverage and margin expansion
- Potential to grow in emerging markets and increase market share
- Expanding into new emerging verticals while improving monetization enable ARPU and margin expansion

Risk factors

- Worsening relationships with the music industry could pose operational challenges
- The competition in the audio industry is fierce and contain financially stronger companies
- Challenges in executing emerging verticals may put pressure on the balance sheet
- A deceleration in subscriber growth could drive significant volatility in the share price
- While offering opportunities for Spotify, AI advancements could enable competitors to narrow the gap in personalization capabilities

Valuation	2024e	2025e	2026e
Share price (EUR)	458.7	458.7	458.7
Number of shares, millions	201.6	205.6	209.7
Market cap (MEUR)	92,461	92,461	92,461
EV (MEUR)	88,285	85,527	82,368
P/E (adj.)	74.0	43.0	38.2
P/E	74.0	43.0	38.2
P/FCF	39.7	35.7	31.0
P/B	24.5	15.5	10.9
P/S	5.9	5.1	4.4
EV/Sales	5.7	4.7	4.0
EV/EBITDA	58.8	39.9	32.0
EV/EBIT (adj.)	64.8	42.3	33.3

Spotify in brief

Spotify is a Swedish audio streaming subscription company, known for pioneering the music streaming industry. Launched in 2008, the platform offers millions of songs, podcasts, and audiobook content to users worldwide, available through both free ad-supported and premium subscription tiers.

2006
Year of establishment

2018
Direct listing on NYSE

15.1 BNEUR **(+19% y/y)**
Revenue LTM Q3'24

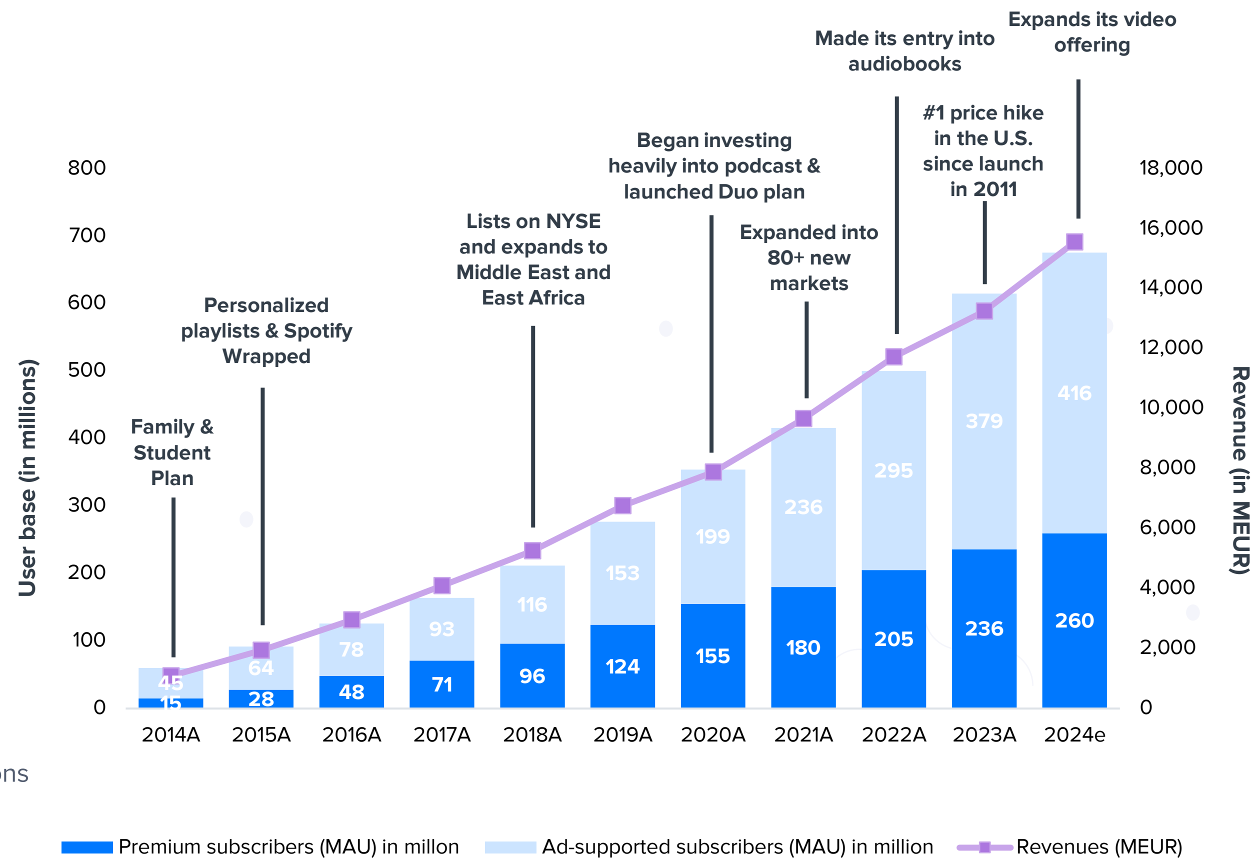
813 MEUR **(5 % of revenue)**
EBIT LTM Q3'24

1.8 BNEUR **(12% of revenue)**
Free cash flow LTM Q3'24

7,242
Full-time employees at the end of Q3'24

88%
of revenues in Q3'24 (LTM) from premium subscriptions

Spotify growth timeline and selection of company-specific events



Source: Spotify / Inderes

Company description 1/10

Founder-led audio streaming company

Spotify is a market-leading global audio streaming service company that serves hundreds of millions of active users and premium subscribers across 180+ countries worldwide. Since its inception in 2006, Spotify has accrued over 100+ million music tracks, six million podcasts, and over 300,000 audiobooks.

The company was founded by the Swedish entrepreneurs Daniel Ek and Martin Lorentzon, who still remain actively involved to this date, with Ek serving as CEO and Lorentzon as a member of the board of directors. Spotify was founded as a response to the growing issue of music piracy, with the goal of offering a superior alternative that also fairly compensated the music industry. The platform launched in 2008 in select European countries, and within just three years, Spotify had reached one million paying subscribers across Europe. In 2011, Spotify expanded its service to the United States, marking a significant milestone in its global growth. In less than a year, Spotify had over one million American users, and by 2012, the platform reached over 20 million active users in total, including five million premium subscribers.

Over the past years, Spotify has diversified its content offering by investing in podcasts and audiobooks, acquiring companies like Gimlet Media, The Ringer, and Findaway. The company aims to further verticalize its product portfolio, making early strides into education services in the UK as of 2024. In parallel, Spotify has continuously expanded into new geographic markets and as of Q3'24, the company had 640 million active users ("MAU") and 252 million premium subscribers, with Europe being the biggest market, accounting for some 28% of total MAU.

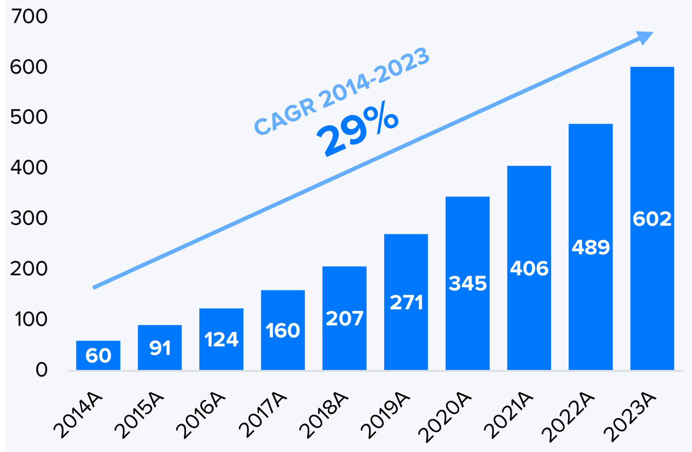
Leveraging a freemium model for global scale

A key driver of Spotify's global success has been its freemium revenue model. This approach offers users a choice between a free, ad-supported tier with limited features and a premium subscription tier with unlimited access for a monthly fee. In addition to its dual-tier service, Spotify has expanded its ecosystem through its Marketplace offering, enabling artists, creators, and advertisers to connect with their audiences using a suite of tools and services. This approach has positioned Spotify as both a software subscription platform and a media company, generating recurring revenue from its premium subscribers while effectively monetizing its free user base through advertising.

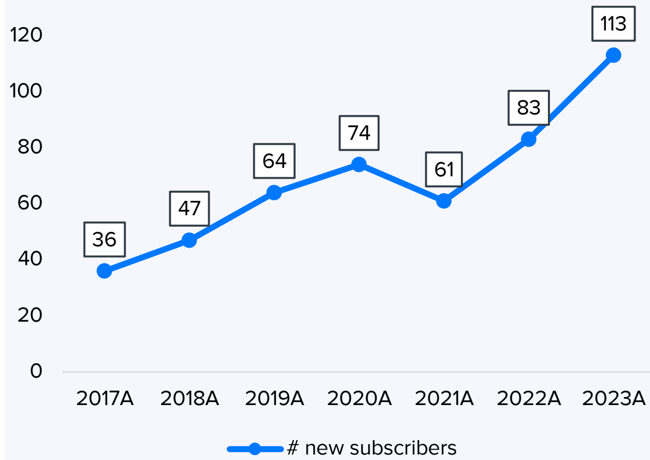
Premium subscriptions: Is a central component of Spotify's business model and generates a majority of the revenue (2023: 87%). Premium subscribers are provided with an ad-free listening experience, higher audio quality and the ability to download songs for offline listening, which enhances the user experience and customer retention. Spotify offers a wide range of direct-to-consumer ("DTC") pricing plans tailored to different customer preferences (Student, Standard, Duo and Family), often charged monthly. The pricing varies by plan and is adapted to each local market to align with consumer purchasing power, general cost levels and willingness to pay for an audio services. In developed markets, the monthly subscription price range from USD 5.99 (Student) up to USD 19.99 (Family), with the standard plan priced at USD 11.99.

Ad-supported subscription: While the premium offering is the major revenue contributor, the free ad-supported subscription tier serves as a critical entry point for new users, serving as a funnel to new premium subscribers' conversion.

Total Monthly Active Users (in million)



Net new subscribers (in millions)



Sources: Spotify, Inderes

Company description 2/10

Historically, over 60% of the total gross added premium subscribers to the platform were once a free user. Free users still have access to the same extensive music and podcast library, but with limitations in the form of e.g. ads, lower audio quality, and restricted on-demand listening.

To efficiently monetize these free users, Spotify has expanded its advertising ecosystem to provide brands, artists, and creators with tools for reaching targeted audiences. *Spotify Ad Studio* and *Streaming Ad Insertion* (SAI) allow advertisers to engage listeners across music and podcast content, with SAI offering precise, real-time ad placements and detailed metrics for tracking ad performance. The 2021 launch of the *Spotify Audience Network* (SPAN) further enhanced Spotify's advertising capabilities. SPAN is an audio marketplace that connects advertisers to listeners based on interests and behaviors, freeing brands from show-specific ad buys and enabling a broader, more effective reach. For creators, SPAN introduces new revenue streams by bringing targeted ads to podcast audiences across the platform.

Marketplace: Spotify has developed a two-sided marketplace designed to support creators, artists, and advertisers with tools and insights that enhance their presence on the platform.

For artists and labels, *Spotify for Artists* offers data analytics, promotional tools like *Marquee*, and merchandising and ticketing integrations, helping creators grow their fan base and monetize their content. On the podcasting side, *Spotify for Creators* enable podcasters to create, distribute, and monetize their shows.

This marketplace not only diversifies Spotify's revenue streams but also strengthens its position as a platform that supports creators and advertisers, contributing to a sustainable ecosystem that drives long-term engagement and growth.

Content on the platform hinges on license agreements

To provide a vast library of audio content on its platform, Spotify relies on negotiating and securing licensing agreements. Hence, the business model is fundamentally dependent on strong partnerships with rights holders and creators. For example, to be able to stream music on the platform, the company must obtain these licenses from the music right holders. In 2023, around. 74% of all audio streams on Spotify was from content provided by four major record labels, underscoring the importance of these relationships.

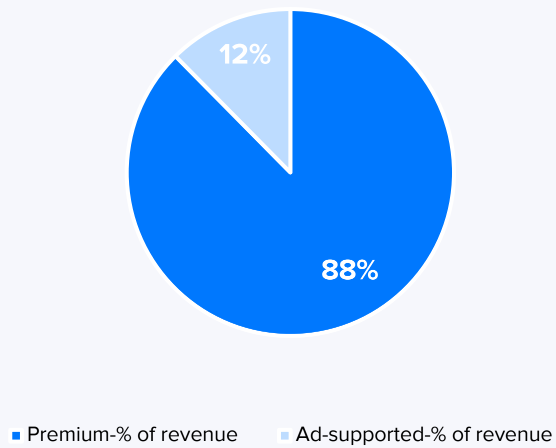
The real value comes from the subscribers

Spotify does not provide any granular insights into its specific segments (Music, Podcast, Audiobooks, marketplace) but rather the share of premium subscription revenue and ad-supported revenue from its freemium model.

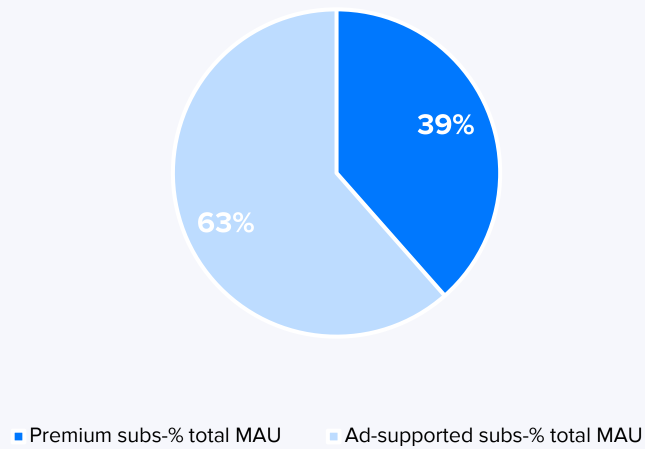
While Spotify's ad-supported service has over time become an increasingly strong and viable stand-alone product, the real value in Spotify's business model is to convert free users to paying users, which also has been the core purpose of Spotify's freemium model. This becomes increasingly evident when studying the composition of its user base (premium/free users) and the contribution to revenue (see adjacent graphs).

Since 2016, the ad-supported business has grown at a faster CAGR than the subscription business and now accounts for 12% of total revenues, while representing 63% of the platforms total MAU's. Conversely, premium subscription revenue makes up the lion share of total revenue (88%) and remains the platform's primary top-line driver.

Revenue mix-% (Q3'24)



MAU breakdown-% (Q3'24)



Sources: Spotify, Inderes

Company description 3/10

From European roots to a truly global player

When Spotify launched in 2008, it was available in just a handful of European countries. Since then, the platform has expanded its reach dramatically and is now accessible in over 180 countries worldwide. In 2021, Spotify embarked on its most ambitious expansion to date, launching its service in more than 80 new markets across Asia, Africa, the Caribbean, Europe, and Latin America, while introducing support for 36 additional languages to enhance accessibility and engagement.

Spotify categorizes its revenue into four geographical regions: the U.S., U.K., Luxembourg, and Other Countries. Luxembourg is included due to Spotify's incorporation and domicile there and contributes only a few million euros in revenue annually.

Spotify classifies its MAUs into four regions: LATAM, North America, Europe, and the Rest of the World. By mid-2023, the "Rest of the World" region, including Asia, Africa, the Caribbean, and Oceania, emerged as the largest contributor to Spotify's global user base, accounting for one-third of total MAUs, up significantly from around 20% in 2020. Despite this rapid growth in emerging markets, Europe remains Spotify's largest individual region, representing 27% of the total user base as of Q3'24.

Diversifying the business beyond music

Spotify first introduced podcasts in 2015 as part of its effort to diversify content beyond music. However, its significant expansion into the podcasting space began in 2019 with strategic acquisitions such as Anchor and Gimlet Media. These acquisitions equipped Spotify with the tools to support podcast distribution, creation, and production on its platform. Between 2019 and 2022, Spotify invested over 1 BNEUR in acquisitions and exclusive and original content. This aggressive strategy expanded Spotify's podcast library from 185,000 in 2018 to over 6 million by 2024. In 2023, Spotify was the number one podcast platform in several markets, including the U.S.

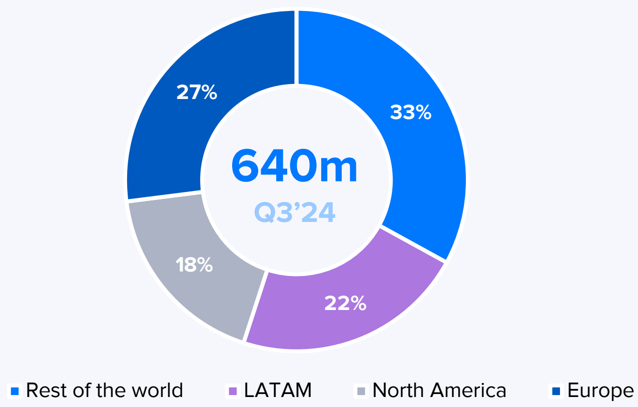
In 2022, Spotify entered the audiobook market by acquiring Findaway, launching an audiobook catalog initially in the U.S. and later expanding to the UK, Ireland, Australia, and New Zealand. In 2023, Spotify enhanced its premium offering by including 15 hours of audiobook access per month for premium subscribers in select markets, covering a catalog of over 250,000 titles. After consuming these 15 hours, subscribers can purchase additional listening hours or buy entire audiobooks. An additional 125,000 titles are available for purchase, bringing the total audiobook collection on Spotify to approximately 375,000 titles.

All content on the Spotify platform, whether it is music, podcast, or audiobook, live in one single consumer experience, enabling greater lifetime value (LTV) of users through up- and cross-selling.

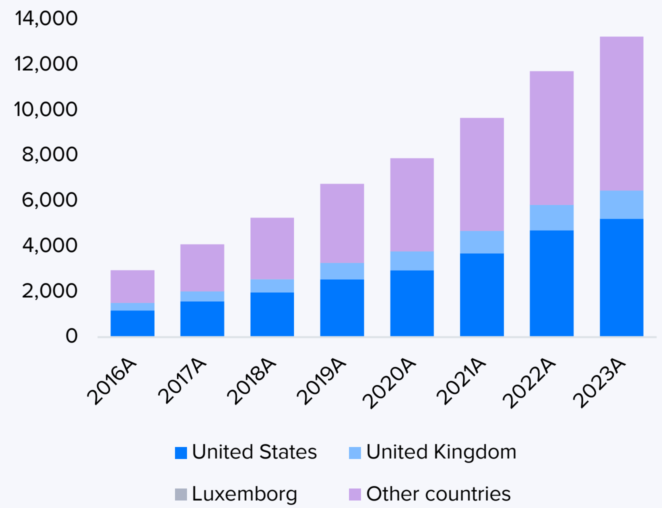
Podcasts and audiobooks broaden the monetization structure

Spotify primarily monetize podcasts through ads, but it also allows some podcasters to offer premium, paywalled content, and takes a cut on these subscription payments. Spotify's ad monetization capabilities depend on the type of podcast (exclusive, original, or independent). For exclusive and original podcasts, Spotify has more control over the ad placements, enabling it to retain a larger share of revenue generated from advertising or subscription payments. For independent podcasts, Spotify earns ad revenue only if the podcaster uses one of Spotify's advertising solutions, such as the Spotify Audience Network (SPAN). Otherwise, the podcast simply contributes to Spotify's content library without generating direct revenue.

Geographic MAU breakdown (-% of total)



Geographic revenue breakdown (in MEUR)



Sources: Spotify, Inderes

Company description 4/10

Spotify's audiobooks operate under pay-per-download and subscription model. Users can either buy individual titles, with revenue split between Spotify and the publisher, or access a limited selection of audiobooks as part of the premium plan. In Q1'24, Spotify also launched an audiobook-only subscription in the U.S. at a lower price point than the standard plan, which gives access to 15 hours of audiobook listening and the free music tier with ads. When these hours are consumed, additional 10-hours can be purchased for USD 12.99.

Diversification aspirations don't stop there

Spotify's aims to further diversify its platform offering with new verticals beyond music, podcasts, and audiobooks, in areas such as education, news, and sport. In early 2024, Spotify launched a pilot program for video-based educational courses in the UK, offering classes in music, creativity, business skills, and wellness through partnerships with EdTech companies. Available to free and premium users, the pilot allows users to try free lessons before purchasing full courses priced between GBP 20-80. Spotify hosts and sells these courses, sharing revenue with content creators and publishers. This approach lets Spotify test video-based learning with minimal investment, gaining insights into user demand and helps assess the viability of expanding further into educational content.

Spotify strengthens its presence in video formats

Spotify has intensified its push into video formats, introducing video podcasting (Q3'20), music videos (Q1'24), and, most recently, expanded video content (Q2'24) through a partnership with Cineverse, a leading distributor of over 70,000 premium films and podcasts.

By expanding its video offering, Spotify can offer richer, more dynamic experiences, complementing its audio-first approach. By adding video elements to podcasts and other content, Spotify provides users with a more immersive experience, keeping them on the platform longer and encouraging deeper interaction. Currently, Spotify has more than 300,000 video podcast shows on the platform, which is up from 100,000 in 2023, and more than 170 million users have watched a video podcast on Spotify. In addition, more than 70% of users consuming video podcast on Spotify watch them in the foreground, meaning that video podcasts elevates user engagement compared to a regular audio format.

Additionally, Spotify recently introduced a revenue-sharing model for video podcasts (starting in 2025), allowing eligible creators in select markets to earn a share of subscription and ad revenue. This move aims to attract more creators by making the platform financially competitive with rivals like YouTube.

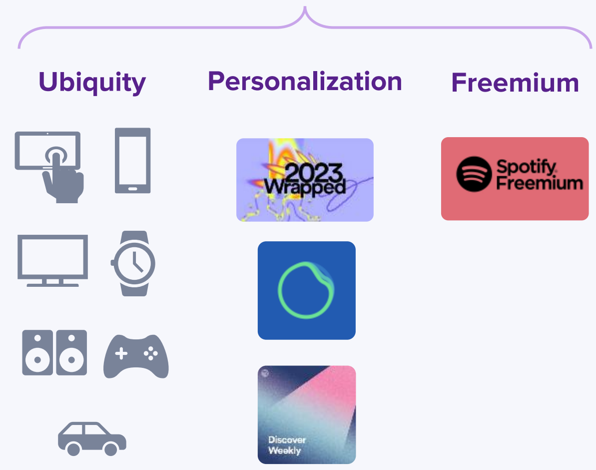
The recipe for Spotify's success

Spotify's market-leading position is driven by three strategic pillars: ubiquity, personalization, and freemium. These strategic pillars have also helped Spotify to differentiate itself from the competition.

Ubiquity: Spotify's ubiquity strategy ensures that its platform is accessible across diverse devices and platforms, such as smartphones, smart speakers, gaming consoles, and automotive systems. By forming strategic partnerships with major tech companies, Spotify has expanded its integration capabilities dramatically, growing from 250 partners in 2018 to over 2,500 in 2022. These partnerships not only broaden Spotify's reach but also serve as a key customer acquisition channel. In 2022, these partnerships were responsible for 28% of new registrations, compared to 14% in 2018. Additionally, according to company data, users who engage with Spotify on multiple devices exhibit lower churn rates and a higher lifetime value. In 2022, 89% of subscribers used Spotify on multiple devices, up from 75% in 2018.

Product offering expansion

Spotify's core foundations



Sources: Spotify, Inderes

Company description 5/10

Personalization: Spotify's advanced algorithms and machine learning capabilities enable a highly customized user experience, a key factor in retaining users and increasing platform engagement. Features such as Discover Weekly, Spotify Wrapped, and the AI DJ cater to individual preferences and enhance user satisfaction, encouraging prolonged platform use and deeper engagement. Notably, Spotify Wrapped benefits from strong network effects, as users frequently share their Wrapped summaries on social media, which improves Spotify's reach and brand loyalty. This personalization and virality strengthens Spotify's competitive moat, as the platform's ability to tailor content at scale makes it difficult for competitors to replicate the same level of user connection.

Freemium: This has been a critical driver of Spotify's growth as it gives listeners a chance to try Spotify risk-free, which enables Spotify to build a funnel toward establishing a larger and growing subscriber base. The model has also facilitated the company's expansion into new markets due to the low price of entry. Freemium has proven effective in driving user growth and revenue, with a significant portion of Spotify's free user base eventually opting for the premium service over time.

Low artist compensation leads the criticism against Spotify

While it is evident that Spotify's core foundations has contributed to its market-leading position and widespread popularity, some stakeholders have voiced concerns about the company's business model. Since its inception, Spotify has faced criticism over artist compensation, as many artists and songwriters argue that the low "per-stream payouts" make it challenging to earn a sustainable income. This issue is compounded by Spotify's revenue-sharing model, which typically benefits major record labels more significantly, often leaving smaller artists with limited earnings.

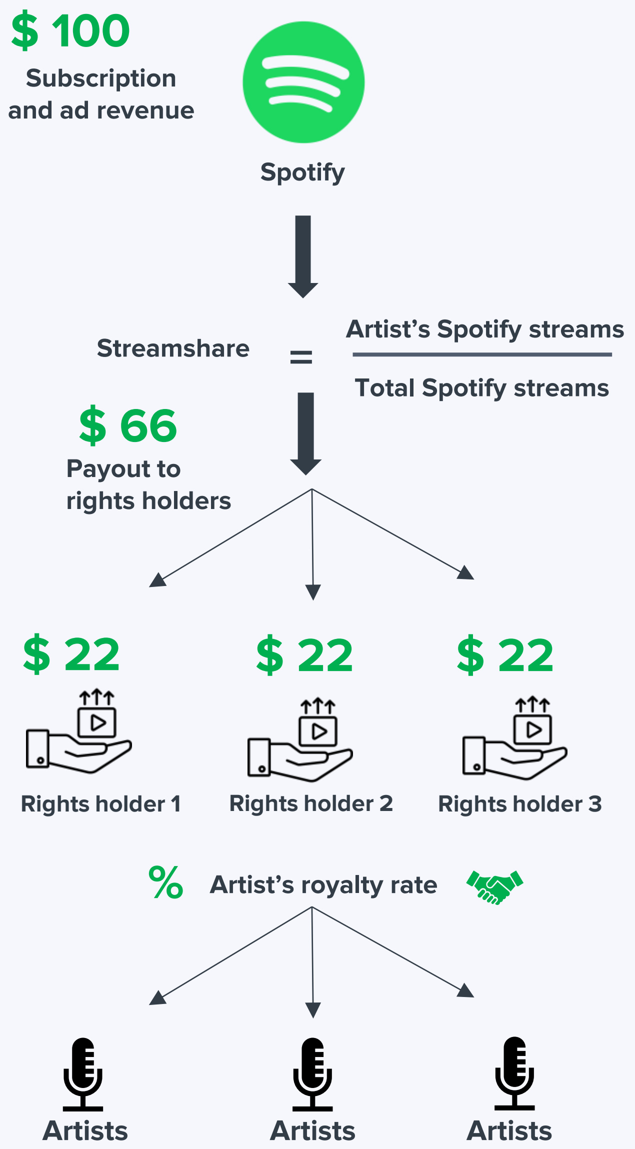
Additionally, Spotify's freemium model has raised concerns within the music industry about devaluing music and constraining income growth for artists.

How artists and songwriters get paid

It is important to recognize that Spotify does not pay artists and songwriters directly, instead they pay the rights holders, which includes record labels, music publishers. distributors, aggregators, and/or collecting societies. Artists and songwriters choose their rights holder and make an agreements on their music, including giving them permission to deliver it on Spotify. In return, Spotify pays these rights holders, who then distribute the payments to the artists and songwriters. Spotify has different agreements with these rights holders and in general pays them 2/3 of the revenue they make from music, including money generated from their subscriptions service and ad-supported service. By the end of 2023, Spotify's all-time payouts to the music industry (rights holders) amounted to over 48 BNUSD, with 9 BNUSD in payouts in 2023 alone.

To break it even further, the royalty payments are paid into two different buckets; recording and publishing. Typically, the recording payout is approx. 75-80% of what Spotify owes the rights holders, while the publishing payout is 20-25%. How these payouts then are divvied up depends on each rights holder's share of total streams (i.e. streamshare*) on Spotify in each market around the world. This is a clear distinction of the economics compared to physical sales and downloads, which pays artists a fixed price per song or album sold.

How artists gets paid (simplified illustration)



For example, if a rights holder's song catalogue make up 10% of all music streams in the U.S. in a month, they get 10% of the revenue Spotify generate from music in the U.S.

Company description 6/10

The bottom line is that once the revenue leaves the hands of Spotify, how much an artist or songwriters gets paid depends on their agreement with rights holders, which is out of Spotify's control.

Spotify's move to bundling has sparked legal battles

Following the launch of the standalone audiobook subscription service in Q1'24, Spotify reclassified its premium subscription as a bundle by incorporating audiobooks alongside music. This move allows Spotify to qualify for reduced mechanical royalty rates to songwriters and publishers under the U.S. 2022 Phonorecords IV agreement, which permits bundled services to pay lower royalty rates than standalone music services. This approach mirrors similar strategies employed by competitors like Amazon and Apple, which also offer multiple subscription services bundled together.

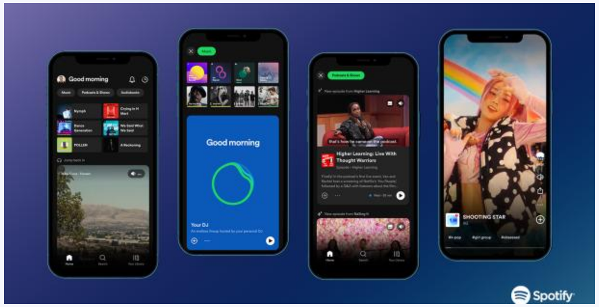
However, Spotify's bundling tactic has drawn sharp criticism from the music industry. The National Music Publishers Association (NMPA) has condemned the move, accusing Spotify of attempting to "radically reduce songwriter payments" and hinting at further legal and regulatory challenges. The Mechanical Licensing Collective (MLC) has already taken legal action, filing a lawsuit against Spotify in May 2024. The lawsuit alleges that Spotify underpaid royalties by reporting its Premium subscription as a bundle, starting from March 2024. In the Q3'24 report, Spotify acknowledged that if the MLC's claims succeed entirely, the company could owe an estimated 94 MEUR in additional royalties for the period from March 1, 2024, to September 30, 2024, excluding penalties and interest. Spotify has stated its intent to vigorously defend against these allegations.

Will be important to balance profitability while maintaining strong industry relationships

While Spotify's bundling strategy clearly enhances profitability by reducing royalty obligations, it risks damaging relationships with music rights holders, who may feel their contributions are being undervalued. Labels, artists, and publishers could respond by pushing for renegotiated terms, higher royalty rates, or advocating for a user-centric payment model that better reflects individual listening habits.

If Spotify doesn't address these concerns, it may face mounting pressure from rights holders, leading to potential licensing disputes or even content withdrawals. Balancing profitability with strong industry relationships will be critical to Spotify's long-term growth and reputation within the music sector.

In theory, Spotify could offset these lower royalty payouts by raising subscription prices to better reflect its full value. The company itself has estimated that access to its entire content library could cost a user around USD 26 monthly in the U.S. However, in practice, price increases are challenging due to fierce competition from Amazon Music, Apple Music, YouTube Music, and other players in the market.



Spotify's various premium subscriptions (US)

Individual	$11.99
Student	$5.99
Duo	$16.99
Family	$19.99
Audiobook Access	$9.99

Sources: Spotify, Inderes

Company description 7/10

Spotify's platform connects artists with users and advertisers with users

Spotify functions as a central intermediary in the audio streaming value chain, connecting music labels, artists, creators, consumers, and advertisers on a single platform. As illustrated below, Spotify orchestrates interactions between these stakeholders, facilitating content distribution and monetization while delivering a seamless listening experience for users.

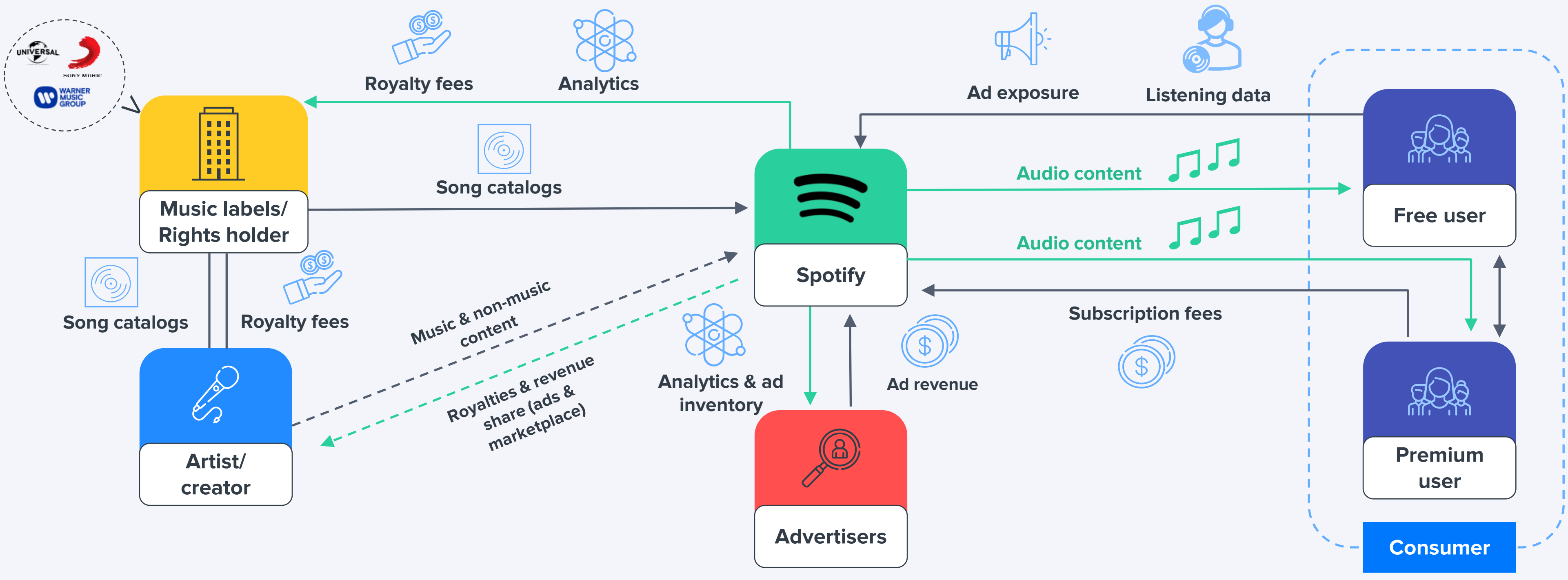
The process begins with content acquisition, where Spotify e.g. sources song catalogs from both music labels and independent artists. It negotiates licensing agreements with major labels and music right holders such as Sony, Universal, and Warner, as well as directly with independent creators. Notably, Spotify has expanded its direct partnerships with independent artists and content creators, providing them with an alternative route to traditional label agreements. This strategy not only broadens Spotify's content library but also strengthens its negotiating power in the industry.

In exchange for access to these catalogs, Spotify pays royalty fees to rights holders. In general, these royalty payments are paid to music labels, which are then allocated further to individual artists according to their contractual arrangements.

Spotify then curates and distributes this content to its users, who are divided into two main segments: free and premium. Free users access the platform through an ad-supported model, which provides music and podcasts in exchange for listening to ads. To monetize the free users, Spotify partners with advertisers who then gain access to a large and engaged audience. Advertisers benefit from Spotify's advanced analytics and ad inventory, enabling targeted ad placements based on user behavior and preferences.

In contrast, premium users pay a subscription fee for an ad-free experience and additional features, such as offline listening and higher sound quality.

Additionally, Spotify provides valuable analytics to rights holders and creators, offering insights into listener demographics, engagement, and performance metrics. These insights empower artists and labels to make informed decisions about their marketing strategies and content offerings, while enabling Spotify to get discounts on recording royalty rates.



Company description 8/10

MAU and ARPU drives revenue growth

In a nutshell, Spotify's revenue is driven by four key performance indicators (KPI's):

Monthly active users ("MAU") measures the total audience engaged with Spotify's service, including both ad-supported users and premium subscribers that have consumed content during the last thirty days. Between 2015-2023, Spotify's MAU grew at a CAGR of 27%, from 91 million to 602 million. At the end of Q3'24, MAU amounted to 640 million.

Premium subscribers are paying customers across the company's different plans (Standard, Family, Duo, Student). Premium subscribers has grown at a CAGR of 31% during 2015-2023, from 28 million to 236 million. In Q3'24, premium subscribers amounted to 252 million, equivalent to 39% of total MAU.

Ad-supported MAUs include users that has adopted to Spotify's free, ad-supported, tier. As of Q3'24, 402 million users were active on the free version. Between 2015 and 2023, the ad-supported MAU segment grew at a CAGR of 25%. In recent years, growth in ad-supported MAUs has outpaced that of premium subscribers, particularly over the last three to five years. This trend has been fueled by Spotify's aggressive expansion into emerging markets, where the ad-supported tier is often more accessible and appealing to users compared to the premium subscription.

Premium ARPU (Average Revenue Per Users) is a monthly measure defined as premium revenue recognized during a quarter divided by the average daily premium subscriber in such quarter, which is then divided by three months. In 2023, ARPU amounted to EUR 4.62, meaning that Spotify, on average, earns EUR 4.62 per subscriber per month. Between 2015 and 2023, Spotify's ARPU has declined at a CAGR of -5%.

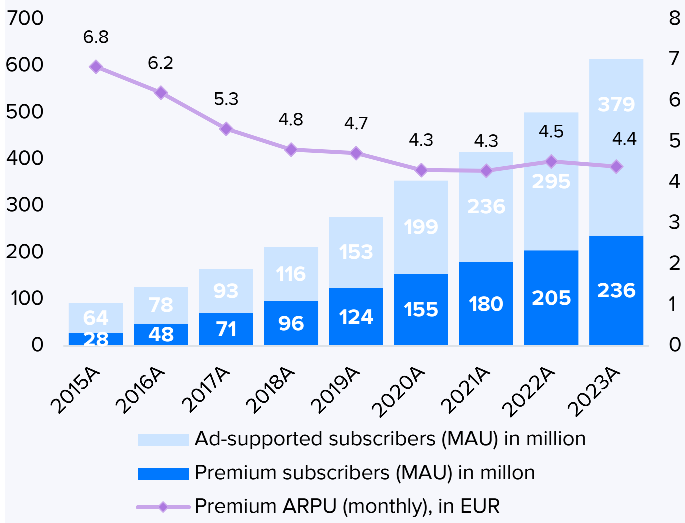
This is a result of the company's rapid expansion in emerging markets and an increasing number of users subscribing through discounted plans such as student and family plans, both of which offer lower price points. For instance, Spotify's family plan allows up to six users to share a subscription for USD 19.99 per month, equating to USD 3.3 per user. However, family plan subscribers tend to have a higher retention rate compared to individual subscribers. Additionally, premium subscription prices in markets like India and Indonesia range between USD 1.40 and USD 3.50, further contributing to the historical ARPU decline.

More engaged users increase loyalty

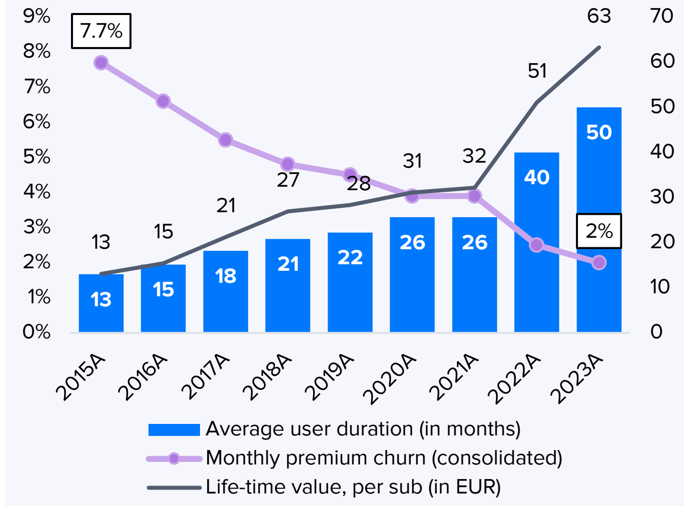
Spotify has consistently reduced monthly premium churn, i.e. users that cancels their subscriptions to its service, from 7.7% in 2015 to about 2% in 2023. Put differently, this means that the average user stays on Spotify for 50 months as of 2023, up from 13 months in 2015. The company does not consistently reveal its churn rate in its financial reports, but rather mentions it occasionally. Hence, the numbers in the adjacent graph should be interpreted with caution. However, we have filled missing data from other sources that Spotify has referred to from time to time, so we believe the presented figures are rather accurate.

The decrease in churn is a result of several factors. Spotify's focus on personalization and enhancing the value proposition (through e.g. Daily Mixers, AI DJ, podcast, audiobooks) is one aspect of it, which contributes to increasing engagement among users. This becomes evident when studying the graph on the next page, showcasing that users have increased their daily usage of Spotify. Another contributing factor is the growth in higher retention products, such as the Family Plan and Student plan, which offers more attractive price points for users.

Spotify's key KPI's



Customers are becoming increasingly loyal



Source: Spotify, Inderes

Company description 9/10

Another key aspect is Spotify's expansion across multiple devices, enabling a seamless and more accessible user experience. This integration makes Spotify a more integral part of users' daily lives, further elevate engagement. Premium Subscribers who use Spotify over multiple devices also demonstrate higher engagement and lower premium churn, which increases their expected lifetime value on the platform.

And loyal customers stay longer on the platform

With more users staying on the platform over time, Spotify has been able to increase the customers' lifetime value and generate more predictable revenue streams. In 2023, we estimate that the average user on Spotify has a lifetime value of around EUR 63.

There are generally two key approaches to drive higher lifetime value in a subscription business: 1) lengthen customer lifetime (improving retention), and 2) increase monetization (premium ARPU).

For Spotify, the increase in LTV has rather been a factor of the former than the latter, as shown in previous pages. However, Spotify has taken measures to increase ARPU and raised the price of its premium plan twice for several international markets, including the U.S., in a relatively short period of time. The first took place in Q3'23 and the second in Q3'24, taking the price of the standard plan from USD 9.99 to USD 11.99. For many regions, including the U.S., the price hike in 2023 (to USD 10.99) was the first of its kind since the U.S. launch in 2011 .

According the company, the first price hike had minimal impact on churn, which also the market data platform Antenna could reaffirm, showing that churn only temporarily picked up from 2% to 3% in two months before returning to 2% again.

Spotify has also confirmed that some sort of Deluxe version of Spotify is in the works, which will include better sound quality, enhanced control and other functionalities. This new tier is expected to be priced approx. USD 5-6 above current premium tier, which would naturally boost ARPU if premium users choose to upgrade.

Increased lifetime value makes the business model more sustainable

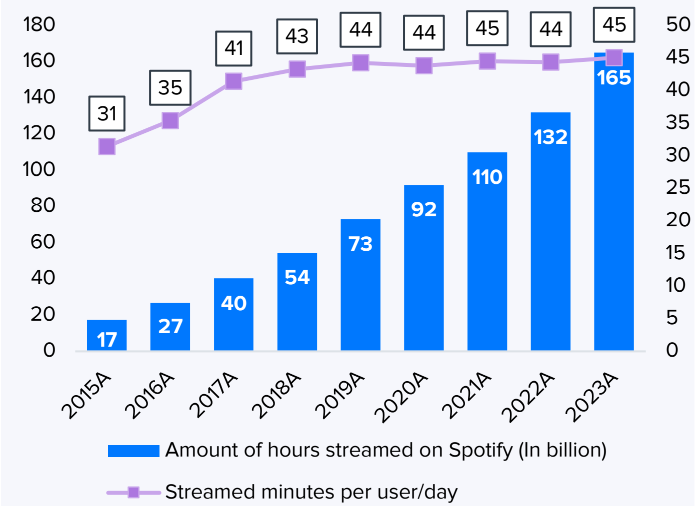
The ratio between a customers lifetime value and the cost of acquiring a premium subscriber ("SAC") is a crucial metric for Spotify as it directly measures the profitability and sustainability of its business model, particularly in terms of acquiring and retaining subscribers. The cost of acquiring a premium subscriber, SAC, includes all costs related to marketing and other sales activities (e.g. promotion, onboarding costs) for new added subscribers.

An LTV/SAC ratio above 1 indicates that customers lifetime value is greater than the costs associated with acquiring that customer. This ratio has been a guiding star in how much Spotify spends on marketing.

According to the company, the LTV/SAC ratio has historically been roughly 2.5-3x in recent years, which we believe is a healthy figure for a company like Spotify.

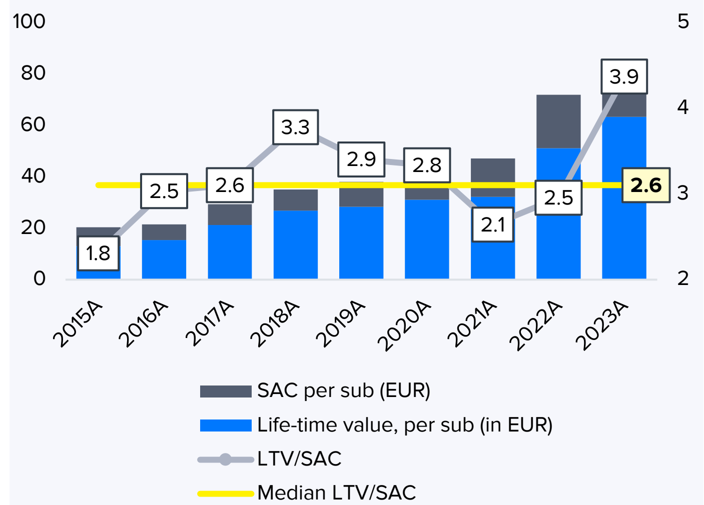
However, this is a figure that Spotify does not continuously report, but rather mentions occasionally. Based on historical figures presented and our own assumptions, we estimate that Spotify has been able to increase the ratio in 2023 to an estimated 3.9x, from 2.5x in 2022, through a combination of increased LTV per subscriber and a reduced SAC.

Users listen more and more on Spotify



LTV/SAC*

Lifetime value / Subscriber acquisition cost



*Inderes' estimates

Source: Antenna, Spotify

Company description 10/10

Royalty and distribution costs makes up the majority of the cost structure

Spotify's cost structure is to a large extent variable due to its music streaming business which commands high royalty payments to music rights holders for streaming rights. Currently, around two-thirds of Spotify's music streaming revenue goes to rights holders (labels, distributors, publishers, and, eventually, artists), covering royalty and distribution costs. Unlike a streaming company like Netflix, which to higher extent pays fixed amounts for licensed or original content, Spotify's royalty costs increase in direct proportion to streaming revenue. This variable cost model has historically capped Spotify's gross margins, which have hovered in the range of 21-27% from 2017 to 2023.

However, by expanding its non-music content like podcasts, audiobooks, and marketplace offerings, and bundling its subscriptions, Spotify can effectively improve its cost structure by increasing its fixed costs and lower royalty payments, which enables higher operating leverage. For example, podcast production typically involves upfront costs but does not require the fixed royalty percentages associated with music. Similarly, audiobooks often operate on fixed licensing fees or revenue-sharing agreements, which only scale when users purchase specific titles. Although initial investments in non-music content have been a drag on gross margins, these content types offer higher margin potential at scale due to its higher share of fixed costs.

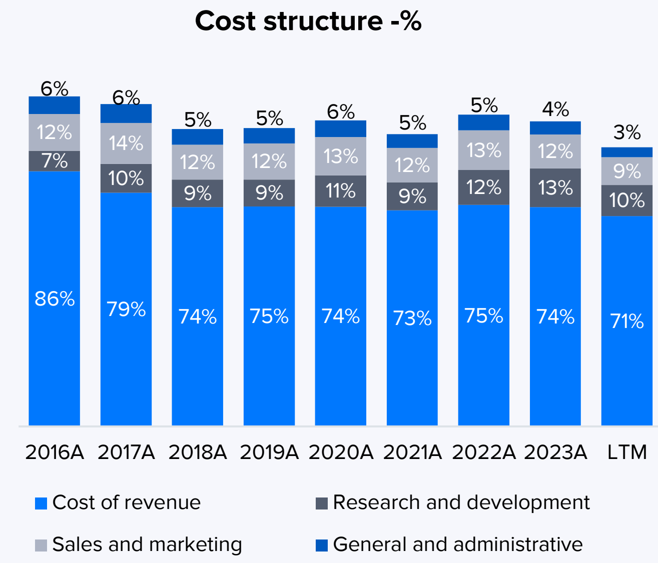
During 2024, Spotify has turned podcasts profitable, contributing to overall gross margin improvement. This shift positions Spotify to enhance its gross margins over time by reducing reliance on variable music royalties and increasing the share of higher margin, more scalable non-music content.

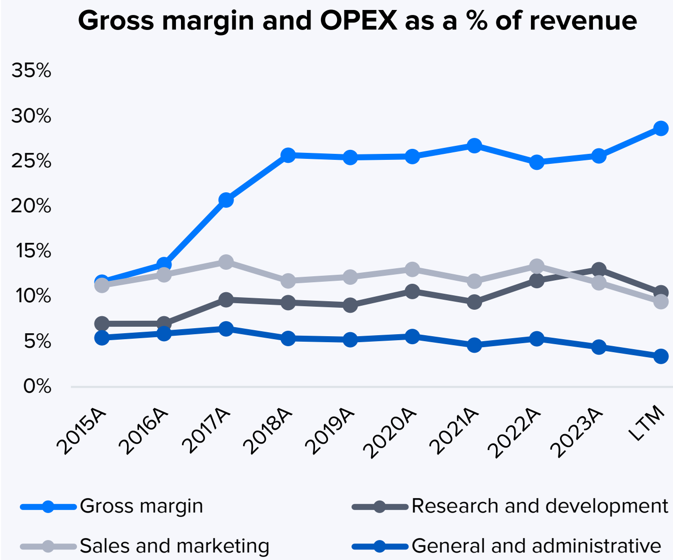
Spotify invests heavily in research and development (R&D) in order to continuously enhance engagement and customer satisfaction. These investments are expensed on the income statement rather than capitalized on the balance sheet. Historically, Spotify's R&D efforts have centered on developing a robust, user-friendly platform that supports a vast content library. Investments have focused on technology infrastructure, algorithm development for personalized features, and the creation of new advertising products. Additionally, Spotify has enhanced tools for creators, enabling them to promote their work, engage with fans, and monetize their content more effectively. Over the trailing twelve months, R&D expenses accounted for 10% of revenue.

Sales and marketing as well as General administrative costs have been relatively stable in recent year, averaging 12% and 5%, respectively, during 2015-2023. However, Spotify has managed to lower these expenses during H1'24 as a result of e.g. layoffs (Spotify laid off more than 20% of total workforce during 2023), streamlining costs and optimization of office space.

Since inception, Spotify has generated operational losses in all year except 2021, and by the end of 2023, the company reported an accumulated deficit of EUR 4,182 million.

However, following the strategic measures implemented in 2023, coupled with ongoing growth and enhanced monetization, Spotify is on a strong trajectory toward achieving profitability in 2024. Year-to-date, the company has reported an accumulated operating profit of 888 MEUR, reflecting an 8% operating margin.





Sources: Spotify, Inderes

Investment profile (1/3)

Market-leading audio streaming service

Spotify remains the premier pure-play audio streaming platform, uniquely positioned to capitalize on the global shift from transaction-based consumption to subscription-driven, access-first streaming models. As a first-mover in music streaming, Spotify has cemented itself as the top-of-mind brand for audio, leveraging its freemium model to rapidly scale its user base. This scale has provided Spotify with superior data insights which boosts its personalization capabilities, a key competitive advantages in our view. This data-driven personalization does not only enhance user engagement and retention, but also enable more effective content distribution on the platform.

Over the past decade, Spotify's MAU has grown at an impressive 26% annually and the company has generated FCFF consistently since 2016, with notable improvements in recent quarters driven by cost optimization and enhanced monetization strategies.

Historically, the main challenge for Spotify has been low gross margins and its ability to show profits. However, through continuous marketplace innovation, improved royalty rates, implementation of bundles, increased cost discipline, and diversification into non-music verticals, Spotify has been able to improve its gross margin and shift to profitability in recent quarters.

Positive value drivers and opportunities

Could reach one billion users by 2030: Back in mid-2022, when MAU stood at around 430m, the management ambitiously set up the target to reach one billion MAU:s in 2030. Spotify is already well on its way, having over 640m MAU:s as of today. For Spotify to meet this target, it would need to grow its MAU at some 8% p.a. from current levels, which we believe to be highly feasible given Spotify's historical growth trajectory and underlying market growth.

Freemium model supports growth in emerging markets: As Spotify has captured a leading position in many established markets (where streaming adoption is high), it has increasingly shifted its focus to emerging markets to boost user growth. These markets are categorized as early streaming adopters and are expected to drive the majority of subscriber growth (globally) going forward. By 2030, emerging markets are projected to account for nearly 70% of global streaming subscribers.

Spotify's freemium model, which has played a key role in its ability to scale quickly and attract subscribers, remains an important tool for entering emerging markets. This, combined with Spotify's localized approach and wider reach compared to many competitors, makes the company well-positioned to expand its market share in these high-growth regions.

Increase monetization and pricing power: 2024 has proven to be the year of monetization, where Spotify has enhanced its monetization strategies, e.g. by increasing prices and introducing new subscription plans, without any major impact on churn. In many markets, incl. the US, Spotify is actually the price setter, which in combination with little impact on churn from previous price hikes, shows signs of pricing power that the company could leverage going forward. As Spotify continues to expand its content library and essentially the value proposition, it creates a more compelling case for users to pay higher subscription fees.

Increase user engagement and expand its advertising capabilities: Spotify's focus on personalization, continuously enhancing the value proposition, adding new formats and ubiquity has been central in its ability to increase user engagement on the platform. This is evidenced by its decreasing churn and increased user spending on the platform in recent years. This fosters stronger customer loyalty which not only allows Spotify to build a stable subscription revenue base, but also unlock significant advertising potential. The company has made strides in expanding its advertising ecosystem, introducing advanced tools for advertisers to connect with their audience. By maximizing ad inventory through higher user engagement and extended time spent on the platform, Spotify has a substantial untapped opportunity in its advertising business that it is actively executing upon.

Continues to demonstrate increased cost discipline: By eliminating underperforming projects and raising the bar for new investments, the company has streamlined its R&D spending without sacrificing user growth. Additionally, improved profitability in key areas like podcasts and marketplace has contributed to better gross margins. This balanced approach to growth and profitability positions Spotify to sustain ongoing margin expansion and free cash flow growth over the long term.

Growing underlying markets supports revenue growth: Despite its current user base of 640 million, Spotify has more headroom for user growth. This will be supported by rising mobile and internet penetration in especially emerging markets, but also by tapping into other non-music verticals.

Investment profile (2/3)

Risks and threats

Strained relationships with the music industry and record labels dominance: Spotify's relationship with the music industry will be of high importance going forward. Spotify's payouts to the music industry, its freemium model, and evolving pricing strategies, including the reclassification of its premium plan as a bundle, has been questioned and criticized by the music industry. While these shifts are designed to boosts Spotify's profitability, it risks straining relationships with music rights holders and creators, who may feel their contributions are being undervalued. Labels, artists, and publishers could respond by pushing for renegotiated terms, higher royalty rates, or advocating for a user-centric payment model that better reflects individual listening habits.

If Spotify doesn't address these concerns, it may face mounting pressure from rights holders, leading to potential licensing disputes or even content withdrawals.

Intensifying competition and pricing pressures: Spotify operates in a fiercely competitive environment, facing rivals like Apple Music, Amazon Music, and YouTube Music, which benefit from deep financial resources and cross-subsidization opportunities. These competitors can leverage their broader ecosystems to gain market share, such as bundling music services with hardware or other subscriptions. While Spotify has retained its leadership position in music streaming, its rivals could become more aggressive on pricing or product differentiation, forcing Spotify to defend its share at the potential expense of margins.

Challenges in emerging verticals and content diversification: Spotify's expansion into non-music verticals, such as audiobooks, online education, and potentially news or sports in the future, presents opportunities for growth but also risks. While these emerging verticals aim to deepen user engagement and tap into higher ARPU opportunities, success is far from guaranteed. Missteps in execution or failure to attract meaningful user interest could lead to underperforming investments and strain Spotify's financial resources. It could also potentially worsen its relationship with the music industry by shifting too much focus away from music. Notably, the company's experimentation with emerging verticals, such as its recent foray into online education in the UK, serves as a case study of both potential and risk. While poor returns from these initiatives could impact investor confidence and strain the company's balance sheet, Spotify is currently conducting these experiments with relatively low investment levels, effectively minimizing the financial risk at this stage.

Subscriber growth deceleration: As Spotify's valuation and investor sentiment heavily rely on robust subscriber growth, any slowdown or unexpected decline in subscriber additions could introduce significant volatility in its share price. The risk is particularly acute as the company matures in key markets, where user growth rates should naturally taper. Over-reliance on emerging markets to offset this slowdown could, however, expose Spotify to geopolitical, economic, or operational risks in less stable regions.

AI-driven disruption in the streaming landscape: The rapid advancement of artificial intelligence poses a dual-edged sword for Spotify. On the one hand, AI could enable competitors to close the gap on Spotify's best-in-class product features, such as personalized recommendations and content discovery, by developing similarly sophisticated tools. On the other hand, Spotify itself stands to benefit significantly from AI, leveraging it to reduce costs, accelerate product development, enhance advertising targeting, and improve user experience. Whether AI proves to be a net opportunity or threat for Spotify will depend on its ability to maintain its innovation lead and capitalize on AI's transformative potential.

Investment profile 3/3

1. **Market-leading audio streaming platform**

2. **Personalization at scale drives user engagement, strengthens retention and unlocks monetization opportunities**

3. **Expansion into non-music verticals will be important to increase ARPU and improve gross margins**

4. **Strong balance sheet with a net cash position provides flexibility**

5. **Effectively foster healthy relationship with the music industry and navigate mounting competition will be important**

Potential

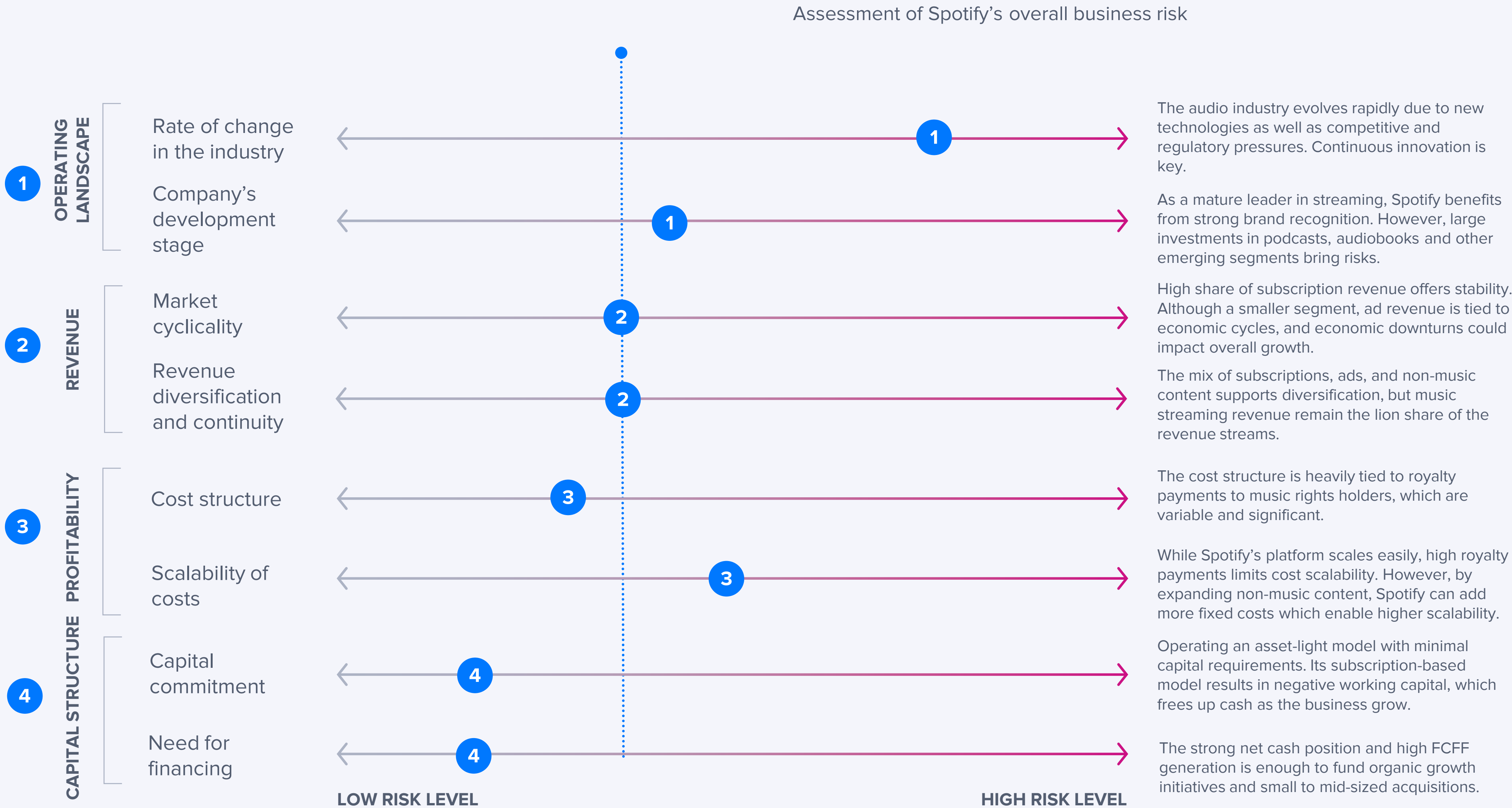
- Strong user growth, with a target of 1 billion MAUs by 2030, supported by emerging market expansion.
- Continue to balance growth with a focus on profitability, setting Spotify up for further margin and FCFF expansion
- Successfully expanding into non-music verticals, unlocking new monetization opportunities and boosting user engagement
- Leveraging advanced tools and expanded ad inventory to maximize advertising revenue
- Demonstrating pricing power without a big impact on churn

Risks

- Potential tensions with music rights holders, which could lead to increased licensing costs or content withdrawals
- Intensifying competition from well-funded rivals, potentially leading to price wars or market share erosion
- Execution risks in non-music verticals, which may not achieve expected ROI or user traction
- Slowing subscriber growth in mature markets, relying heavily on emerging economies for expansion
- AI advancements enabling competitors to close the gap on Spotify's superior personalization algorithms

Source: Inderes

Risk profile of the business model



Source: Inderes

Market 1/7

Piracy providers disrupted the music industry in a bad way

In broad terms, the music industry can be divided into three main segments: Recorded Music, Music Publishing, and Live Music. The former primarily encompasses the sale of recorded music through streaming, digital downloads and physical formats (e.g. CD and vinyl). Music publisher handle the rights to the underlying compositions (lyrics and melodies) and generate revenue through royalties and license agreements. The latter, live music, include all revenue generated from live performances, including everything from ticket sales to concerts, festivals, tours etc, to merchandise sold at events.

In the recorded music industry, streaming represents the largest revenue segment, generating around 38 BNUSD (gross*), followed by live music at 33 BNUSD, with music publishing as the smallest segment at 9 BNUSD. In the early 2000s, the global music market stagnated, largely due to a decline in recorded music sales as piracy rose and physical formats waned. However, as illustrated in the adjacent graph, streaming has driven a robust recovery in recorded music revenue and overall market growth. By 2023, the global music market reached a value of 98 BNUSD and is projected to grow at a CAGR of 8% through 2030, when it is expected to reach 164 BNUSD. Music streaming remains the primary growth catalyst for this expansion.

Music streaming became the rescue with Spotify in the forefront

Music streaming has transformed the way people consume music, shifting from physical formats like CDs and digital downloads to instant access to vast library of songs through streaming.

This transition has made music more accessible and affordable, enabling listeners to access music anytime, anywhere, on various devices.

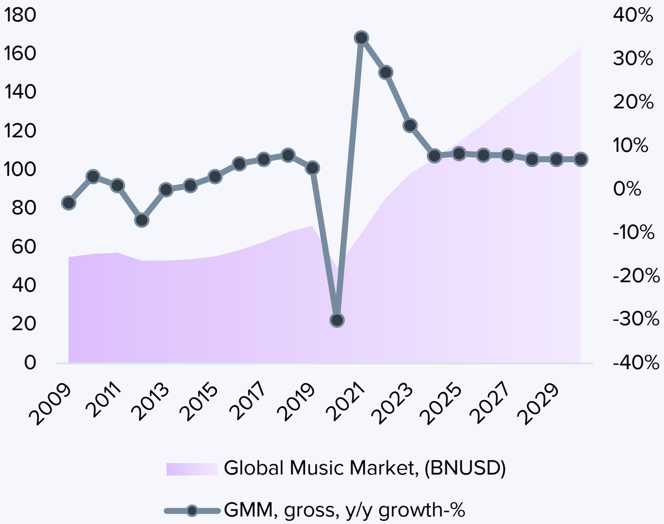
The inception of music streaming traces back to the early 2000s when platforms such as Pandora gained traction. However, music piracy providers like Napster and Limewire made their entry prior that by offering a peer-to-peer music sharing website that allowed users to share and download MP3 files for free, causing online music consumptions to surge. This was for obvious reasons a huge hit to the music industry, let alone the music artists, leading to revenue losses and copyright infringement.

Consequently, Napster received many lawsuits, from not only the Recording Industry Association of America but individual artists such as Metallica and Dr.Dre as well. While these lawsuits attempted to shut down the site for violating copyright laws, the extensive media coverage resulted in even more users signing up for the site. At the time Napster was forced to shut down in 2001 (just two years after its foundation), the website had over 20+ million users.

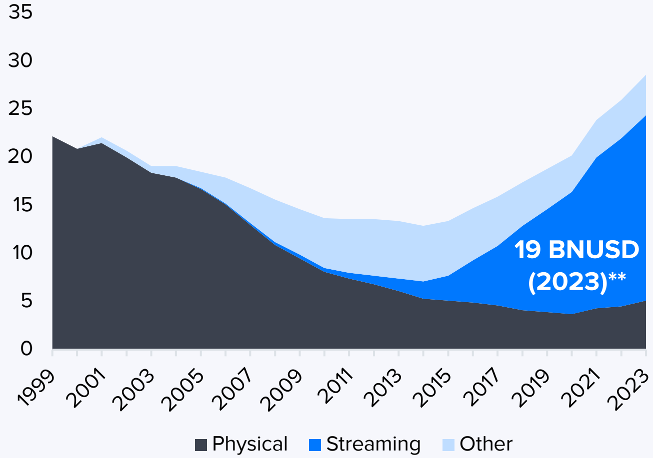
Apple's launch of the iPod and iTunes Store in 2003 marked the first steps forward from Napster and toward a fully legal, paid music streaming service. iPod users were able to download a full catalogue of music for the price of USD 0.99 per song.

However, it was the launch of Spotify in 2008 that truly disrupted the industry by allowing users to move from a transaction-based experience of buying an owning music to an access-based model, allowing users to stream music on demand. Subsequently, other players such as Apple music (2015), Amazon Music (2014) and YouTube Music (2015) followed the footsteps of Spotify by launching their own music streaming platform.

Global Music Market, (BNUSD)



Global recorded music revenue, worldwide (BNUSD), net**



*Gross revenue is the total amount of money that a streaming service generates from all its revenue sources before any expenses are deducted.

** Net revenue represents record labels and publishers share.

Sources: Goldman Sachs (Music in the Air, 2023), IFPI 2024, Inderes

Market 2/7

In 2010, music streaming generated a modest 0.4 BNUSD in net revenue, making up just 3% of the global recorded music market. By 2023, streaming's share had surged to 67%, with net revenue reaching 19 BNUSD*. This exponential growth not only reflects the widespread adoption of streaming services but underscores the transformative impact of digital streaming on music consumption and revenue generation.

Regarding the gross market size of streaming, this figure stood at 38 BNUSD in 2023, with paid subscriptions accounting for two thirds of the total, while ad-supported streaming made up the remaining third. The streaming market is projected to reach 73 BNUSD by 2030, growing at a CAGR of 10%. Key growth drivers include rising mobile and internet penetration, expanding subscriber bases, affordability and convenience, a growing global appetite for music, and a shift from music ownership to on-demand access.

Music streaming is under-monetized

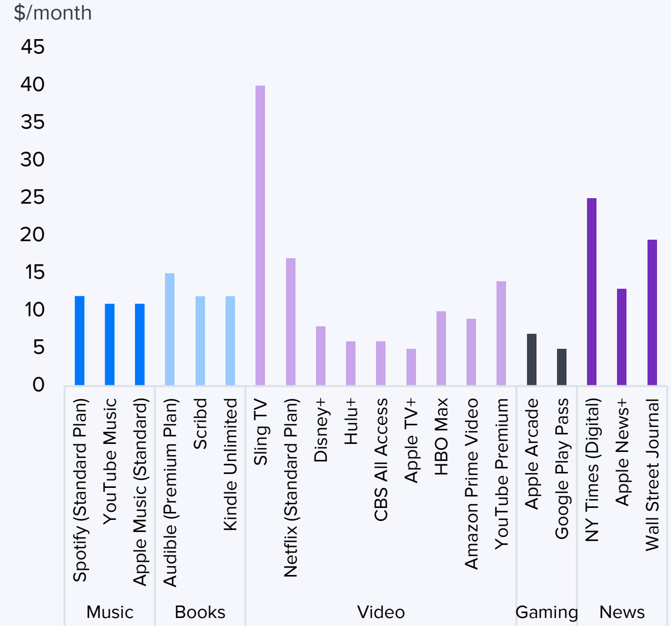
In 1999, during the era when physical sales dominated the music industry, music revenue per capita amounted to approx. USD 95 in the U.S. In today's streaming economy, where music services typically charge a flat monthly fee for access to their entire catalogs, regardless of a user's engagement level, the corresponding figure is around half, i.e approx. USD 50. At the same time, the consumption of audio streaming has increased significantly and on a global basis, it has quadrupled since 2017.

The fact that the monetization of music content has significantly lagged consumption can be attributed to several factors such as lack of price increases, dilution from bundles and lack of customer segmentation. It has also notably trailed behind the monetization of other forms of entertainment content such as subscription video on demand ("SVOD") , where e.g. Netflix has seen its standard rate increase by 94% in the US since 2013 or approx. 15% every two years.

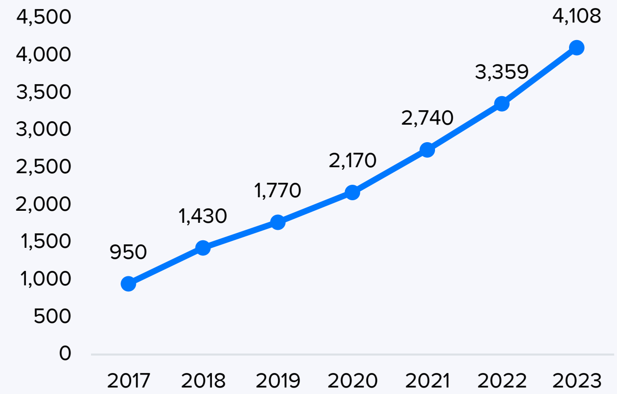
The current "one-size-fits-all" model treats casual listeners the same as passionate superfans who listen for hours each day, attend concerts, and actively follow artists. By charging everyone the same, streaming platforms overlook the higher willingness to pay among deeply engaged users, ultimately capping the revenue potential from these superfans

Recognizing this gap, Spotify has hinted at a forthcoming "Deluxe tier," designed for users who are more engaged and willing to pay extra for an enhanced experience. This new tier, projected to be priced at around 1.5 times the standard subscription, and is expected to include higher-quality audio, enhanced user control and additional yet-to-be-announced exclusive benefits. By aligning pricing with superfans' preferences and their desire for premium experiences, Spotify can unlock additional revenue directly from its most dedicated users, thus increasing the ARPU.

Music streaming subscription prices are still lower than many other entertainment forms



Global On-Demand Audio Song streams (bn)



* Net revenue represents record labels and publishers share.

Source: Goldman Sachs (Music in the Air, 2023)

Market 3/7

Three companies hold a dominant position in the music recording industry

The music recording industry is largely an oligopoly, made up by three large companies: Sony Music, Warner Music Group and Universal Music Group. Collectively, these held a market share of near 2/3 in 2023. Artists sign the rights of their music to these companies in exchange for marketing, promotion, and distribution help. These are essentially the companies that Spotify, and all other music streaming platforms, pays royalties to. Given the significant market share these three hold, they have a substantial influence on the music industry.

If just one of these companies decided to pull its music catalog from a particular music streaming platform, e.g. due to a disagreement over royalty rates, the consequences would be significant. For example, if Universal Music Group would decide to stop licensing its content to that provider, music by major artists such as Taylor Swift, Drake, Adele and The Weekend, would no longer be available to stream. Such a move could trigger a notable drop in the user base, benefiting competitors who still offer access to these popular artists.

This example highlights the considerable leverage that music publishers and record labels hold over the streaming industry. Their dominant position makes it challenging for streaming platforms like Spotify to negotiate lower royalty rates, effectively limiting the gross margins and overall profitability that can be achieved through music subscription revenue alone.

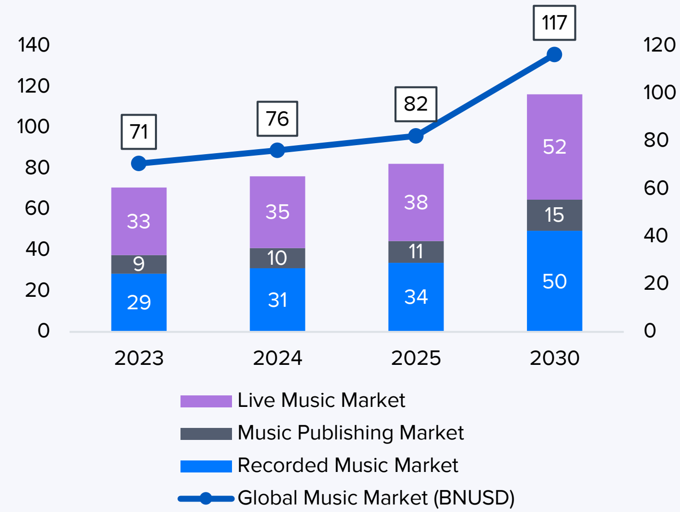
In 2023, 74% of the total music streams on Spotify came from the catalogs of the big three as well as Merlin, a group representing many independent music labels. However, this figure is down from 85% in 2018, indicating that Spotify has gradually reduced its reliance on these major players. This shift has been driven by the rise of self-released music from independent artists and the growing presence of independent distributors, as well as Spotify's increased promotion of lower-cost content from non-major label sources. By supporting these independent creators, Spotify not only diversifies its catalog but also lower its reliance on major record labels, resulting in lower content costs.

Social media unlocks potential for artists to bypass major labels

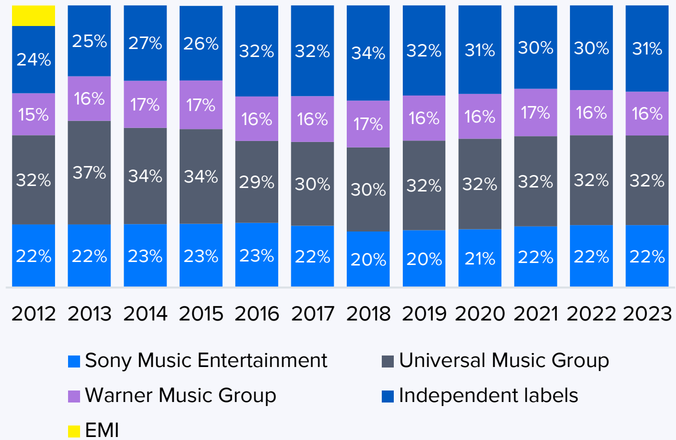
While the major labels still dominate the market, there has been a significant increase in independent artists, through independent labels ("indies") that bypass major labels. Over the last decade, independent labels have outpaced the major label companies, and increased their market share, from 25% in 2013 to 31% in 2023. They operate independently of the major record labels, i.e. the "Big Three", but unlike them, independent labels tend to be smaller companies with less financial power and more limited distribution networks. However, indie record labels artists get a higher percentage of revenue and generally have more control and ownership of their music.

One of the main reasons for the rise of independent artists is the power of social media. Platforms like Instagram, TikTok, and YouTube have leveled the playing field, providing artists with direct access to their audiences. This enables them to promote their music without relying on traditional record labels. As a result, independent artists can build loyal fan bases, gain widespread exposure, and thrive outside the constraints of the industry's traditional gatekeepers.

Global Music Market (BNUSD), net



Market share record labels-%



Source: Goldman Sachs, Statista

*Net revenue, i.e. record label or publisher share

**Gross revenue is the total amount of money that a streaming service generates from all its revenue sources before any expenses are deducted.

Market 4/7

In 2023, the indie music sector, which includes DIY ("Do It Yourself") artists, generated nearly 4.5 BNUSD on Spotify, marking a fourfold increase from 2017. This is also the first year ever that indies accounted for about half of what the entire industry generated on Spotify, which totaled 9 BNUSD. At the same time, independent music made up 26% of Spotify streams, up from 13% in 2017.

Streaming services such as Spotify, Apple Music and Amazon Music, have also played a major role in this growth, helping democratizing the music distribution process, increasing accessibility and global reach. Artists such as Macklemore, Boyce Avenue and Chance the Rapper are examples of independent artists who have achieved great success without the backing of major record labels, showcasing the potential for independent artists in today's digital age.

Developed markets have led the music subscription growth

Historically, developed markets, such as North America and Europe, have been the primary drivers of growth in paid music streaming subscriptions. This trend is largely due to higher disposable incomes, widespread smartphone and internet access, and a strong culture of digital media consumption. In these markets, consumers were early adopters of streaming as they transitioned from physical media and downloads to on-demand services, enabling rapid growth for platforms like Spotify, Apple Music, and Amazon Music. Additionally, these markets typically have well-established copyright laws, making it easier for streaming companies to secure licensing deals and offer extensive music catalogs. With strong infrastructure and consumer readiness, developed markets essentially set the foundation for the paid subscription model.

However, as these regions approach increased saturation, streaming services are increasingly turning to emerging markets, where growth potential is high, but challenges such as lower purchasing power and infrastructure gaps require more localized pricing and marketing strategies.

In the accompanying graph, we can see how Spotify has established a leading position in developed markets where the streaming adoption is high, such as North America, the Nordics, and Western Europe. As such, Spotify is increasingly shifting its focus to emerging markets like Latin America, Asia, and Africa, to maintain high growth in its user base.

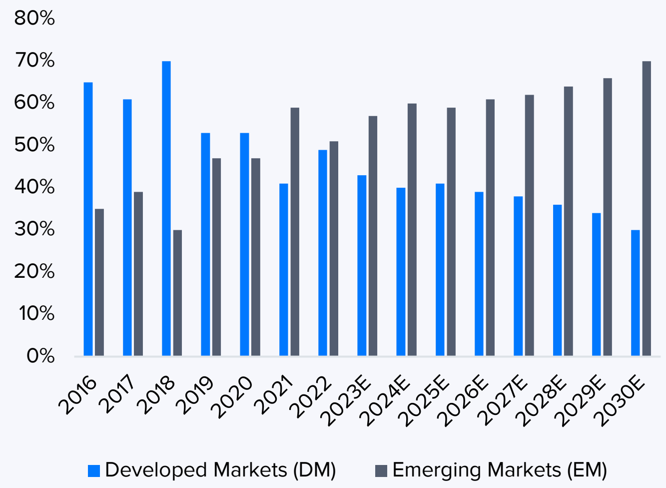
1.2 billion paying subscribers by 2030 – emerging markets drives most of the growth

In 2023, the global number of paying streaming subscribers was estimated at 667 million, with developed markets accounting for 55% of this total. By 2030, this figure is projected to grow to 1.2 billion, reflecting a CAGR of 9%, driven largely by increased mobile and internet penetration worldwide. Growth in emerging markets is expected to outpace that of developed markets, growing at a 12% CAGR. As a result, emerging markets are anticipated to comprise 54% of the global subscriber base by 2030. Notably, nearly 60% of new subscribers in 2023 came from emerging markets, a share expected to rise to 68% by the end of the decade.

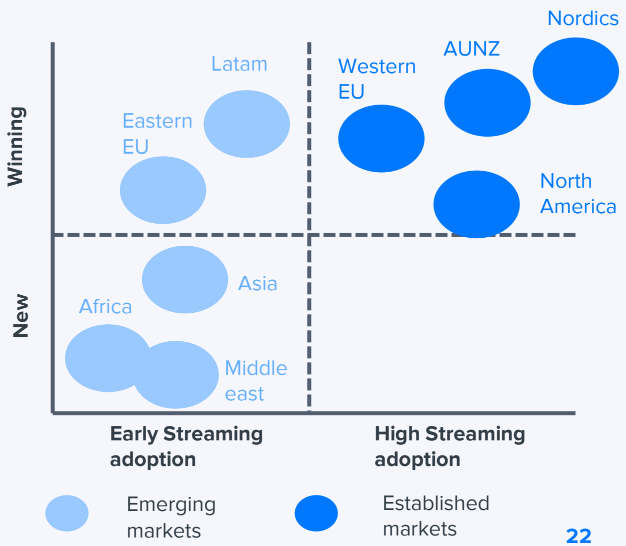
This shift highlights the increasing role of emerging markets as the primary engine of subscriber growth going forward. However, the ARPU in these regions is around. four times lower than in developed markets, which is likely to constrain overall ARPU growth in the industry. Consequently, global ARPU is expected to remain stable, fluctuating between USD 42-43 (annually) over the coming years.

Developed markets have historically led the subscription growth

% of paid subscribers net adds



Spotify holds a leading position in many established markets



Source: Goldman Sachs, Spotify, Inderes

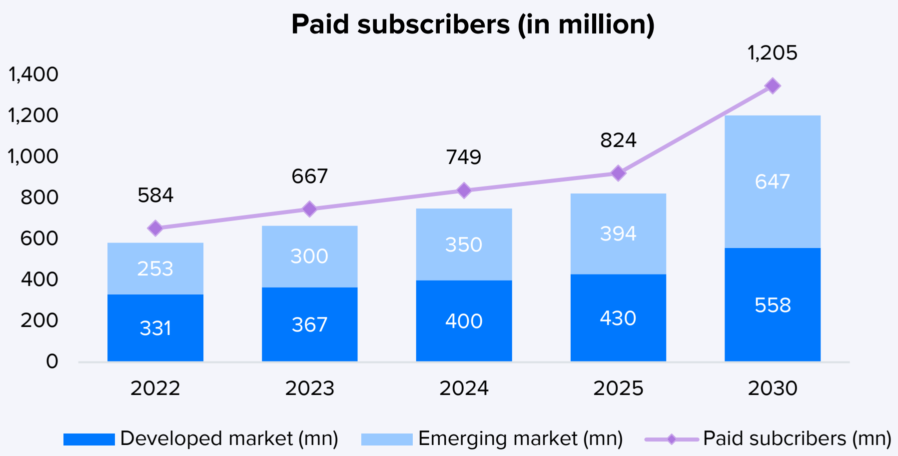
Market 5/7

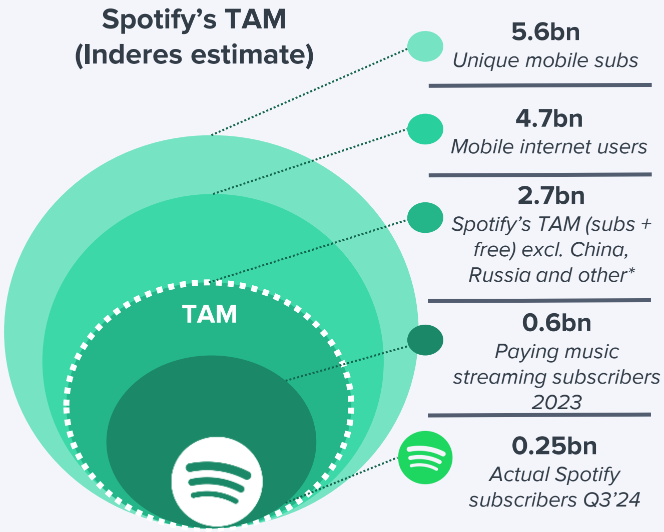
But Spotify's TAM is bigger than that

While the projected 1.2 billion paying subscribers globally by 2030 is significant, Spotify's total addressable market (TAM) represent more than just the paid subscriber base. Its freemium model allows the company to also target a large audience of ad-supported users, some of whom may eventually transition to premium subscriptions.

With an estimated 4.7 billion smartphone users connected to the internet worldwide, the opportunity for further user acquisition in both developed and emerging markets remains significant. However, it's important to acknowledge that Spotify is unavailable in key markets such as China (due to its equity swap relationship with Tencent) and Russia (following the geopolitical conflict in 2022), as well as several other countries like Iran, Iraq, and Ethiopia. These exclusions lower the practical TAM to around 2.5-2.7 billion people in the near future.

In addition, not all of these users are immediate candidates for a music subscription. However, Spotify's expansion into podcasts and audiobooks has broadened its capabilities to leverage this TAM by appealing to users who might not have initially considered subscribing solely for music. Despite these growth avenues, affordability remains a challenge in emerging markets, where income disparities create obstacles. For instance, while Spotify's subscription cost in India is roughly eight times lower than in the U.S. when measured in dollar terms, the price becomes effectively twelve times higher for Indian users when adjusted for purchasing power parity (PPP). This localized pricing strategy demonstrates Spotify's adaptability but also underscores the limitations of converting ad-supported users to premium in lower-income regions.





Source: Goldman Sachs, GSMA, Inderes

Market 6/7

Podcast is one of the fastest growing markets within audio

Since Spotify's major expansion into the podcast industry in 2019, the company has rapidly grown into one of the largest podcast platform in many markets, including the United States, surpassing Apple Podcasts.

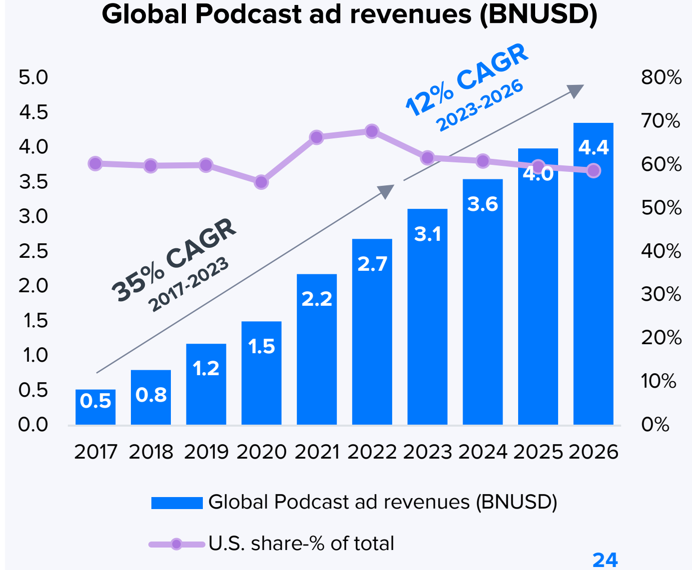
Podcasts are among the fastest-growing categories within digital audio, and global listeners are projected to surpass 500 million by 2024, a five-fold increase from 2017. Currently, North America leads in podcast listenership, serving approx. 150 million listeners, and the majority of podcast advertising revenue is generated in the U.S. However, by 2025, China and Latin America are expected to overtake North America in listener numbers. Through localizing podcast content in multiple language, Spotify has been able to expand its podcast audience across Europe, Latin America and Asia.

Despite this growth, podcasts remain a relatively underinvested advertising medium compared to traditional channels. Data from eMarketer (2024) reveal a significant disparity in ad spending on audio. While U.S. consumers spend about 21% of their total media time on audio, only 5% of total ad budgets are expected to be allocated to it. The low ad spend reflects, in part, limited ad inventory as the lion share of audio consumption are through ad-free subscriptions. However, the discrepancy is still notable, creating opportunities for advertisers in a less saturated space than channels like social media and television.

In the U.S. alone, podcast advertising revenue reached nearly 2 BNUSD in 2023, growing at a CAGR of 44% since 2015. This revenue is expected to hit 2.6 BNUSD by 2026, representing a 10% CAGR. Although podcasts currently constitute only 11% of the overall U.S. audio advertising market, this share is set to grow as the format gains traction, particularly compared to traditional radio, which remains dominant.

On a global scale, podcast advertising revenue amounted to 3.1 BNUSD in 2023. This figure is expected to grow at a 12% CAGR, reaching 4.4 BNUSD by 2026.

Spotify's investment in podcasting goes beyond content acquisition, they are driving innovation in monetization strategies through tools like the Spotify Audience Network (SPAN) and Ad Studio. These technologies allow advertisers to precisely target podcast listeners, opening new avenues for ad revenue. Podcasts not only attract new listeners but also increase the stickiness of Spotify's platform. Podcast consumers tend to spend more time on the app, leading to higher engagement rates, more ad impressions (ad inventory), and improved user retention. The retention as well as engagement is even higher within video podcasting, one of the fastest growing areas of podcasting, making it an efficient channel for advertisers.



Source: Statista, eMarketer Inderes

Market 7/7

Growing popularity for audiobooks

By entering the audiobook market in 2022, Spotify is strategically expanding its content ecosystem to broaden user engagement, enhance its value proposition, and optimize its business model. On the engagement front, Spotify disclosed during its Q3'24 earnings call that U.S. subscribers who engage with an audiobook for the first time spend, on average, five additional hours on the platform during their first 60 days after starting a book. This increase in engagement not only strengthens Spotify's ability to retain users but paves the way from accretive monetization on the platform.

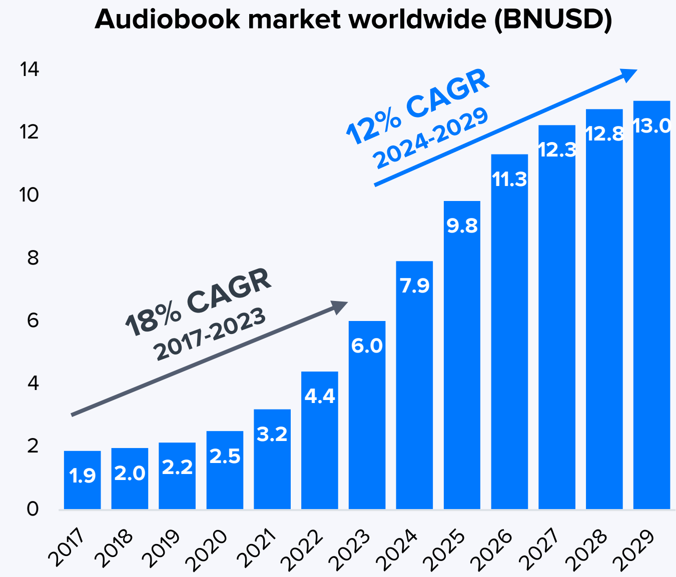
Audiobooks, although still a smaller portion of the global book market, have seen rapid growth and the global audiobook market has expanded at an 18% CAGR from 2017 to 2023, reaching a market size of 6 BNUSD in 2023. This represents roughly 7% of the overall book industry. Going forward, the audiobook market is expected to grow at CAGR of 12% through 2029 and represent 13% of the total book market.

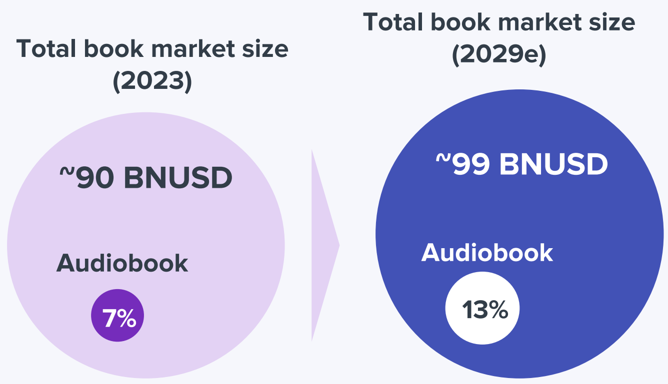
In the U.S., which accounted for 56% of the global audiobook market in 2023, adoption is especially high, with audiobooks now comprising around 15% of total book sales. Despite Amazon's Audible maintaining dominance in the sector, with a vast catalog, long-standing publisher relationships, and a loyal user base, Spotify's unique pricing and content model presents a compelling alternative. Offering over 250,000* audiobook titles as part of its premium tier (with 15 listening hours per month) and through an audiobook-only subscription, Spotify differentiates itself from Audible's credit-based model and Apple's pay-per-book approach. This flexible access model caters to both casual listeners and frequent audiobook consumers, potentially encouraging additional purchases of listening hours.

By integrating audiobooks alongside music and podcasts, Spotify offers a seamless user experience that could attract listeners seeking an all-in-one platform for audio content. Spotify can also leverage its extensive discovery algorithms to recommend audiobooks based on user preferences and listening habits. By bundling audiobooks into its premium tier, Spotify can utilize its existing infrastructure and subscription model to cross-sell audiobooks to its music and podcast subscribers, potentially reducing customer acquisition costs compared to standalone audiobook services like Audible.

Unlike other media and entertainment businesses, the audiobooks business is highly localized. One of Spotify's strengths, aside from its vast user base, is its global footprint, with localized content in multiple languages. While Audible is dominant in the U.S., Spotify's ability to leverage its international presence could help it capture significant market share in Europe, Latin America, and Asia. Audiobooks in non-English languages represent a growth area where Spotify's platform could provide a competitive advantage by offering more localized content than its competitors.

Moreover, audiobooks offer lower content acquisition costs compared to music. While Spotify pays significant royalties to music labels and artists, licensing or creating audiobook content typically involves a different cost structure, with fewer middlemen.





* With an additional 125,000 titles available for purchase.

Source: Statista, Spotify, Inderes

Competitive landscape 1/3

Market leader in music streaming despite fierce competition

Spotify is currently the leading music streaming platform, commanding a market share of over 30% of total paid subscribers. Despite this, the audio streaming market remains fiercely competitive, with Spotify facing significant competition from major tech companies like Apple, Amazon, and YouTube, as well as smaller streaming platforms such as SoundCloud, Tidal, Deezer, NetEase, Pandora, and Tencent Music.

Companies within the music streaming market generally do not compete on price or music catalog offerings, as most platforms provide their baseline services at comparable price points and feature largely similar music libraries. Instead, competition centers around original content, exclusive offerings, and the quality of personalization. In addition, platforms are increasingly differentiating themselves by integrating other audio services, such as podcasts and audiobooks, into a single app. In fact, a study from Deloitte Insights shows that 70% of surveyed American users prefer to have access to podcasts, audiobooks and music as a single service.

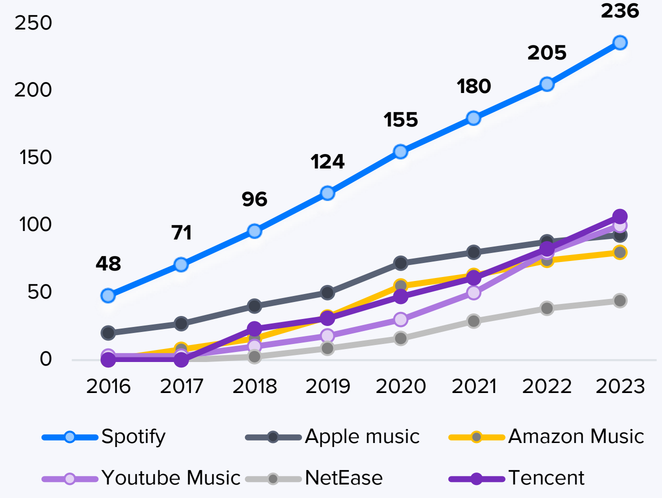
While Big Tech players like Apple, Amazon, and YouTube benefit from vast ecosystems and diverse product offerings, Spotify has managed to defend its market share effectively. We believe this resilience can be attributed to a few key factors:

- **First-mover advantage**: As an early entrant in the streaming industry, Spotify established a strong foothold and built significant brand value before many of its competitors fully committed to the space.
- **Scale and data insights**: Spotify's large user base generates powerful network effects that enhance the platform's personalization algorithms and user experience. This data-driven personalization strengthens user engagement and retention, while also supporting more effective content distribution.
- **A unique freemium model**: Spotify's dual-tier approach serves both free and paid users effectively, creating a wide funnel for user acquisition and providing an accessible entry point that encourages upgrades to its premium service over time.

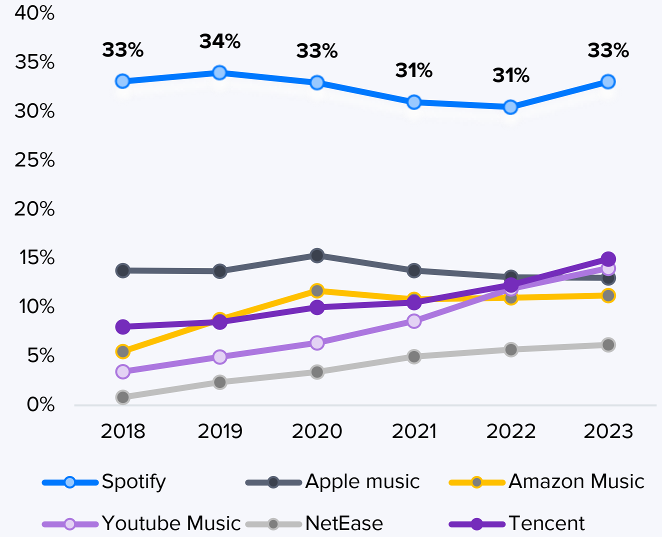
However, Apple, Amazon, and YouTube hold distinct advantages that allow them to undercut Spotify's pricing and offer competitive features more aggressively. These tech giants not only have stronger financial resources and higher overall brand recognition but also the ability to leverage their own ecosystems. For example, Apple's service integration through Apple One, Amazon's bundling with Prime, and YouTube's Premium offerings enable them to monetize users across multiple products. This diversified revenue structure, backed by strong balance sheets, allows them to operate their streaming services at little or no profit if necessary, using these services primarily as tools to gain market share. Their audio offerings function as complementary components in a larger ecosystem where other products generate most of the profits.

Big Tech's financial strength has already impacted Spotify's strategy. For example, Spotify initially planned to launch high-resolution, lossless audio as a premium feature, tapping into demand for higher-quality sound. However, Apple and Amazon, with their deeper pockets, quickly introduced high-resolution audio at no extra cost within their standard plans, putting Spotify in a tough spot and delaying its rollout.

Music streaming platforms subscribers 2016-2023 (in millions)



Market share (paid subscriptions)



Sources: Inderes, Spotify, Deloitte Insights (2023)

Competitive landscape 2/3

Despite the competition, Spotify has been resilient and grown its user base faster

Despite nearly a decade of competition from tech giants like Apple, Amazon, and YouTube, Spotify has managed not only to maintain but also grow its user base faster (in absolute net new subscribers). While intensified competition has certainly made it more challenging for Spotify to expand its market share further, the company's ability to defend its position against such powerful rivals is, in our view, a testament to Spotify's resilience and enduring appeal.

Spotify's brand stands as a valuable asset in this competitive landscape. Unlike Apple and Amazon, whose brands are primarily associated with hardware ecosystems, retail, and software, Spotify's brand is solely associated with audio. This strong association has positioned Spotify as a trusted name in music, podcasts, and audiobooks, providing a unique advantage that diversified competitors struggle to replicate.

As the largest audio streaming service, Spotify possesses more user listening data than any of its competitors. This wealth of data allows Spotify to offer highly personalized recommendations and listening experiences, which enhances user engagement and builds loyalty in a way that rivals cannot easily match. By providing a tailored experience, Spotify not only builds trust but also encourages users to stay on the platform, contributing to lower churn and higher brand loyalty. We believe that Spotify's superior personalization capabilities are a key factor behind its ability to maintain a stable market share despite offering a product that is largely similar to its competitors.

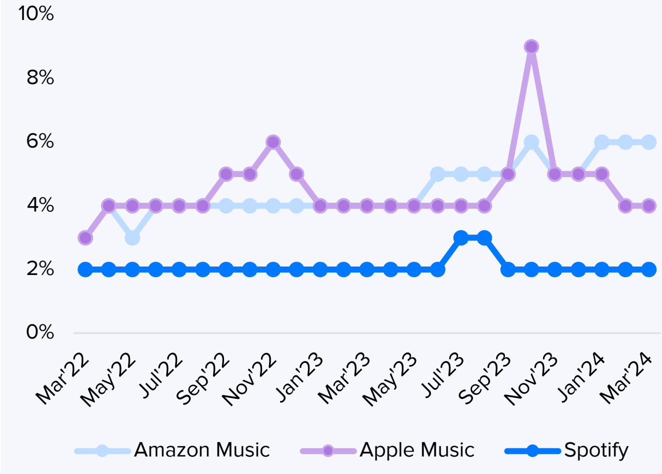
Spotify have the most loyal users

Spotify is not only the leading audio streaming service in terms of subscriber numbers but also outperforms its competitors on customer loyalty. Data from the market analytics platform Antenna shows that Spotify's monthly churn rate consistently outperforms its closest peers, Apple Music and Amazon Music, as seen in the adjacent graph. Between March 2022 and March 2024, Spotify retained approx. 59% of its customer base, while Apple Music and Amazon Music retained only about 31% of theirs. This significant difference underscores Spotify's strength in retaining users, driven by its brand focus, superior personalization, and reputation in the audio streaming industry.

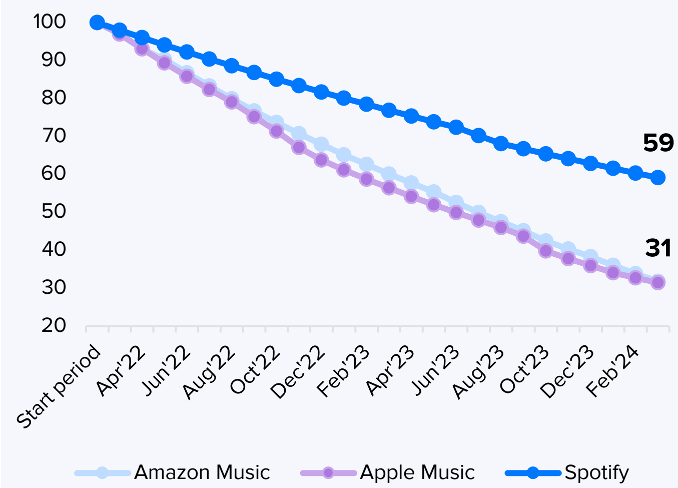
Curated playlists aren't the switching barrier they seem

While curated playlists might appear to create high switching costs for Spotify users, or any other audio/music streaming provider, this is no longer the case. Numerous third-party tools now make it easy to transfer playlists between streaming platforms, eliminating the need to manually recreate them. As a result, the effort invested in building playlists on Spotify doesn't strongly deter users from switching to other services.

Monthly churn: Spotify vs Apple Music/Amazon Music



Retention of customer base (indexed)



Sources: Spotify, Antenna, Inderes

Competitive landscape 3/3

Why these giants haven't followed suit

While Apple, Amazon, and YouTube (via parent company Alphabet) have the resources to replicate Spotify's all-in-one audio platform, it's important to recognize that audio is central to Spotify's identity in a way it is not for these tech giants. For Apple, the primary focus is on devices; for Amazon, it's e-commerce and cloud services; and for YouTube, it's video content. Audio, while not ignored, remains a much smaller priority for these companies, and they don't dedicate the same level of time or resources to it as Spotify does.

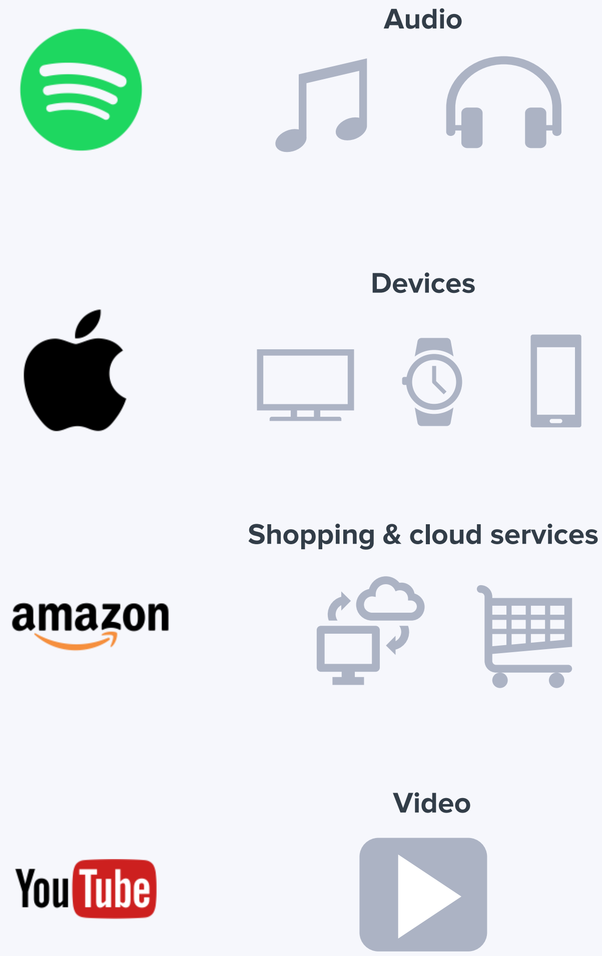
Creating a seamless platform that integrates music, podcasts, and audiobooks requires a unified strategy that can balance the needs of diverse content providers, rights holders, and audiences. This integration is challenging for companies with separate, specialized platforms, as it would require redesigning existing systems, renegotiating licensing agreements, and potentially disrupting the experience for established user bases who prefer specific, segmented services.

Each tech giant has its own reasons for maintaining its separate audio services:

- **Apple**: Apple's focus is on driving hardware sales and reinforcing ecosystem lock-in through services like Apple Music, Apple Podcasts, and Apple Books. These are kept siloed to enhance the Apple device experience and integrating them into a single app could compromise the brand value of Apple Books and complicate user experience. Additionally, Apple's reach is constrained by its limited penetration outside iOS, which represents only about 30% of the global market, making it less effective in gaining market share beyond its own devices.
- **Amazon**: Amazon owns Audible for audiobooks, Kindle for e-books, and Amazon Music as a standalone service. While Amazon has begun offering some audiobooks through Amazon Music, the selection is limited compared to Audible's vast library, encouraging audiobook fans to maintain a separate Audible subscription. Merging these services into a single platform could dilute Audible's well-established brand and jeopardize its subscription revenue. Amazon's primary focus remains on its Prime ecosystem, and integrating all audio services into one app doesn't appear to be a strategic priority. Moreover, Amazon Music is available in only about 50 markets, compared to Spotify's presence in over 180 countries. Spotify has also localized its offerings more effectively, supporting more languages and catering to a broader range of regional tastes.
- **YouTube**: YouTube's main focus is video, with YouTube Music serving as a dedicated music platform. Google keeps its podcasting efforts separate and has shown limited interest in monetizing podcasts and audiobooks within a unified app, likely to avoid overlap with Google Play's existing content offerings.

While there is a possibility that these giants could eventually decide to offer an all-in-one audio service, we view this as unlikely in the foreseeable future. There is also a risk that they could provide a similar range of audio content at a lower price point, which could create pricing pressure for Spotify. However, given Spotify's larger scale, superior personalization features, and stronger brand as a dedicated audio provider, we believe it is well-positioned to overcome these challenges and defend its market share effectively in such a scenario.

Spotify and its closest competitors' biggest focus areas



Sources: Inderes

Overview of audio streaming services

	Spotify	Apple Music	YouTube Music	Amazon Music	Deezer
Pricing	$5.99-19.99	$5.99-16.99	$5.49-16.99	$9.99-16.99	$5.99 - $17.99
Free tier	Yes (with ads)	No free tier	Yes (with ads)	Yes (with ads and limited song catalogs)	Yes (with ads)
Standard plan	$11.99/month (Premium)	$10.99/month	$10.99/month	$9.99/month (with Prime membership) or $10.99	$11.99/month (Premium) or $9/month when paid annually
Other plans	Family, Student, Duo	Family, Student	Family, Student	Family, Student	Family, Student, HiFi, Premium Duo
Content Library	100 million+ songs	100 million+ songs	100 million+ songs	100 million+ songs	90 million+ songs
Audio content	Music, Podcast, Audiobooks	Music	Music	Music, Podcast, Audiobooks	Music, Podcast
Exclusive Content	Some exclusive podcasts and original content	Live radio, exclusive albums	YouTube Originals	Some exclusive podcasts	Some exclusive content
Audio Quality	Up to 320 kbps (Premium)	Up to 24-bit, 192 kHz (Lossless)	Up to 256 kbps	Up to HD and Ultra HD	Up to 320 kbps (HiFi available)
Spatial audio	No	Yes	Yes	Yes	No
Lossless audio	No	Yes	No	Yes	Yes (HiFi)
Offline Listening	Yes (Premium only)	Yes	Yes (Premium only)	Yes (Premium Only)	Yes (Premium only)
Cross-Platform Compatibility	Extensive, incl. smart speakers, gaming consoles, wearables	iOS, Android, Apple Watch, HomePod	Extensive, incl. smart TVs, Google Home	Extensive, incl. Alexa devices, smart TVs	Extensive, incl. smart speakers, wearables
Social Sharing Features	Yes, collaborative playlists, social sharing	Limited to Apple devices, Friends Mix	Yes, but limited compared to Spotify	Yes, basic sharing options	Yes, collaborative playlists, social sharing
Video Content	Yes	Yes	Extensive (YouTube integration)	Limited	Limited
Number of countries	>184	>167	>100	>50 (free version not available in all these countries)	>180
Available languages	74	36	50	10+	6

Historical development 1/3

A growth machine...

Spotify has demonstrated strong double-digit revenue growth since its launch in 2008. From 2015 to 2023, Spotify grew at a CAGR of 27%, representing a nearly sixfold increase in revenue over eight years. This growth has been largely driven by user volume, with MAU expanding at a similar pace as revenue, while the ARPU, including both premium subscribers and ad-supported users, has remained relatively flat during the period.

The drivers behind Spotify's strong historical growth in its user base are numerous. The company's global expansion and widening partnership network has increased the platform's reach and overall accessibility. The launch of subscription tiers like Family, Student, and Duo plans have made the platform more affordable, helping with both customer acquisition and retention. Additionally, Spotify's personalization features and transformation from a music streaming service to a comprehensive audio platform, with podcasts and audiobooks, has enhanced user engagement and helped attract new users. The company's ability to convert freemium users to paying subscribers has also been a key factor in the company's strong user growth. Historically, a majority of Spotify's subscribers once were free users.

Looking at the last 3-5 years, the revenue CAGR is about 20%, indicating a slight slowdown growth as the business has scaled. At the same time, the MAU growth has outpaced revenue growth, with ARPU declining by 1% and 3% over the past three and five years. This decline is largely due to Spotify's expansion into emerging markets, where localized pricing is adopted. In fact, these markets accounted for 66% of net new subscribers between 2020-2023. Although prices are lower in these regions, they have been a major driver of user growth on the platform recent years.

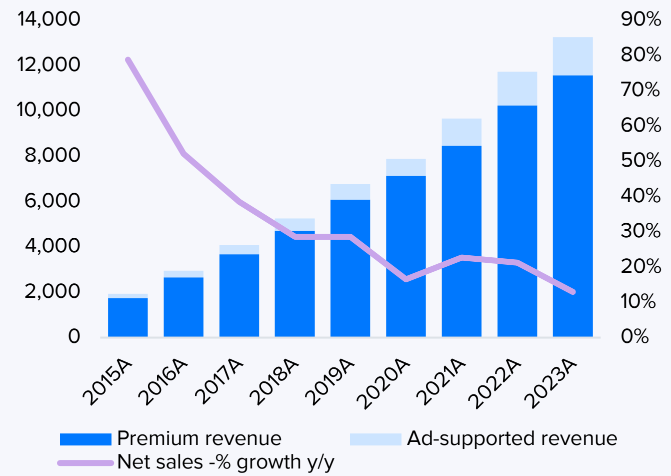
While most of Spotify's growth has been organic, the company was on a 1 BNEUR acquisition spree between 2019-2022, largely targeting the podcasting industry. The revenue visibility of these acquisitions contribution to growth is limited, and we believe the actual financial contribution is relatively low. For example, in 2021, Spotify generated some 200 MEUR from podcasting (mainly through advertising), equivalent to 2% of total revenues in the same year.

...with a recent focus on profitability

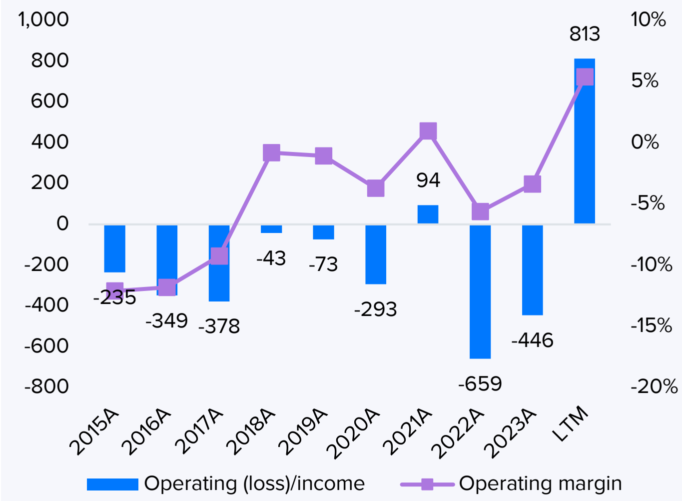
Historically, Spotify has prioritized user growth and maximizing the value proposition on the platform over short-term profitability. This approach led to consistent operating losses between 2015-2023, with the exception of a brief period of profitability in 2021. The primary challenge has been Spotify's high-cost structure, particularly the substantial music licensing fees owed to rights holders, which have made it difficult to achieve profitability.

Nevertheless, in 2023, Spotify made significant strides toward improving its cost structure. The company executed major layoffs (reducing its workforce by more than 20%), restructured its operations to cut non-essential marketing costs, shutting down underperforming projects, and implemented broader cost-saving measures to enhance overall efficiency. Additionally, price hikes in key markets, including the U.S., marketplace growth and podcast profitability has collectively contributed to improved gross margins. These efforts has resulted in Spotify achieving profitability on an LTM basis, with operating income amounting to 813 MEUR, equivalent to a 5% margin.

Revenue per segment (MEUR)



Operating result (MEUR) and margin-%



Sources: Inderes

Historical development 2/3

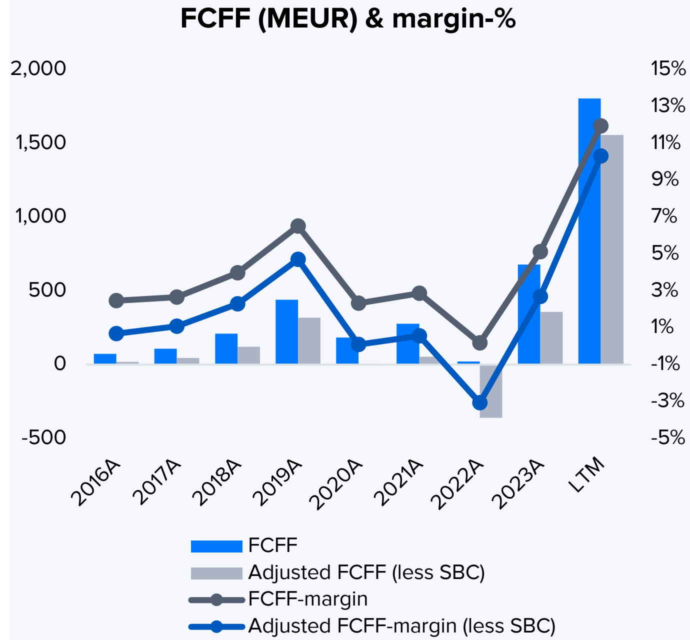
CAPEX-light operations facilitate high FCFF

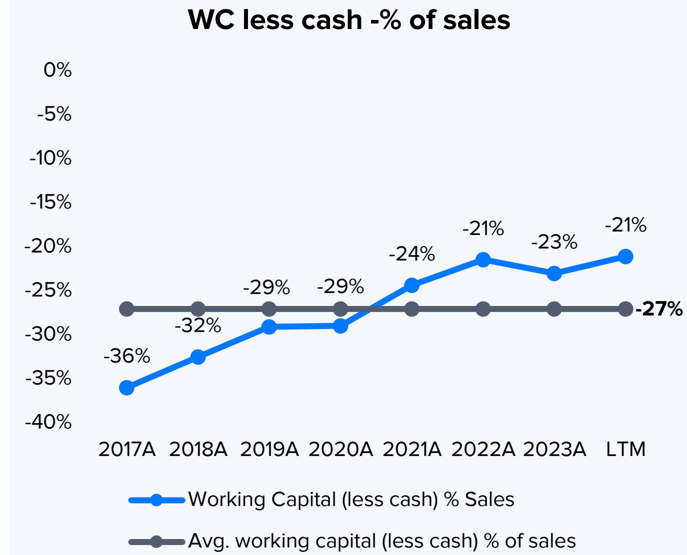
Despite generating operating losses in almost every year since its foundation, Spotify has consistently generated free cash flows since 2016. On average, Spotify has generated some 250 MEUR in free cash flow on an annual basis during 2016-2023, facilitated by the company relatively capital-light business and favorable working capital changes.

Like many other subscription-based service companies, Spotify generally operates with negative working capital, as users often pay in advance. This means that Spotify receives cash from its customers before it delivers the service over the subscription period. Additionally, Spotify pays record labels/rights holders royalties based on their streamshare/license agreements for a given period, which are often made on a delayed basis, allowing Spotify to hold onto cash before paying out its liabilities. This essentially means that Spotify generates cash as a result of growth, which has enabled consistent cash flow generation despite its operating losses.

Due to these dynamics, in combination with improved profitability from Q3'23 and onwards, free cash flow has surged. In Q3'24, free cash flow amounted to 711 MEUR, representing a FCFF margin of 18%. However, it is worth bearing in mind that share-based compensation ("SBC"), which ultimately result in future dilution for shareholders when issued share options eventually are exercised, inflates FCFF as these are added back in the cash flow statement after being recorded on the income statement (non-cash expense). Typically, SBC account for around 2% of revenue. In the accompanying graph, we can see the impact on FCFF when subtracting SBC, however it's clear that Spotify has significantly improved its FCFF generation substantially since 2023.

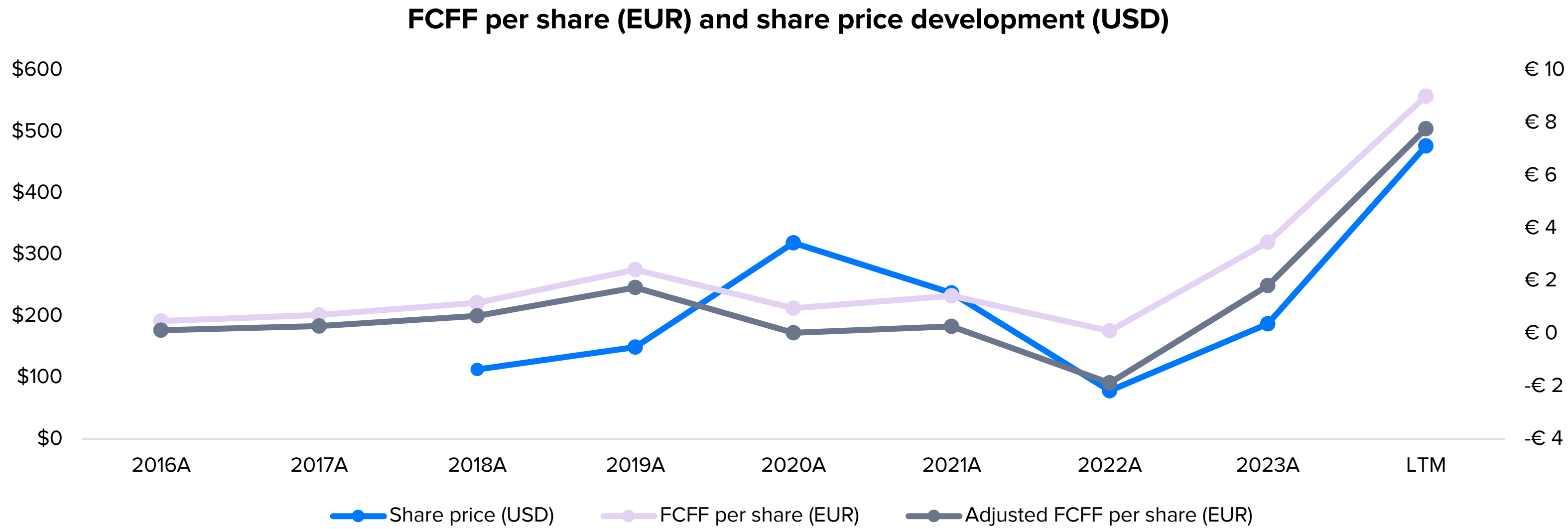
Spotify's working capital (less cash) as a percentage of revenue has averaged -27% since 2017 and has been on an upward trend recent years. This is primarily due to the expansion within the advertising segment and podcasts, as these are generally requiring higher working capital tie-ups. As Spotify expands its advertising revenue and the podcast business, we expect slightly higher working capital going forward, but still within negative territory due to the nature of its subscription service.

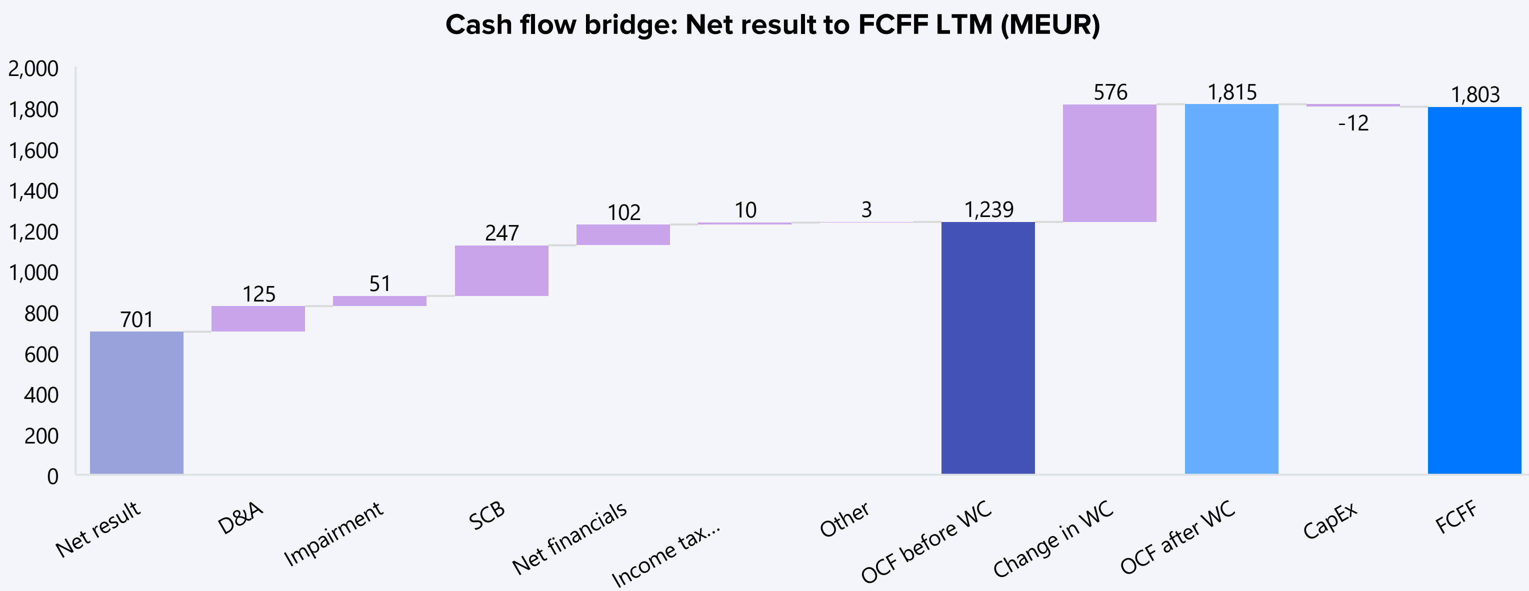




Sources: Inderes

Historical development 3/3





Selection of acquisitions

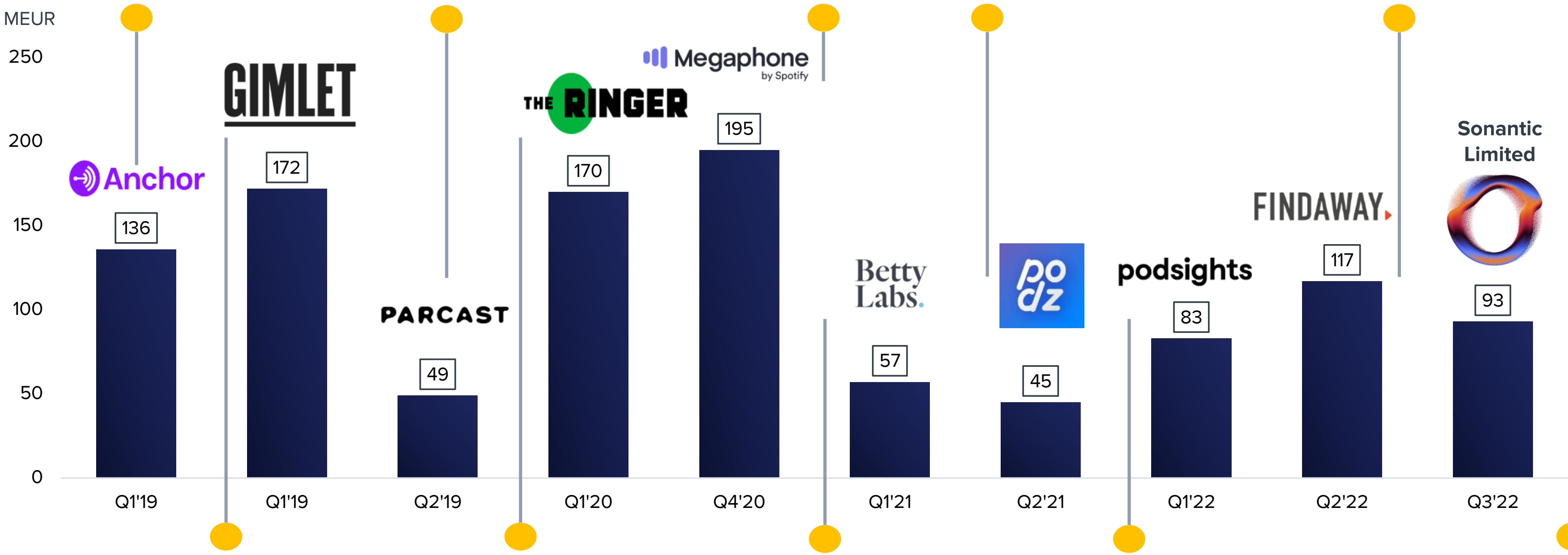
A platform that allows users to create, distribute, and monetize podcasts easily. Anchor played a key role in Spotify's push to become a leader in the podcasting space

A podcast network known for producing scripted podcasts focused on mystery, crime, and history, aligning with Spotify's content strategy in podcasting.

A podcast technology company providing hosting and advertising solutions for publishers. Spotify acquired it to enhance its ad tech capabilities for podcasts.

A startup that develops technology to improve podcast discovery using machine learning. This acquisition supported Spotify's efforts to enhance user podcast recommendations.

A global audiobook distributor and producer. This acquisition helped Spotify enter the audiobook market and further broaden its audio offerings.



Podcast production company that creates high-quality narrative-driven shows. This acquisition helped Spotify expand its original content portfolio.

A sports and pop culture podcast and media network. This acquisition expanded Spotify's content library with sports-related content.

The company behind Locker Room, a live audio app focused on sports discussions. This acquisition led to the development of the live audio feature Spotify Live.

A podcast analytics and attribution platform that helps creators and advertisers track performance. This acquisition strengthened Spotify's podcast measurement tools.

A company specializing in AI voice technology, enabling human-like speech synthesis. Spotify acquired it to explore innovative audio experiences, including enhancing user interaction with the platform

Financial position

Capital-light balance sheet

Spotify's non-current assets are dominated by intangible assets such as goodwill and long-term investments, where the former has been accumulated through a series of acquisitions during 2019-2022. Most of long-term investments relates to Spotify's stake (8%) in Tencent Music Entertainment ("TME"), after a share swap in 2017. Hence, Spotify is exposed to investment risks related to changes in TME's share price. In Q3'24, investment in TME accounted for 15% of the balance sheet. Regarding current assets, the largest component is cash and short-term investments, constituting for 58% of the total balance sheet. Trade receivables represents 7% of the balance sheet, while the rest is made up by several smaller receivable items.

Strong net cash position

While Spotify does not have traditional long-term debt (e.g. bank loans), it does have certain obligations that are functionally similar to debt, including lease liabilities (IFRS 16) and exchangeable notes (accounted at fair value). The latter, which amounts to approx. 13% of total balance sheet as of Q3'24, mature in Q1'26, unless repurchased, redeemed, or exchanged before that, and bear no interest. Trade payables makes up 10% of the balance sheet, resulting in a negative net working capital. Accrued expenses and other liabilities is a relatively significant item on the balance sheet (22%), and largely consists of minimum guaranteed payments or advance payment obligations (accrued fees to rights holders) related to licensing agreements.

Overall, we consider the composition of both sides of Spotify's balance sheet as solid and there should be no major risks related to the balance sheet, given a strong net cash position of EUR 4.3 billion (incl. leases liabilities) and its proven history of generating free cash flows. However, we believe there could be risks related to potential future impairments on made acquisitions, given that these were made during the low-interest environment period 2019-2022. However, given the size of the accumulated acquisition value (>1 BNEUR), it does not present any major risks to the balance sheet at the time.

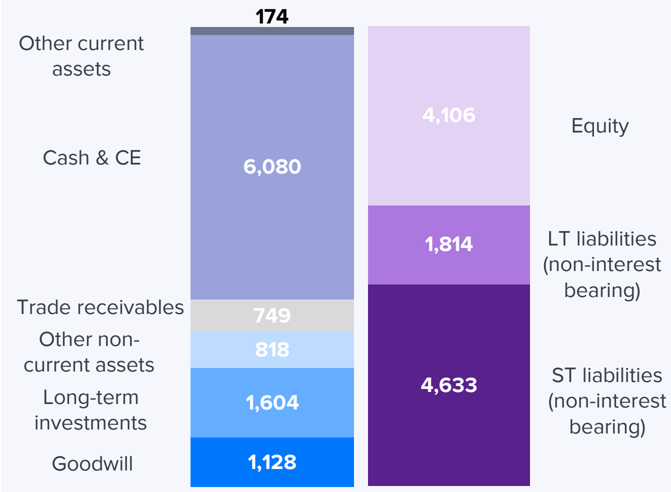
CapEx needs are low

Due to the nature of Spotify's business model and the fact that intangible assets dominates the balance sheet, the need for physical capital investments (PPE CapEx) is minimal. Spotify has averaged a total CapEx of 2.5% of sales during 2016-LTM, with M&A CapEx making up a majority of that. CAPEX was particularly elevated during 2019-2022 as Spotify scaled its podcast business and entered audiobooks, but has since decreased to low levels. Spotify is also outsourcing their infrastructure to Google Cloud Platform, which further limits its CapEx burden.

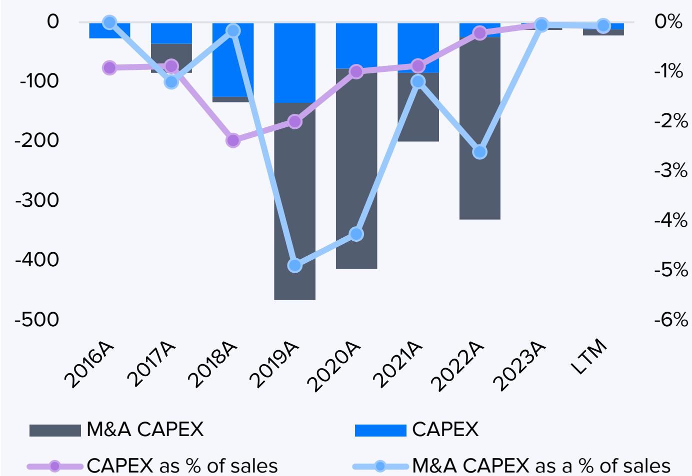
Thus, instead of heavy capital investments, Spotify channels its resources into enhancing the platform, refining algorithms, and improving the overall user experience through R&D, which is expensed on the income statement. Historically, R&D spending has accounted for some 10-12% of sales, and we expect it to remain within this range going forward, likely on the lower end over time.

The primary objective behind these investments has been to boost user engagement and remain competitive. Moving forward, we expect this trend to continue, with a strategic focus on recent pivots into online education, video content, and long-term ambitions in areas such as news and sports. These developments are intended to broaden Spotify's content ecosystem and enhance its role as a platform for diverse media consumption.

Balance sheet at the end of Q3'24 (MEUR)



Investments (MEUR)



Sources: Inderes

Strategy and financial targets 1/3

The strategy resolves around increasing engagement and delivered value proposition

At its core, Spotify operates as a platform-first company, focusing on creating win-wins for users, creators and advertisers. By continually refining its user experience and empowering creators, Spotify aims to strengthen its position as the world's most comprehensive audio streaming service.

Since its inception, Spotify has achieved a large scale in the audio industry, particularly within music. This scale has enabled Spotify to leverage its platform to explore new verticals and formats such as podcasts, audiobooks, and video podcasts. By adding more non-music content on the platform while expanding format capabilities (such as video), Spotify intends to increase the value proposition and engagement among users, which extends to higher lifetime value. When engagement deepens, usage increases which ultimately result in more advertising inventory at Spotify's disposal. This approach also aligns with the company's goal to boost ad revenue, where Spotify aims to exceed 10 BNEUR annually over time by leveraging tools like SPAN for targeted ads across content formats.

Emerging markets are a key priority to sustain high growth in its user base

While many of Spotify's established markets still experience healthy MAU and subscriber growth, including the U.S., it is no secret that emerging markets are expected to be the primary growth driver for Spotify's user base going forward. In established markets, Spotify already holds a leading position, whereas emerging markets offer significant potential due to current low streaming penetration rates and expanding mobile and internet infrastructure. This focus aligns with Spotify's long-term strategy to sustain high growth in its user base for the foreseeable future.

To gain traction in these regions, Spotify puts a high emphasize on localization, meaning tailoring content and monetization models to local preferences, combined with its freemium model offering. The strategy has already resulted in Spotify taking significant market share in regions such as Latin America and Eastern Europe.

To facilitate the success in emerging markets, Spotify forges strategic partnerships with a wide range of stakeholders, including record labels to secure content rights, and with telecommunication companies and prominent artists to expand reach and build brand awareness in new markets. For example, collaborations with telecom providers in regions like the Middle East and Africa have made Spotify more accessible and affordable, especially in markets where data costs can be a barrier.

While not a priority, acquisitions may play a role as Spotify expands its non-content offering

Spotify's approach to growth in non-music verticals shows a pattern of combining organic entry with strategic acquisitions. By experimenting and gaining initial traction organically, Spotify can assess audience interest in new sectors before accelerating growth through targeted acquisitions. This low-risk approach enables the company to explore diverse non-music content without committing heavily upfront. Given its history, it wouldn't be surprising if Spotify were to follow a similar acquisition-focused strategy to enter other content-adjacent fields, such as online education and potential new areas such as news and sports going forward. While acquisitions aren't an outright priority for Spotify, they remain an effective tool for Spotify to enter and gain rapid scale in new non-music verticals.

Podcasts go from exclusive to non-exclusive

Spotify's podcast strategy has evolved significantly since the company began making large investments in audio content back in 2019. Early efforts focused on creating exclusive deals with high-profile figures, such as Joe Rogan and Alex Cooper, to boost engagement and differentiate Spotify from competitors. This exclusivity helped Spotify grow its podcast audience to over 100 million regular listeners by 2023, surpassing Apple in several markets.

In 2023, Spotify shifted from an exclusivity-based model to a non-exclusive approach to broaden its reach and attract more creators who value platform flexibility. Exclusivity was effective when Spotify needed rapid growth, but its benefits have diminished as the podcast user base exceeds 100 million. High-cost exclusive deals, like the Joe Rogan agreement (reportedly over 200 MUSD), are only viable if they drive significant subscriber growth and ad revenue. While these deals helped attract users, we believe it's likely Spotify didn't achieve the expected advertising returns, especially considering its substantial investments in podcast companies and exclusive content.

By adopting a non-exclusive model, Spotify can now broaden its audience reach and offer more advertising opportunities, which should support increased ad revenue. Although the shift to non-exclusive content might remove a key reason for some users to remain on the platform, Spotify has yet to observe any significant decline in subscriber retention or MAU.

Strategy and financial targets 2/3

Financial targets focus on strong growth and enhanced margins

When Spotify went public through a direct listing in 2018, the company presented long-term financial targets of 25-35% revenue growth and a gross margin of 30-35%. In 2022, the company lowered the revenue growth target to >20% while reiterating the gross margin goal of 30-35% over the long term.

Between 2018 and 2021, Spotify achieved a 26% revenue CAGR (currency-neutral), meeting the lower end of its initial revenue growth target. However, the company faced challenges in achieving the revised >20% revenue growth target during 2022 and 2023 on a currency-neutral basis. However, Spotify has in recent quarters shown an acceleration in growth, and over the trailing twelve months, the company is once again on track to meet its revenue growth goals.

From a profitability perspective, Spotify did not achieve its long-term gross margin targets of 30-35% during the 2018-2023 period. However, it is worth bearing in mind that these financial targets was set at a time when Spotify was solely a music subscription service. While Spotify's audio acquisitions provided a natural boost to revenue growth, they also put pressure on margins due to limited scale and high upfront costs.

At first glance, Spotify's consolidated gross margin appears to have shown little improvement during the 2018-2023 period. However, when isolating the music subscription business, the company's performance has been stronger than it might initially seem. For example, in 2021, Spotify's consolidated gross margin stood at 26.8%, while the gross margin for the music subscription segment was higher at 28.3%, driven largely by strong growth in its marketplace offerings.

Recent performance suggests Spotify is on the right track

Over the past four quarters, Spotify's consolidated gross margin has shown a steady upward trend, rising from 26% to 29%. This improvement has been driven by factors such as scaling podcast revenue, marketplace growth, price increases, improved ad monetization, and its recent bundling strategy for premium subscriptions.

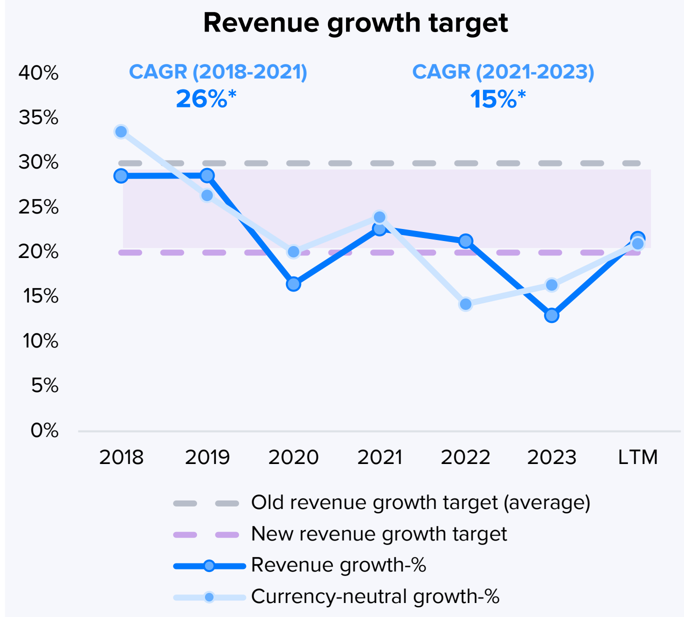
Looking further down on the income statement, Spotify has outlined the following mid-to-long-term targets for operating expenses (as a % of revenue):

- R&D: 10-13%
- S&M: 6-7%
- G&A: 3% or below.

This means that Spotify ultimately sees room for efficiencies improvements regarding S&M, which currently makes up around 9% of revenues, while R&D hovers within the target range (10% LTM) and G&A in line with target (3%).

Spotify is targeting an operating margin of 10%, with ambitions to expand this figure over time. Notably, the company exceeded this goal in Q3'24, achieving an EBIT margin of 11%.

A key driver of Spotify's profitability is its ongoing expansion into non-music verticals, such as podcasts and audiobooks, which offer higher gross margin profiles compared to its core music business (see graph on the next page). Scaling these verticals, alongside continued growth in the advertising segment, will be play an important role for Spotify to increase and sustain a higher profitability going forward.



Sources: Spotify, Inderes

Strategy and financial targets 3/3

Aiming for one billion users by 2030

In 2022, during its investor day, Spotify shared that it aims to have over one billion users by 2030. At the time, this represented a doubling of the user base. Over the next decade, Spotify also aims to generate an annual ARPU of EUR 100, representing a 4x in APRU. This would mean that Spotify, sometime during the next decade, generated over 100 BNEUR in revenue. Over the same decade, Spotify believe it could achieve a 40% gross margin and 20% operating margin on a consolidated basis.

Within music and podcast alone, Spotify expects to double ARPU to around EUR 50. This would align with the company's current ARPU generated from its premium subscriber base, excluding free-tier users. The additional EUR 50 increase in ARPU is anticipated, according to the company, to be boosted by expanding into new verticals were the ARPU levels are generally higher.

To put these ambitions into context, the chart on the right shows the ARPU levels of the Swedish audiobook company Storytel, the US-based news company NY Times, and the average global ARPU for online education. These figures showcase the potential to increase ARPU going forward.

Building on its historical strategy, we believe it is likely that Spotify would integrate these new verticals into a one single user experience. Initial access may be limited, encouraging users to upgrade their subscriptions for full access or purchase content à la carte. This would enable Spotify to enhance both engagement and monetization over time.

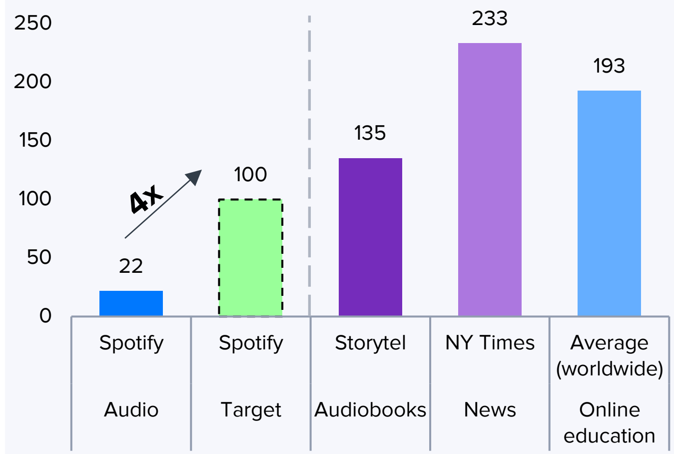
Expanding into new verticals enable Spotify to strengthen its gross margins through areas such as podcasts, audiobooks, and future offerings. These higher-margin verticals should support Spotify's long-term profitability goals and steady-state ambitions. For the podcast business, Spotify's gross margin target of 40-50% appears realistic, albeit toward the lower end, based on comparable figures in the industry. For instance, Storytel has consistently achieved gross margins of around 40% in recent years.

While the gross margin profile for the music business is naturally lower due to the high royalty costs, there is further room for Spotify to improve its music gross margins by e.g. scaling its marketplace offering and advertising business.

Gross margin profile by vertical (Investor day 2022)

	3-5 years	Long-term
Music	30%	35%
Podcasting	30-35%	40-50%
Other	30-60%	40-80%

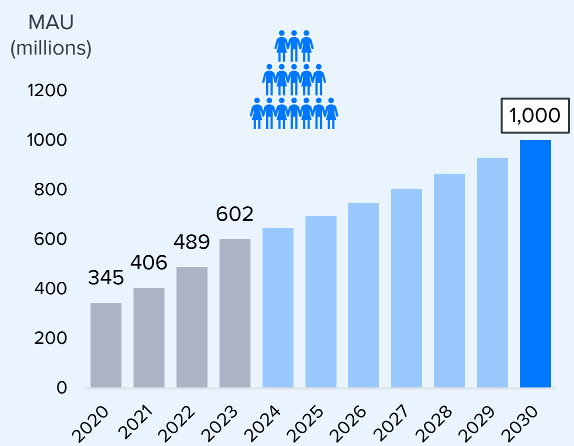
Yearly ARPUs by vertical (2023*), in EUR



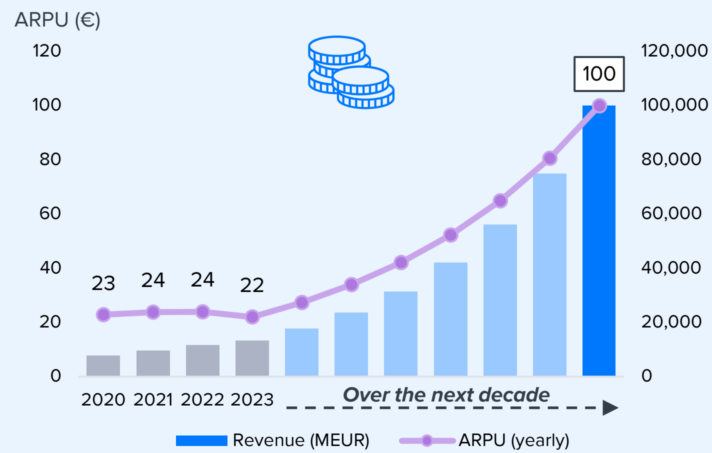
Sources: Spotify, Inderes

Overview of financial targets

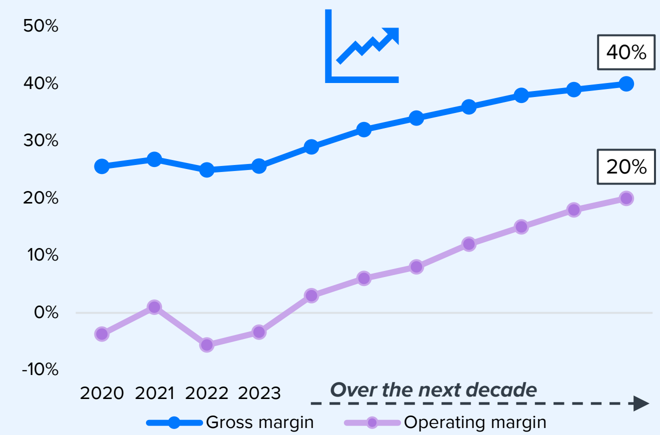
Monthly active users (in millions)



ARPU (EUR) and revenue (MEUR)



Gross margin and operating margin



Growth drivers

- + *Expansion into new geographic markets*
- + *Broadening of non-music verticals*
- + *Improved monetization*

Growth constraints

- - *Intensified competition*
- - *Regulation and data privacy concerns*
- - *Worsen relationship with the industry*

Margin drivers

- + *Increased scale in non-music verticals*
- + *Improved royalty rates, bundling of subscriptions, marketplace growth*
- + *Sustaining high operational efficiency*

Margin constraints

- - *High royalty and distribution costs*
- - *Price pressures from the industry*
- - *Unsuccessful expansion into higher margin non-music verticals*

Inderes' view on Spotify's long-term targets

Spotify's 2030 user growth target, implying an 8% CAGR from 2023 levels, seems feasible through continued market expansion, product diversification, and leveraging its competitive advantages. However, achieving an ARPU of EUR 100 appears overly ambitious, as it would require a fourfold increase from current levels.

While non-music content like audiobooks and potential new verticals may boost ARPU and enhance the value proposition, we believe music will remain Spotify's bread and butter for the foreseeable future, limiting both gross margin and ARPU growth potential. This could make it challenging to reach the long-term gross margins of 40% and operating margins of 20%. However, we do expect Spotify to make steady progress in margin expansion through streamlined operations, cost efficiencies, increased monetization, and scaling across new verticals and the advertising segment.

Furthermore, expansion into emerging markets pose additional challenges to the ARPU growth due to lower purchasing power and the dominance of the ad-supported tier. While price hikes and premium plans for superfans naturally would contribute to an increased ARPU, they are unlikely to drive substantial increases on a Group level.

Spotify's efforts in personalization, user engagement, and loyalty have been crucial in monetization but have yet to significantly lift ARPU. The decline in ARPU in recent years, driven by discounted plans (Family, Duo, Student) and growth of ad-supported plans, underscores these challenges. These trends are likely to persist, limiting the potential for meaningful ARPU increases going forward. Hence, we believe achieving the EUR 100 ARPU target appears more aspirational than realistic, at least for the foreseeable future.

Estimates 1/4

Emerging markets and improved monetization will be key to sustain double-digit growth going forward

We believe that the two most critical factors in projecting Spotify's future are revenue growth and gross margins. Revenue growth is largely dependent on Spotify's ability to grow its already large user base, diversify its content offering with new revenue streams, and improve monetization per user. Gross margins, on the other hand, are influenced by the mix of content on the platform, the growth of its marketplace, and greater scale in its advertising business, to name a few.

As Spotify continues its expansion in emerging markets and scaling its podcast business, we believe the advertising business will play an increasingly important role in the revenue growth. The key will be to increase the time users spend on the platform, which goes hand in hand with higher engagement. This, in turn, unlocks more advertising inventory for Spotify to sell. To achieve this, Spotify's strategy centers on advancing personalization capabilities, broadening its non-music content library, and scaling formats like video podcasts.

Another key growth pillar is increasing the monetization of Spotify's user base while maintaining low churn. Recent price hikes in major markets, including the U.S., have had minimal impact on churn, underscoring the platform's stickiness and hinting at Spotify's pricing power. While we see further potential for price hikes as Spotify's value proposition continues to grow, these are just one of many levers the company can use to drive ARPU growth.

Further expansion into non-music will be the main driver of the profitability

Spotify's strategic move into non-music content is not only a step towards becoming a leading audio platform but also essential for reducing its dependency on the music industry, where the high music royalties have historically weighed on profitability.

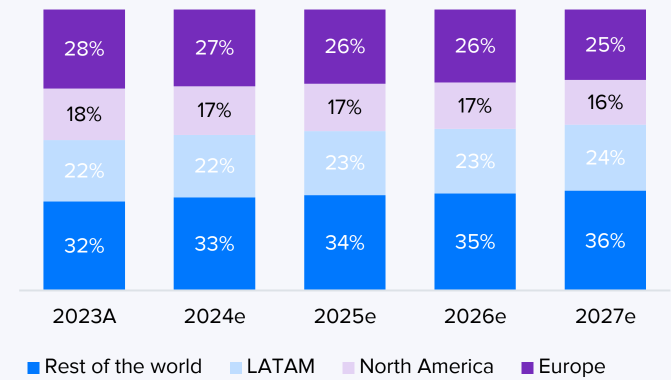
By expanding its non-music content offering on the platform, Spotify opens up new revenue streams with fundamentally different cost structures. Unlike music, where licensing fees create a direct correlation between usage and cost, non-music content, particularly proprietary or exclusive offerings, often involves more fixed costs, enabling improved gross margins and operating leverage as user engagement grows.

Additionally, we believe Spotify's advertising business has the potential to achieve gross margins exceeding 30% over time, given industry benchmarks. This improvement could, in our view, be realized by expanding the ad-supported user base and increasing engagement, which will naturally elevate ad inventory and opportunities for targeted advertising. As Spotify continues to scale programmatic and automated buying options for advertisers, the efficiency and value of ad placements will also increase, maximizing yield per user.

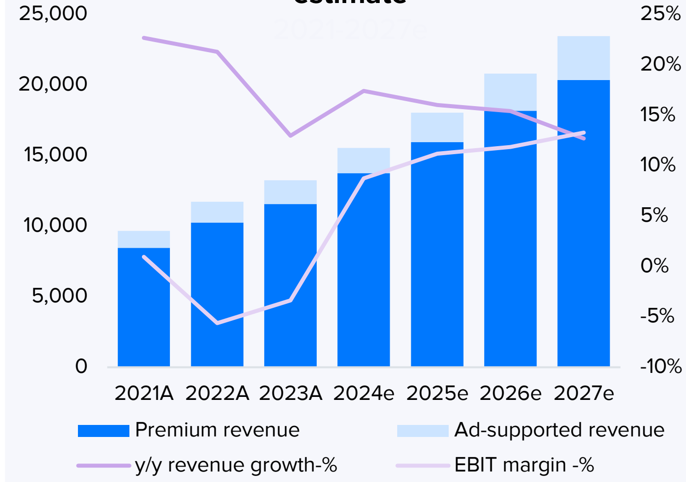
Furthermore, continued profitability gains in podcasting will be of importance to improve overall ad-supported margins. This could be achieved through increased original content that commands higher take rates, cost optimization in content production, and improvements in audience segmentation and targeting that enhance the appeal of Spotify's platform to advertisers. By simultaneously expanding into emerging ad formats such as video ads within podcasts and interactive audio ads, Spotify can attract higher CPMs and enhance the profitability across its ad-supported offerings.

Monthly active users, geographic split

% of total MAU



Revenue (MEUR) and EBIT margin estimate



Estimates 2/4

2024 estimates

If 2022 was the year of heavy investments and 2023 the year of efficiency, then 2024 is shaping up as the year of monetization and shift to profitability. Despite reducing its marketing and sales activities in 2024 compared to 2023, Spotify has continued to achieve steady user growth YTD, showing an increase of 11% y/y. While this is a more moderate growth rate than in 2023, Spotify has been able to accelerate revenue growth y/y by increasing its monetization efforts.

Spotify has also been more disciplined in its R&D spending, shutting down underperforming projects and raising the hurdle rate for new investments. This, along with improved gross margins due to podcast profitability, marketplace growth, and the bundling of its subscription services, has led to a notable improvement in profitability during 2024.

With one quarter remaining, the company's Q4 guidance points to FY24 revenue of 15,530 MEUR (17% y/y), a gross margin of 30% (FY23: 26%), and an operating income of 1,370 MEUR (FY23: -446 MEUR), translating to an 9% EBIT margin (-3%).

Our FY2024 estimates for Spotify align with company's guidance, with revenue expected to amount to 15,554 MEUR, a 30% gross margin, and an operating income of 1,362 MEUR (9% margin),

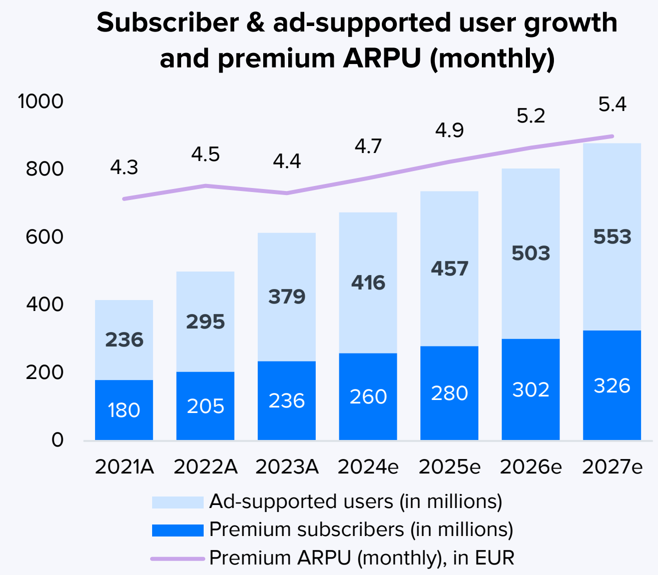
2025-2027 revenue estimates

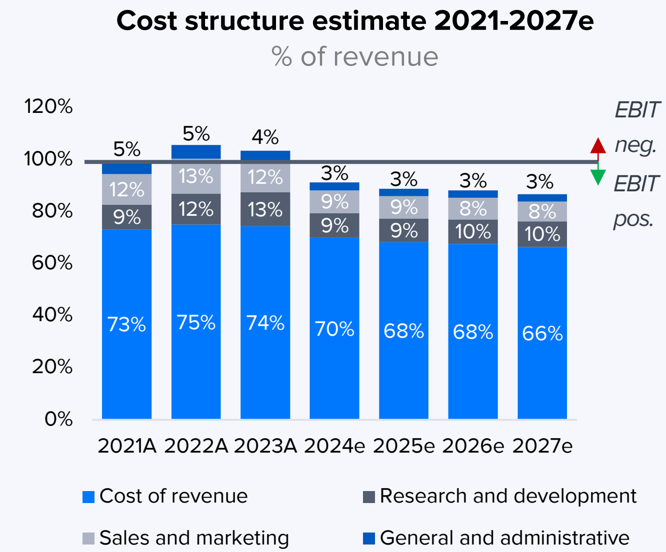
Over the 2025-2027 period, we expect Spotify to grow its user base at a high single-digit rate, with ad-supported users expected to outpace subscriber growth. We believe Spotify's key competitive advantages of personalization, scale, and brand will allow Spotify to maintain its market-leading position in music streaming in developed markets, while also supporting traction in emerging regions.

Further platform improvements and innovation, coupled with continued expansion of non-music content as well as scaling new formats (e.g. video podcasting), should in our view support increased user engagement and time spent on the platform. This, in turn, enhances Spotify's ability to monetize its users through ads. By expanding into emerging markets, where purchasing power is lower, we expect Spotify to boost ad-supported users on the platform, which also serves the company with a bigger audience to monetize through ads.

We see multiple ways for Spotify to increase its ARPU going forward, through e.g. the introduction of subscription plans dedicated to superfans, improved ad monetization of free users, increased audiobook adoption, and expansion into new higher ARPU verticals. Since Spotify also has more engaged users than any other music streaming service, we also see room for Spotify to exercise some pricing power (through price increases) in the coming years. However, we have a hard time seeing that Spotify will meet its EUR 100 ARPU target anytime soon as previously discussed. In our model, we forecast a steady, albeit gradual, increase in premium ARPU (monthly), reaching EUR 5.4 in 2027, up EUR 1 from 2023 (EUR 4.4).

In terms of user mix and growth, we estimate premium subscribers to grow to 326 million in 2027, adding some 22-24 million net new subscribers annually. Ad-supported users is expected to reach 553 million in 2027, up from 379 million in 2023, where we expect Spotify to add about 40-50 million net new ad-supported users annually. This would bring the total MAU count to about 870 million by 2027.





Sources: Inderes' estimates

Estimates 3/4

Based on our projected user mix and pricing development, we estimate revenue in 2025 to amount to 18,046 MEUR, with the ad business accounting for 12% of total revenue. In 2027, we estimate revenue to amount to 23,474 MEUR, growing 14% annually on average, with the advertising business amounting to 13% of total revenue.

2025-2027 earnings estimates

We estimate further gross margin expansion for Spotify in the coming years. While the advertising business holds a notable margin improvement potential, particularly through scaling and enhancing the ad economics of non-music content like podcasts, there is also an upside within Spotify's music segment. In the premium segment, we expect gross margins to improve as Spotify gradually decreases its reliance on major record labels by diversifying its music catalog toward a broader range of independent label content, which supports lower content acquisition costs. However, this strategy also introduces risks, as Spotify's actions increasingly mirror those of a record label, potentially straining relationships with major labels. Additionally, its recent bundling strategy is expected to further contribute to gross margin improvements within the premium tier.

Spotify's ongoing investments in its marketplace offerings and overall value proposition for artists and labels are expected to further enhance its ability to negotiate incremental discounts on royalty rates, a trend witnessed historically. By creating a more attractive platform for artists and labels, Spotify can strengthen its negotiating position, which enables lower content costs and supports long-term gross margin expansion.

By scaling and optimizing its audiobook offering, which is still in its early stages, we see potential for Spotify to further strengthen the gross margin. Increased user adoption and engagement with the standalone audiobook subscription should support this in our view.

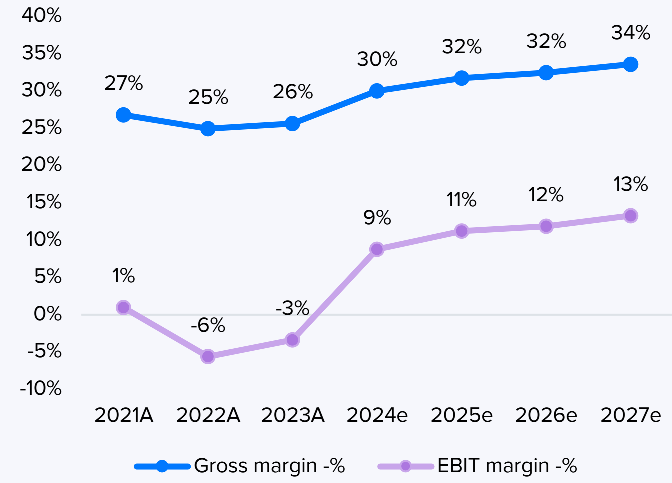
As the audiobook segment matures, a gross margin of approx. 40% should be achievable. We forecast the consolidated gross margin to gradually improve during 2025-2027, reaching 33.6% by 2027, up from 26% in 2023.

In terms of operating expenses, we expect Spotify to maintain a disciplined approach and continue to balance growth and profitability, as it did in 2024. Spotify will likely continue investing heavily in R&D to enhance its product offerings and stay competitive in a relatively commoditized industry, and we expect with R&D spending to stabilize at around 10% of revenue. This is somewhat higher than in recent quarters but at the same time at the lower end of the company's guided range.

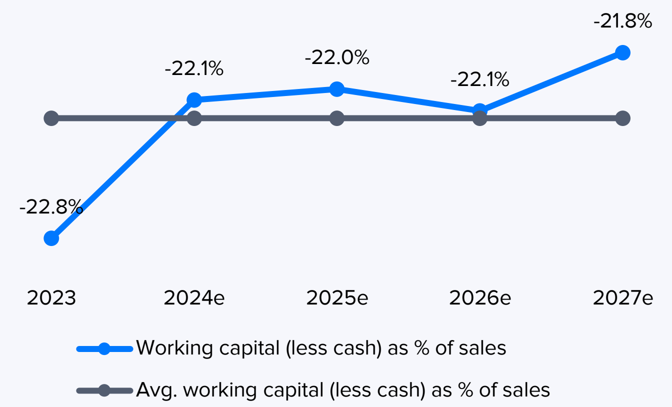
Furthermore, we expect Spotify to continue gaining leverage on its marketing efforts, as shown in recent quarters, largely through improvements to its product capabilities. This holds true because the better its products become, the more engaged users will be, and as users become more engaged with the products, Spotify can rely more on word-of-mouth and viral expansion. As emerging markets are expected to drive a significant portion of Spotify's user growth going forward, enhancements to its free tier, which a strategic priority for the company, can therefore boost engagement and attract new users at lower costs.

Price increases, particularly in developed markets, will serve as another important lever for Spotify to reduce marketing expenses as a percentage of revenue. We forecast marketing costs will gradually decrease to around 8% of revenue by 2027, as Spotify leverages price adjustments and product improvements to drive organic user growth and engagement. For general and administrative (G&A) expenses, we estimate a steady level of approx. 3% of revenue going forward.

Profitability estimates, 2021-2027e



Working capital (less cash) as % of sales



Sources: Inderes' estimates

Estimates 4/4

We expect Spotify to enjoy increasing operating leverage in the years to come, with EBIT projected to grow faster than revenue. By 2027, we estimate EBIT to reach 3,119 MEUR, equivalent to a 13% EBIT margin.

Long-term estimates

Over the long term, we expect the key drivers for Spotify to be expansion into non-music verticals, subscriber growth, continued innovation to boost engagement and margin expansion. On the flip side, the main risks that we see in our estimates are a deteriorating relationship with the music industry, price pressures from big competitors and commercial failures in new non-music verticals.

After 2027, we estimate that revenue growth will begin to slow, reaching our terminal growth rate of 3% in 2033. The CAGR for 2028-2033 is 10%. In terms of profitability, we expect Spotify could reach an EBIT margin 18% in a more mature stage in its business life cycle.

Increased operational leverage will boost FCFF

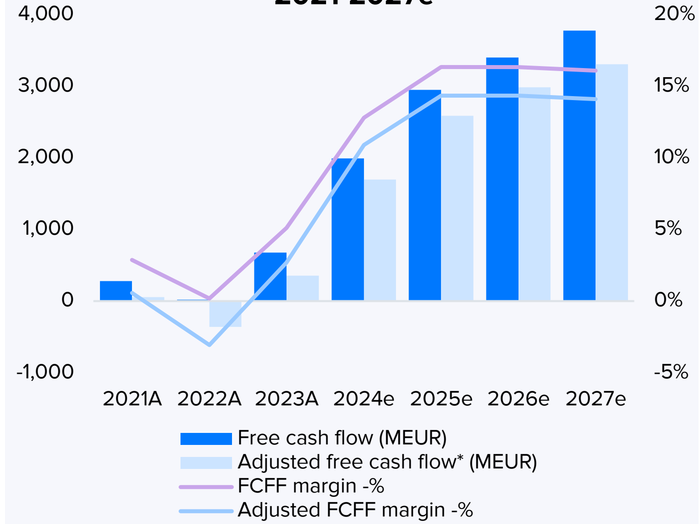
Spotify has been compounding scale and customer goodwill for nearly two decades and with the recent shift in focus to monetization while transitioning to a more cost-efficient company, strong FCFF generation has become a natural byproduct. We project Spotify's cash flow to grow substantially in coming years as the company continues to balance growth with profitability. We believe Spotify is on track to deliver 2,000 MEUR in FCFF in 2024, equivalent to a FCFF margin of 13%. When adjusting for SBC, to account for the dilutive effects for shareholders, the corresponding figure is estimated at 11%. In 2027, FCFF is estimated at 3,777 MEUR, resulting in a 16% margin, and 3,308 MEUR when adjusting for SBC (14% margin). In our model, we have estimated that SBC will amount to 2% of revenue (annually), aligning with recent historical figures. Our FCFF projections assumes that PPE CapEx will only be minor (less than 1% of revenue). However, we include lease payments in tangible investments in our model to reflect the actual cash outflows from lease liability repayments. Without this adjustment, our FCFF model would inaccurately account only for the cash flow-positive depreciation associated with lease liabilities. We also expect working capital to remain at negative low-twenties (as a % of revenue) for the foreseeable future.

Balance sheet will stay solid with net cash

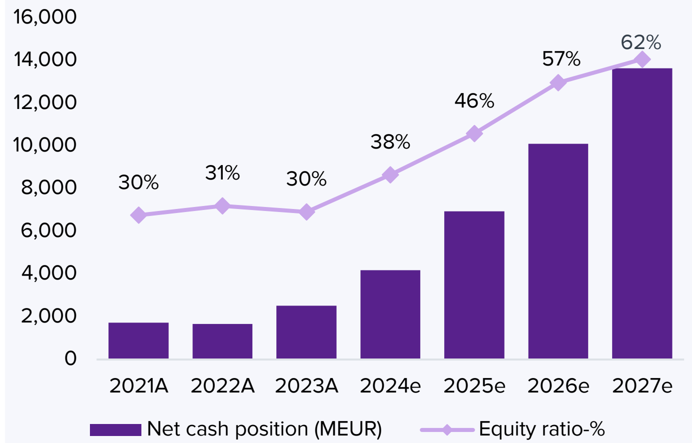
Spotify's balance sheet is in a good shape, with a strong net cash position of approx. 4,300 MEUR (incl. lease liabilities). At the end of Q3'24, the equity ratio stood at 44%, and we anticipate that the company's transition to sustained profitability will further strengthen this metric as it begins to deliver actual returns to equity holders. We also expect the shift to profitability to boost ROIC, which historically has been negative, to an impressive 27% in 2024. We project that Spotify's further improved profitability to support a sustained ROIC in the high-twenties. This means that the company is clearly generating value as it grows, with returns on capital exceeding the required return by a wide margin.

Historically, Spotify has not paid dividends, choosing instead to reinvest cash flows back into operations. However, the company has initiated two share buyback programs, one in 2018* and another in 2021**. As Spotify remains in a growth phase, we believe it favors buybacks over dividends. A dividend policy might suggest a shift in focus from growth to optimizing profitability and cash flow, whereas buybacks allow Spotify to signal confidence in its business and outlook without compromising its growth-oriented strategy. Additionally, buybacks offer greater flexibility, as they are non-recurring and can be adjusted based on cash flow and market conditions. As such, we don't expect Spotify to pay any dividends in the foreseeable future.

Free cash flow and FCFF margin-%, 2021-2027e



Net cash (MEUR) and equity ratio-%



[1] Not adjusted for Stock-based compensation (SBC).

*First Share Repurchase Program: Authorized a buyback of up to 1 BNUSD worth of its ordinary shares (or up to 10m shares), with an expiration date of April 21, 2021.

**Second Share Repurchase Program: Authorized a buyback of up to 1 BUSD worth of its ordinary shares (or up to 10m shares), with an expiration date of April 21, 2026.

Income statement

Income statement (MEUR)	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e
Revenue	**13,247**	**3,636**	**3,807**	**3,988**	**4,123**	**15,554**	**4,149**	**4,374**	**4,609**	**4,914**	**18,046**	**20,828**	**23,474**
Premium revenue	11,566	3,247	3,351	3,516	3,645	13,759	3,707	3,860	4,059	4,321	15,947	18,179	20,370
Ad-supported revenue	1,681	389	456	472	479	1,796	442	514	550	593	2,099	2,649	3,103
EBITDA	**-165**	**203**	**310**	**484**	**504**	**1,501**	**487**	**512**	**551**	**595**	**2,146**	**2,571**	**3,209**
Depreciation	-281	-35	-44	-30	-30	-139	-31	-31	-31	-31	-124	-100	-90
EBIT (excl. NRI)	**-446**	**168**	**266**	**454**	**474**	**1,362**	**456**	**481**	**520**	**564**	**2,022**	**2,471**	**3,119**
EBIT	**-446**	**168**	**266**	**454**	**474**	**1,362**	**456**	**481**	**520**	**564**	**2,022**	**2,471**	**3,119**
Share of profits in assoc. compan.	0	0	0	0	0	0	0	0	0	0	0	0	0
Net financial items	-59	6	4	-56	4	-42	43	43	43	43	170	182	257
PTP	**-505**	**174**	**270**	**398**	**478**	**1,320**	**499**	**524**	**563**	**607**	**2,192**	**2,654**	**3,376**
Taxes	-27	23	4	-98	0	-71	0	0	0	0	0	-133	-338
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Net earnings	**-532**	**197**	**274**	**300**	**478**	**1,249**	**499**	**524**	**563**	**607**	**2,192**	**2,521**	**3,038**
Net earnings	**-532**	**197**	**274**	**300**	**478**	**1,249**	**499**	**524**	**563**	**607**	**2,192**	**2,521**	**3,038**
EPS (adj.) (EUR)	**-2.73**	**0.98**	**1.36**	**1.49**	**2.37**	**6.20**	**2.42**	**2.55**	**2.74**	**2.95**	**10.66**	**12.02**	**14.20**
EPS (rep.) (EUR)	**-2.73**	**0.98**	**1.36**	**1.49**	**2.37**	**6.20**	**2.42**	**2.55**	**2.74**	**2.95**	**10.66**	**12.02**	**14.20**

Key figures	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e
Revenue growth-%	13.0 %	19.5 %	19.8 %	18.8 %	12.3 %	17.4 %	14.1 %	14.9 %	15.6 %	19.2 %	16.0 %	15.4 %	12.7 %
Adjusted EBIT growth-%	-32.3 %	-207.7 %	-207.7 %	1318.8 %	-732.0 %	-405.4 %	171.4 %	80.9 %	14.6 %	19.0 %	48.4 %	22.2 %	26.2 %
EBITDA-%	-1.2 %	5.6 %	8.1 %	12.1 %	12.2 %	9.6 %	11.7 %	11.7 %	12.0 %	12.1 %	11.9 %	12.3 %	13.7 %
Adjusted EBIT-%	-3.4 %	4.6 %	7.0 %	11.4 %	11.5 %	8.8 %	11.0 %	11.0 %	11.3 %	11.5 %	11.2 %	11.9 %	13.3 %
Net earnings-%	-4.0 %	5.4 %	7.2 %	7.5 %	11.6 %	8.0 %	12.0 %	12.0 %	12.2 %	12.3 %	12.1 %	12.1 %	12.9 %

Source: Inderes

Monthly active user (MAU)	**602**	**615**	**626**	**640**	**664**	**664**	**677**	**686**	**703**	**725**	**725**	**793**	**867**
Premium subscribers	**236**	239	246	252	260	**260**	263	268	274	280	**280**	**302**	**326**
Ad-supported users	**379**	388	393	402	416	**416**	426	431	442	457	**457**	**503**	**553**
Premium ARPU	**4.4**	4.6	4.6	4.7	4.8	**4.7**	4.7	4.9	5.0	5.2	**4.9**	**5.2**	**5.4**

Balance sheet

Assets (MEUR)	2022	2023	2024e	2025e	2026e
Non-current assets	**3,284**	**3,086**	**3,089**	**3,062**	**3,061**
Goodwill	1,168	1,137	1,119	1,119	1,119
Intangible assets	127	84	48	12	0
Tangible assets	765	547	557	566	577
Associated companies	0	0	0	0	0
Other investments	1,138	1,215	1,215	1,215	1,215
Other non-current assets	78	75	122	122	122
Deferred tax assets	8	28	28	28	28
Current assets	**4,352**	**5,260**	**6,888**	**9,832**	**11,906**
Inventories	0	0	0	0	0
Other current assets	312	188	188	188	188
Receivables	690	858	824	1,011	1,125
Cash and equivalents	3,350	4,214	5,875	8,634	10,593
Balance sheet total	**7,636**	**8,346**	**9,977**	**12,894**	**14,966**

Source: Inderes

Liabilities & equity (MEUR)	2022	2023	2024e	2025e	2026e
Equity	**2,401**	**2,523**	**3,772**	**5,964**	**8,485**
Share capital	0	0	0	0	0
Retained earnings	-3,647	-4,182	-2,933	-741	1,780
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	6,048	6,705	6,705	6,705	6,705
Minorities	0	0	0	0	0
Non-current liabilities	**1,744**	**1,754**	**1,758**	**1,758**	**558**
Deferred tax liabilities	5	8	8	8	8
Provisions	29	24	24	24	24
Interest bearing debt	1,682	1,696	1,700	1,700	500
Convertibles	0	0	0	0	0
Other long term liabilities	28	26	26	26	26
Current liabilities	**3,490**	**4,069**	**4,446**	**5,172**	**5,923**
Interest bearing debt	0	0	0	0	0
Payables	3,458	4,040	4,417	5,143	5,894
Other current liabilities	32	29	29	29	29
Balance sheet total	**7,635**	**8,346**	**9,977**	**12,894**	**14,966**

Valuation and recommendation (1/5)

Investment view and recommendation

Since its direct listing in 2018 at a reference price of USD 135, Spotify's stock has exhibited significant volatility, fluctuating between USD 70 and USD 500. In its first years on the stock market, Spotify was perceived as the leading player in music streaming, serving a vast user base. Yet, concerns persisted over its profitability and long-term business sustainability due to the significant variable costs paid as royalties to music rights holders. Between 2018 and 2023, Spotify delivered consistent revenue growth, but losses deepened during the same period. Despite this, since 2016, the company has generated FCFF (low single-digit FCFF margin) and maintained a solid balance sheet (net cash). When the company decided to bet heavily into non-music content during 2019-2022 and transitioned towards becoming an audio streaming provider, FCFF decreased rapidly, and investors' patience waned. By the end of 2022, Spotify was widely viewed as great product but a bad business with bad margins that would forever be in the hands of the music right holders and never be able to meaningfully increase its profitability.

In 2023, investor sentiment shifted quickly as Spotify implemented strategic measures to improve the sustainability of the business. The company executed significant cost-cutting initiatives, increased subscription prices across key markets, and focused on enhancing its value proposition for users. These efforts bore fruit, enabling Spotify to considerably increase the profitability and free cash flow generation. This has given a firmer base to evaluate the company's valuation through its free cash flows.

Looking ahead, we believe Spotify is well-positioned to sustain its momentum as it continues to spend more disciplined, better balance growth with profitability, and continues to innovate new ways to engage and monetize its vast user base of 640 million. However, the strong share price appreciation over the past two years has, in our view, stretched Spotify's valuation, trading at 29x EV/FCFF and 42x EV/EBIT based on our 2025e estimates. Our DCF model indicates a value per share of USD 468, further supporting our view that Spotify's current valuation is on the high side.

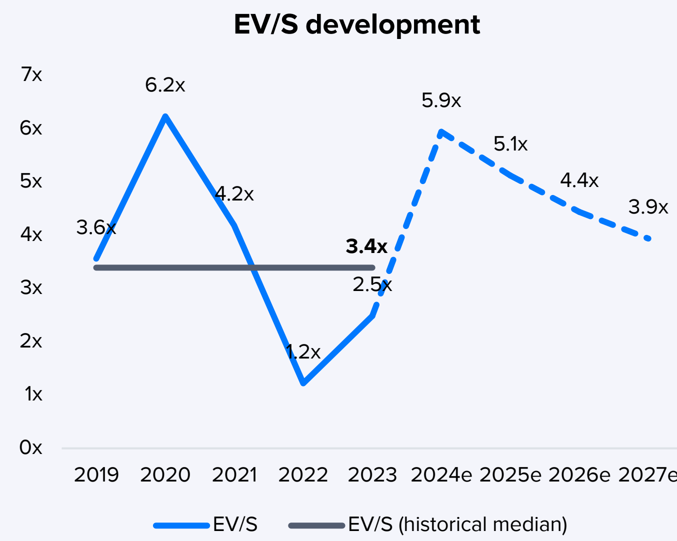
We initiate coverage of Spotify with a Reduce recommendation and a target price of USD 470. While Spotify's recent strategic actions have been impressive, we believe additional evidence of its ability to exert meaningful pricing power and further enhance user monetization is needed to justify further upside. However, the company's increasing focus on profitability and diversifying revenue streams positions it as a compelling player in the audio space for the long term.

Multiple-based valuation

Historically, multiples based on sales and gross profits have been the preferred metrics for valuing Spotify due to its negative earnings. However, with the company's recent pivot to profitability and significant improvements in cash flow generation, EV/EBIT and EV/FCFF multiples have become far more relevant, aligning better with Spotify's current stage and free cash flow profile.

Spotify's median EV/S and EV/GP multiples over the last five years (2019-2023) are 3.4x and 14x. The corresponding EV/FCFF was at the same time an eye-popping 220x. However, looking at Spotify's valuation on a FCFF basis during these historical years made little sense as the company was not near optimized for generating FCFF or meaningful earnings.

Valuation	2024e	2025e	2026e
Share price (EUR)	458.7	458.7	458.7
Number of shares, millions	201.6	205.6	209.7
Market cap (MEUR)	92,461	92,461	92,461
EV (MEUR)	88,285	85,527	82,368
P/E (adj.)	74.0	43.0	38.2
P/E	74.0	43.0	38.2
P/FCF	39.7	35.7	31.0
P/B	24.5	15.5	10.9
P/S	5.9	5.1	4.4
EV/Sales	5.7	4.7	4.0
EV/EBITDA	58.8	39.9	32.0
EV/EBIT (adj.)	64.8	42.3	33.3



Sources: Inderes' estimates

Valuation and recommendation (2/5)

Based on our 2025 estimates, Spotify trades at 5x sales and 15x gross profit. The corresponding EV/EBIT and EV/FCFF multiples are 42x and 29x, respectively. We note that the current multiples are elevated in absolute numbers, especially in the current high-interest rate environment, and reflect high expectations for Spotify's future growth and further FCFF expansion. That said, we believe that being a market leader in its core industry motivates a premium valuation. We also expect Spotify to deliver very strong growth in EBIT and FCFF going forward, with a projected CAGR of 35% and 31%, respectively, for 2025-2026e. This is reflected in our EV/EBIT and EV/FCFF multiples for 2026e of 33x and 24x, respectively, which we view as more reasonable for company like Spotify. However, as of today, we believe the current valuation is on the high side, warranting a more cautious stance at this point.

Relative valuation

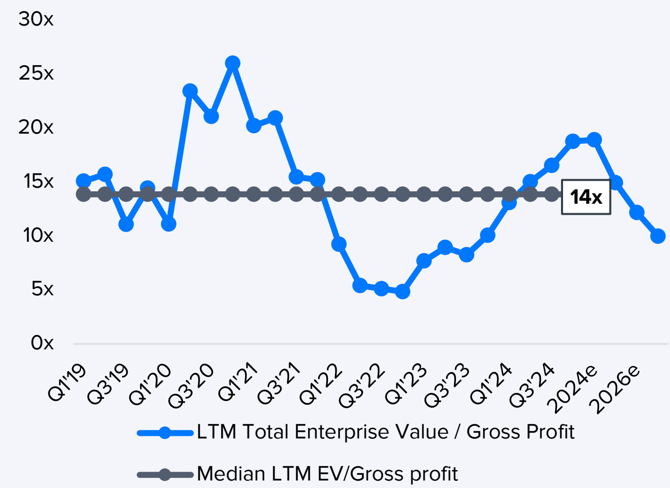
Many of Spotify's closest competitors are listed but primarily they are part of a large group (such as Apple Music/Apple, Amazon Music/Amazon and YouTube Music/Alphabet).

This makes direct comparisons to Spotify challenging, as their music streaming division only represent a small fraction of their respective parent companies' overall businesses. To provide a broader perspective, we have compiled a diverse set of peer groups that includes companies that either operate a streaming service, share similarities with Spotify's business model, or compete within the audio/media/music industry. The peer groups are categorized as follows: 1) Big Tech, "BT" (Apple, Amazon, Alphabet), 2) Subscription Services, "SS" (Netflix, Match Group, et.al.), 3) Media and Entertainment, "ME" (Warner Bros, Walt Disney, Paramount), 4) Digital Ad-supported, "DAS" (Snap, Meta, Reddit, et.al), and 5) Music/Audio, "MA" (Sirius XM, Tencent Music, Universal Music, et.al).

What ties these peers together is their involvement in subscription-based services, large user bases, monetization through ads, or broader participation in the music/audio industry.

We believe the BT group is a relevant comparison due to its presence in the music streaming, double-digit growth and high FCFF margins. However, we view the SS group, and in particular Netflix, to be a more appropriate peer group for evaluating Spotify's valuation. Netflix and Spotify shares many similarities, as both companies operate subscription-based models that provide on-demand access to extensive libraries of content, Spotify for audio and Netflix for video. Both companies also leverage ad-supported monetization, face similar challenges related to content costs, subscriber growth, and market competition, and are market leaders in their respective streaming industries. They also have comparable bases of subscribers (Spotify Q3'24: 252m, Netflix Q3'24: 283m).

EV/Gross profit development



Selection of peers in each group

Big tech (BT)		amazon	Alphabet
Subscription services (SS)	N	Roku	Match Group
Media & Entertainment (ME)	Warner Bros. Discovery	The Walt Disney Company	Paramount
Digital ad-supported (DAS)		Meta	
Music/Audio (MA)	SiriusXM	Deezer	Tencent Music Entertainment

Sources: Inderes' estimates

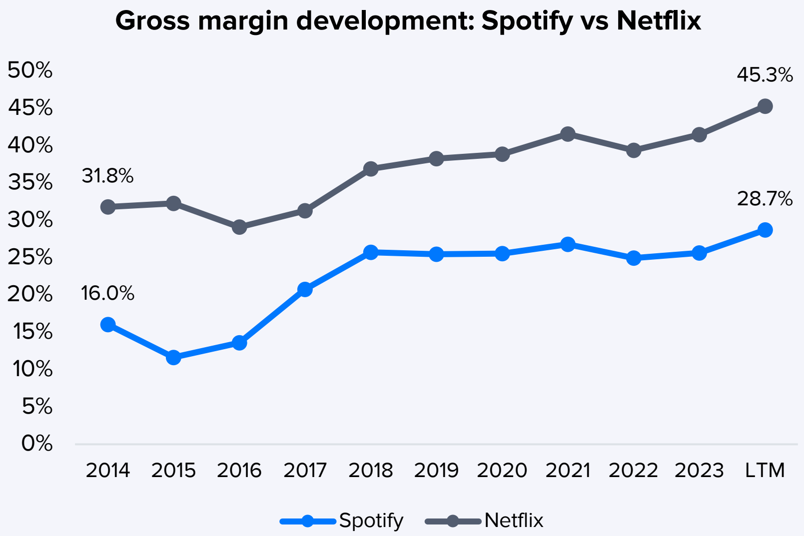
Valuation and recommendation (3/5)

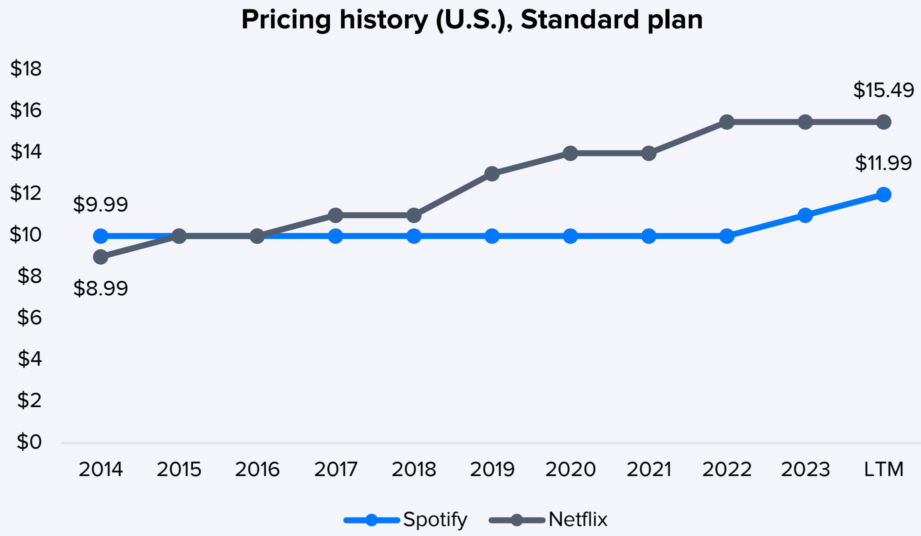
Based on our estimates, Spotify trades at a premium compared to the SS group median EV/FCFF multiple for 2025e (29x vs 18x) but with a discount to Netflix (46x). On the surface, one could argue that Spotify deserves to trade at similar multiples to Netflix, as Spotify is expected to outpace Netflix in terms of sales, earnings, and FCFF growth during 2025–2026 (according to our estimates). However, key differences between the two companies justify Spotify's valuation discount, in our view.

First, Spotify remains a smaller company with a lower margin profile compared to Netflix. Moreover, Netflix's underlying profitability outlook is stronger, largely due to its cost structure, which benefits from a higher share of fixed costs. This enables Netflix to achieve greater operating leverage as it scales.

Secondly, through investments in original programs, Netflix has significantly reduced its reliance on licensed content by increasing ownership of its platform's content. As of Q3'23, 55% of Netflix's U.S. library consisted of original and exclusive content, up from just 13% in 2018. While Spotify has begun a similar journey to reduce its dependence on licensed content through initiatives such as Originals, marketplace innovations, and promoting DIY artists, Netflix is far ahead in this transition. This progress not only lowers the operational risks for Netflix but also highlights a key challenge for Spotify, as we believe it will be difficult for Spotify to replace third-party content with own content and, as such, approach Netflix's level of original and exclusive content ownership.

Lastly, we believe Netflix has a more established track record of successfully raising prices in mature markets while maintaining its market-leading position. In conclusion, while we believe Spotify warrants a premium valuation relative to the SS group median, a discount to Netflix remains justified.

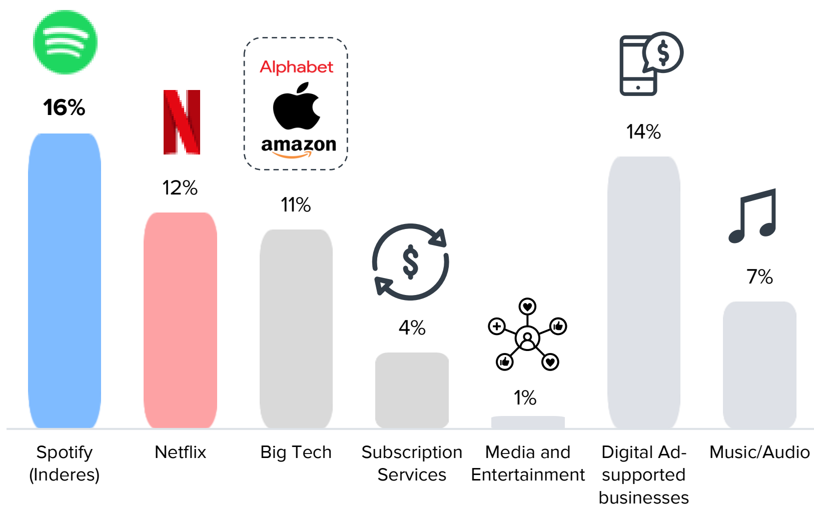




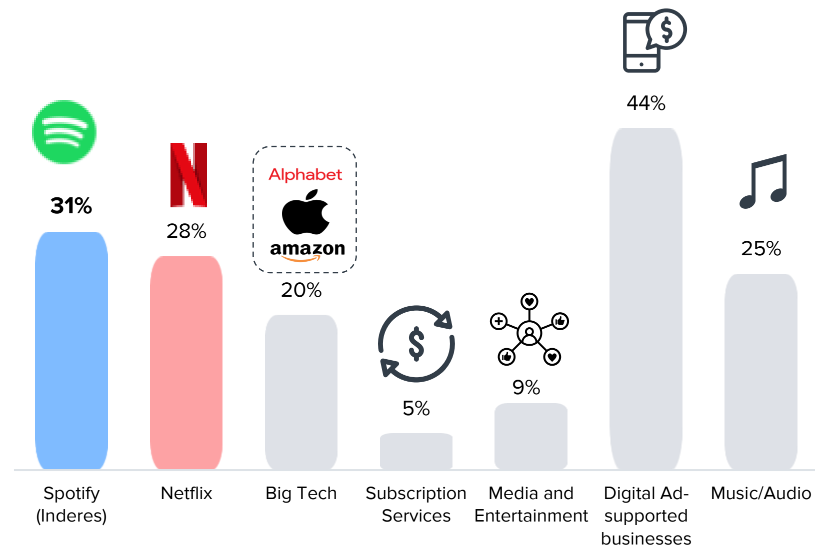
Sources: Inderes' estimates, Spotify, Netflix

Valuation graphs: Spotify vs various peer groups

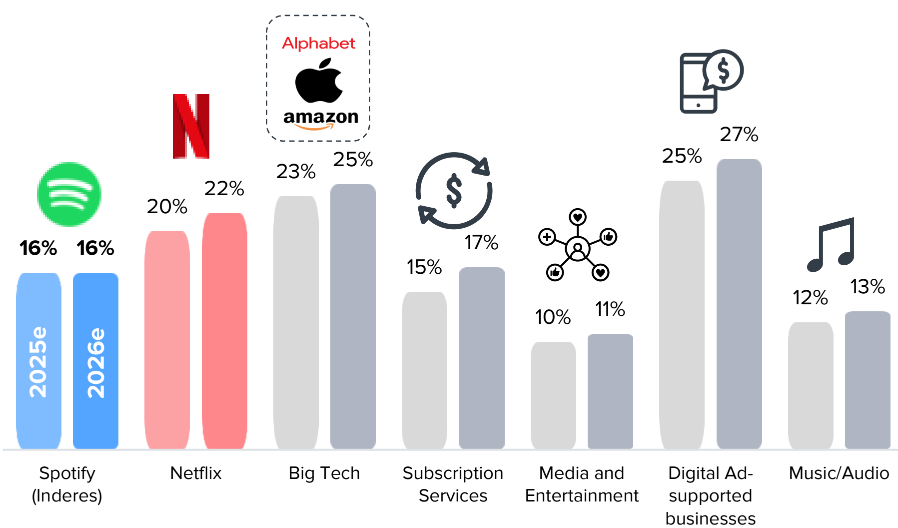
Revenue CAGR (2025-2026e)



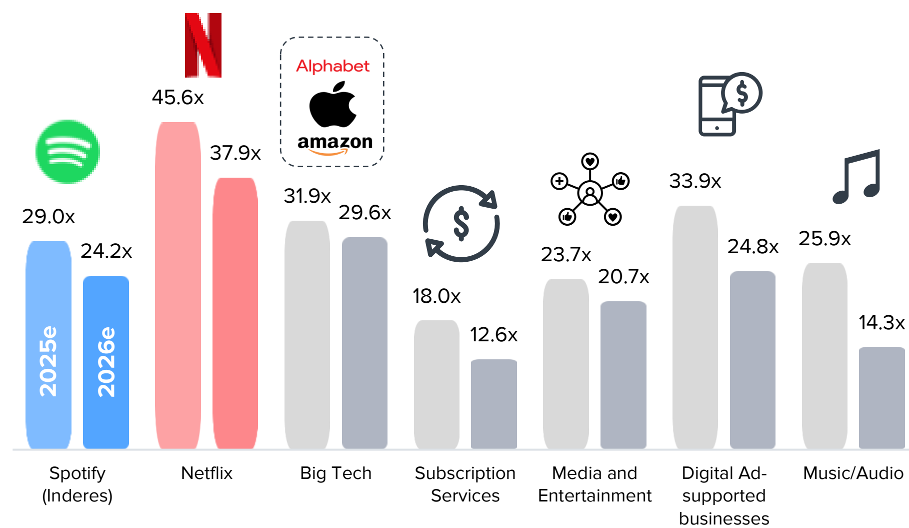
FCFF CAGR (2025-2026e)



FCFF margin-% (2025-2026)



EV/FCFF (2025-2026e)



Valuation and recommendation (4/5)

DCF model

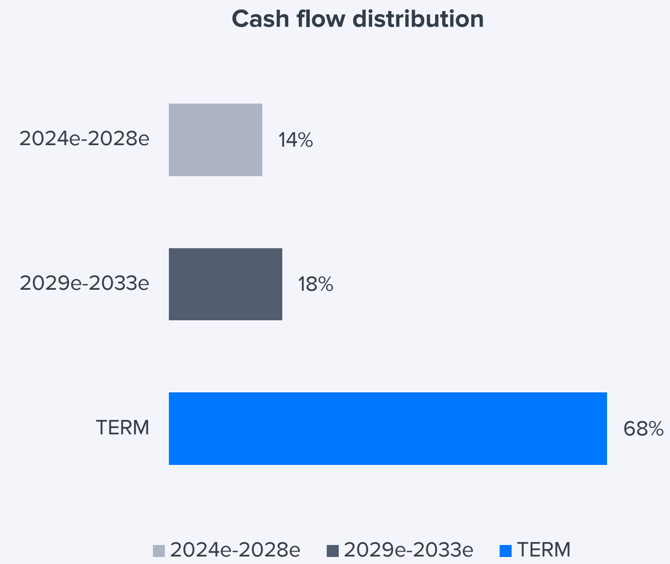
We find the DCF model to be highly appropriate for valuing Spotify given its established business with recurring subscription revenues, its history of FCFF generation, and its rather predictable, albeit relatively low, capital expenditure (CapEX*) needs going forward.

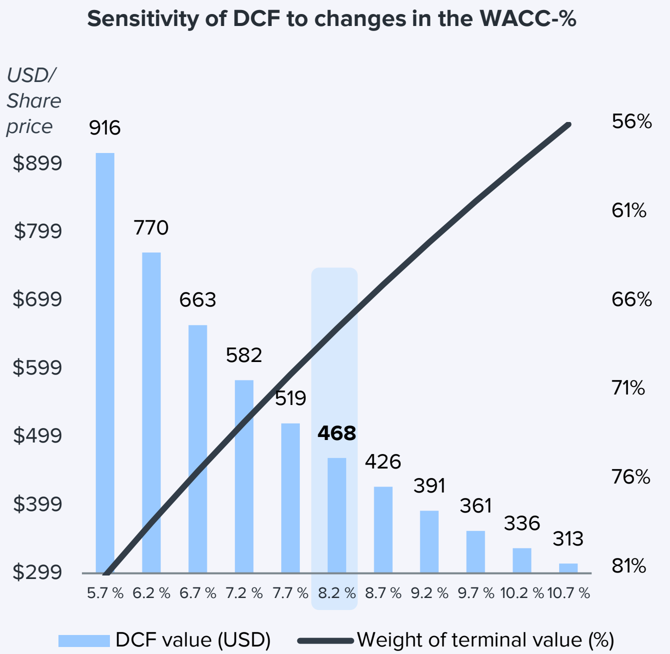
As outlined in our mid-term estimates, we project solid mid-double-digit revenue growth during 2025–2027, coupled with steady margin expansion. By 2027, we anticipate Spotify's EBIT margin to reach 13%. For the longer term, spanning 2028–2033, we expect revenue growth to gradually decelerate to an average of 10% annually as the business matures, while the EBIT margin continues to improve, stabilizing at 18% during the terminal period. We use 3% for our terminal growth rate due to Spotify's global exposure and very strong track record of growth since inception. We believe this slightly higher growth assumption (compared to e.g. 2%) is therefore justified.

In our DCF model, we treat SBC as a cash expense and do not add these back into the cash flows. SBC is essentially the cost of attracting the best talent and while these does not immediately result in dilution of existing shareholders' equity, the dilution materializes when the shares are issued, or options are exercised. To draw a parallel, if a company were to compensate employees with higher salaries or issue stock options to the market and then use the proceeds to pay employees, this would universally be considered a cash expense. Unlike true non-cash expenses such as depreciation, SBC reflects a real economic cost. By treating SBC as a cash expense in our model, we effectively account for the future dilution associated with the exercise of these options. That said, we do add back proceeds from option exercises in the current year, as these represent actual cash inflows that Spotify receives and records on its balance sheet.

We use a cost of equity for Spotify of 8.2%, which is fairly low but supported by its strong and wide market presence, superior global brand, robust balance sheet and improved profitability profile. As we assume no debt in the WACC calculation (given that the company typically has net cash excluding lease liabilities) the WACC is equal to the cost of equity. The DCF model indicates a market value of 90 BNEUR (94 BNUSD) and a share value of USD 468 for Spotify.

The terminal weight (68%) is relatively high and highlights high expectations for the long term but given solid track-record of high growth, renewed focus on growing profitably, strong brand and its competitive advantages, coupled with the company's strong FCFF generation, we don't consider this excessive.





As mentioned in previous slides, we include lease payments in our CapEx estimates (IFRS adjustment).

Sources: Inderes' estimates

Valuation and recommendation (5/5)

Scenario analysis

Spotify is far from a binary investment case. On the contrary, it is an established leader in the audio streaming industry, with a dominant position in music streaming. Nearly 90% of its revenue comes from recurring subscription services, and it has a proven track record of generating free cash flow. However, the company's valuation could vary significantly depending on several key scenarios, which we assess through a longer-term lens, focusing on Spotify's potential in 2028. In our view, the primary factors influencing Spotify's financials, and consequently its valuation, is not solely user growth per se, but also its ability to successfully monetize its user base while keeping churn low and maintains a healthy relationship with the music industry. Based on these scenarios, we do not see a significant upside in the Spotify's share at current levels except in the Upside scenario.

In the **Base scenario** (current estimates) Spotify's revenue is projected to grow by 15% p.a. in 2024-2028 and the EBIT margin is expected to scale to 15%, which is still below the full potential that Spotify could achieve as it matures. The annual expected return (IRR) in this scenario is 6%.

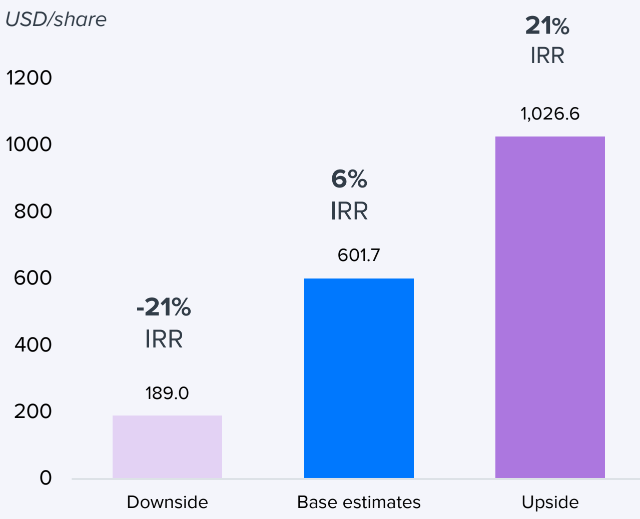
In the **Downside scenario**, we assume Spotify faces challenges in monetizing emerging verticals such as audiobooks or potential future initiatives like online education or news, segments that typically command higher ARPUs. If ARPU growth remains largely stagnant, with only marginal gains through price increases, Spotify's growth prospects could be more limited. Additionally, heightened competition, whether from new entrants or existing players leveraging AI and other innovations could force Spotify to increase investments in R&D and marketing, dampening profitability.

Further risks include potential deterioration in its relationships with the music industry, which could negatively impact gross margins. Under this scenario, we model a 9% annual revenue growth rate (p.a.) and a reversion to historical FCFF margins of approx. 6%. The IRR in this scenario is -21%.

In the **Upside scenario**, we take a more optimistic stance of Spotify's ability to monetize its platform through e.g. its expansion into non-music verticals. We also assume Spotify captures greater market share in emerging markets, driving accelerated user growth, and successfully converts these new users into paying subscribers. Additionally, Spotify's vast user base positions it to become a meaningful player in advertising, with success in this area further supporting stronger revenue growth and margins. In this scenario, we project a 19% revenue growth p.a. and an FCFF margin of 20%. The IRR in this scenario is 21%.

Scenarios by 2028e	Downside	Base estimates	Upside
Revenue 2028e (BNEUR)	21	26.5	32
FCFF margin -%	6%	15%	20%
FCFF (BNEUR)	1.2	3.9	6.3
x pricing multiple (EV/FCFF)	22x	27x	30x
EV (MEUR)	**26**	**105**	**188**
- Net debt (2028e)	-13	-18	-22
Equity value (MEUR)	**39**	**123**	**210**
Per share (EUR)	*180.6*	*574.8*	*980.8*
Per share (USD)	*189.0*	*601.7*	*1,026.6*
Potential (total)	-61%	25%	114%
Annual return (IRR)	-21%	6%	21%

Potential share price in 2028e in different scenarios (USD)

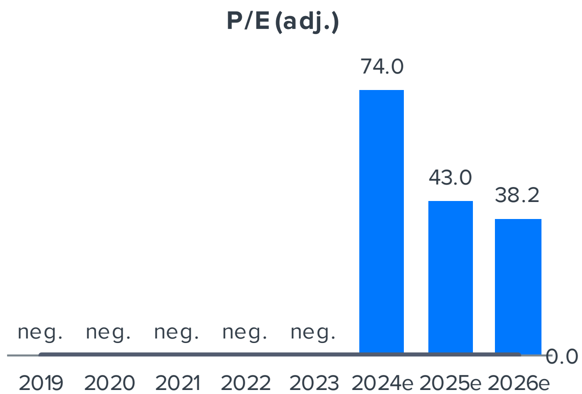


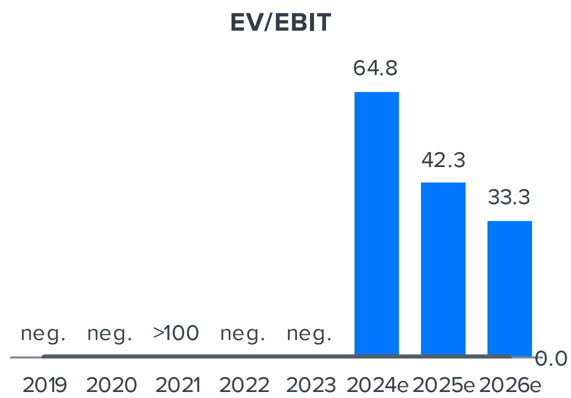
Sources: Inderes' estimates

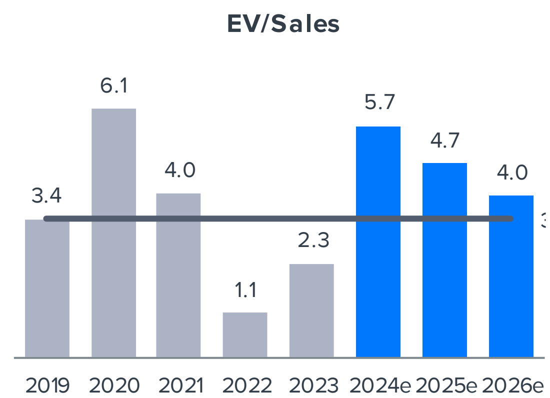
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price (EUR)	133.1	261.9	211.7	74.2	169.1	**458.7**	**458.7**	**458.7**	**458.7**
Number of shares, millions	181.0	187.6	191.3	192.9	194.7	**201.6**	**205.6**	**209.7**	**213.9**
Market cap (MEUR)	24,086	49,122	40,507	14,318	32,933	**92,461**	**92,461**	**92,461**	**92,461**
EV (MEUR)	22,951	47,952	38,788	12,650	30,415	**88,285**	**85,527**	**82,368**	**78,829**
P/E (adj.)	neg.	neg.	neg.	neg.	neg.	**74.0**	**43.0**	**38.2**	**32.3**
P/E	neg.	neg.	neg.	neg.	neg.	**74.0**	**43.0**	**38.2**	**32.3**
P/FCF	neg.	neg.	37.6	neg.	>100	**39.7**	**35.7**	**31.0**	**28.0**
P/B	11.8	17.5	19.1	6.0	13.1	**24.5**	**15.5**	**10.9**	**8.0**
P/S	3.6	6.2	4.2	1.2	2.5	**5.9**	**5.1**	**4.4**	**3.9**
EV/Sales	3.4	6.1	4.0	1.1	2.3	**5.7**	**4.7**	**4.0**	**3.4**
EV/EBITDA	>100	neg.	>100	neg.	neg.	**58.8**	**39.9**	**32.0**	**24.6**
EV/EBIT (adj.)	neg.	neg.	>100	neg.	neg.	**64.8**	**42.3**	**33.3**	**25.3**
EV/FCFF	52.2	262.0	140.0	602.4	44.9	**44.3**	**29.0**	**24.2**	**20.9**

Source: Inderes







Peer group valuation

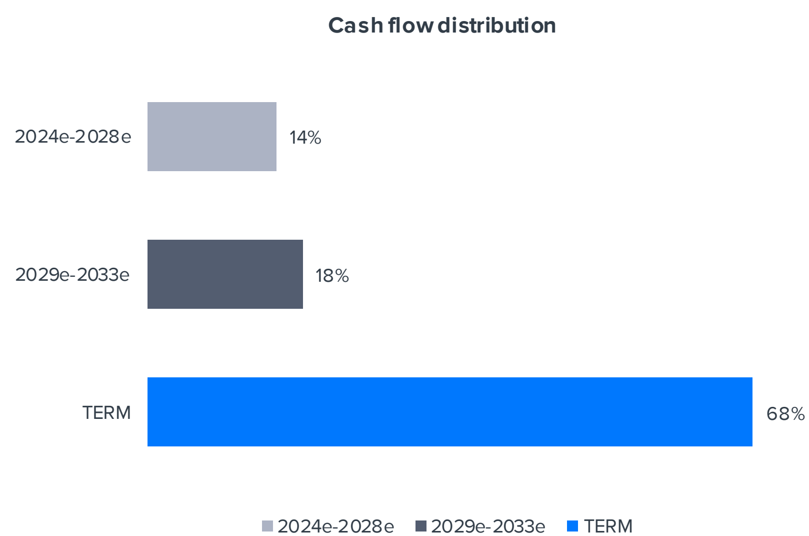
Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Big Tech													
Apple	3,578,387	3,618,823	30.9	28.6	28.2	26.3	9.7	9.2	37.2	33.5	0.4	0.4	58.8
Amazon.com	2,298,593	2,289,498	36.1	30.0	17.0	14.5	3.8	3.4	44.6	37.1			8.6
Alphabet	2,410,538	2,335,530	21.9	19.3	16.4	14.3	7.0	6.3	24.2	21.7	0.3	0.4	7.2
Subscription businesses													
Netflix	377,718	384,169	39.0	32.6	36.7	30.8	10.4	9.2	46.8	38.9			16.9
Match Group	7,331	10,182	12.2	11.2	8.4	8.2	3.1	3.0	15.1	13.3		0.8	
Bumble	855	1,840		11.9	6.5	6.7	1.8	1.9		11.4			1.0
Chegg	223	452	6.0	9.2	3.3	3.7	0.8	0.9	3.0	3.4			1.3
Vimeo	1,131	820	57.3	71.4	15.6	16.1	2.1	2.0	48.2	63.2			
Roku	11,353	9,356			45.3	33.5	2.4	2.1					4.8
Media/Enterainment													
Warner Bros. Discovery	29,253	65,584		43.9	7.6	7.2	1.7	1.7					0.8
The Walt Disney Company	198,654	241,163	16.7	15.3	14.0	12.9	2.8	2.7	23.3	21.2	0.7	0.9	2.1
Paramount Global	7,848	20,853		8.3	6.7	7.2	0.8	0.8	6.3	7.2	1.8	1.7	0.5
Digital Ad-supported businesses													
Snap	18,222	18,651			40.6	25.9	3.7	3.2	44.3	27.2			8.3
Meta Platforms	1,520,015	1,479,757	23.6	20.5	16.3	13.8	9.5	8.3	27.9	24.9	0.3	0.3	8.8
Reddit	27,627	27,639		339.8	106.4	60.4	22.8	17.2		238.0			11.7
Pinterest	19,899	17,570	111.2	49.1	18.9	15.0	5.1	4.4	20.3	17.1			6.4
Music/Audio													
iHeartMedia	336	4,917		15.3	6.9	6.8	1.3	1.3					
Sirius XM Holdings	8,035	18,154		10.2	7.1	7.2	2.2	2.2		7.7	3.5	4.6	0.7
Deezer	160	132				202.5	0.3	0.2					
Tencent Music Entertainment Group	20,064	17,149	16.3	14.0	14.5	12.4	4.6	4.2	18.4	16.0	0.9	1.1	2.3
Warner Music Group Corp.	16,191	19,501	21.1	18.6	14.3	13.7	3.2	3.1	30.3	25.0	2.1	2.2	28.0
Universal Music Group	44,397	47,563	24.3	20.2	18.9	16.9	4.1	3.8	26.7	23.7	2.2	2.4	13.1
Live Nation Entertainment	30,134	32,210	33.3	22.6	15.9	14.1	1.5	1.3	119.6	51.4			92.7
Spotify (Inderes)	**92,461**	**88,285**	**64.8**	**42.3**	**58.8**	**39.9**	**5.7**	**4.7**	**74.0**	**43.0**	**0.0**	**0.0**	**24.5**
Average			**32.1**	**39.6**	**21.1**	**24.8**	**4.5**	**4.0**	**33.5**	**35.9**	**1.3**	**1.5**	**14.4**
Median			**23.9**	**19.8**	**15.7**	**14.1**	**3.1**	**3.0**	**27.3**	**23.7**	**0.9**	**1.0**	**7.2**
Diff-% to median			***171%***	***114%***	***274%***	***183%***	***85%***	***58%***	***171%***	***82%***	***-100%***	***-100%***	***242%***

Source: Refinitiv / Inderes

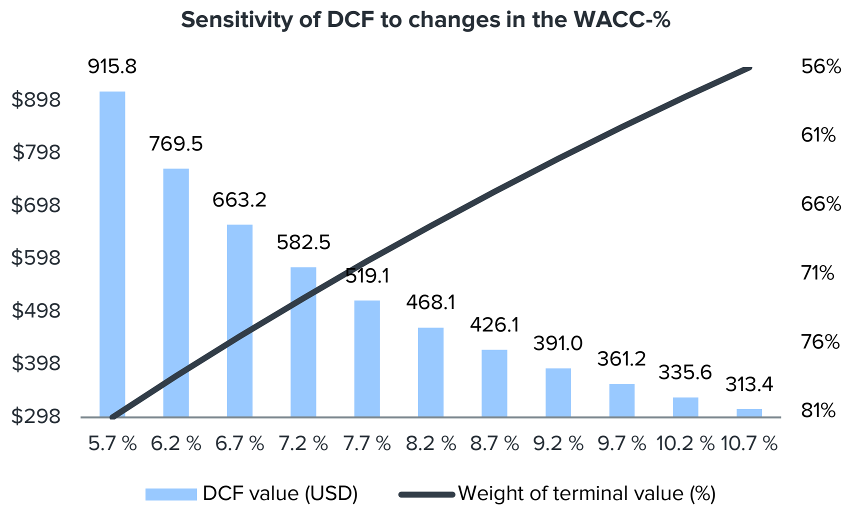
DCF calculation

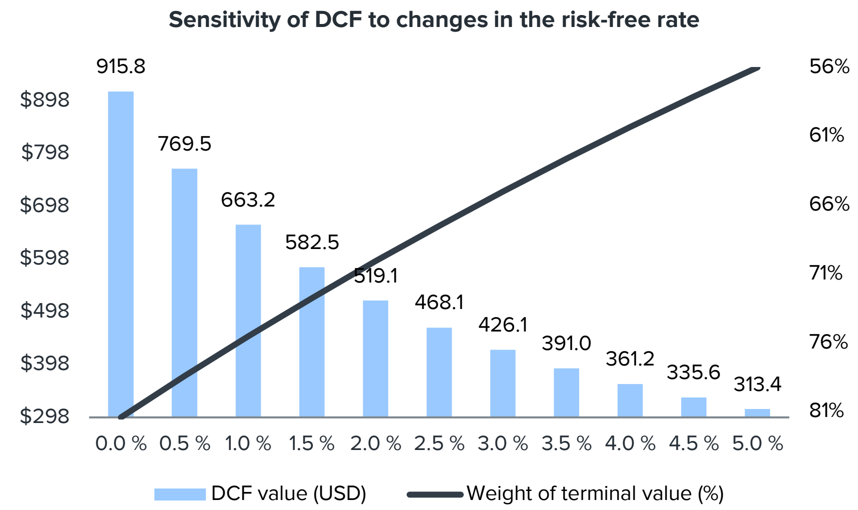
DCF model (MEUR)	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	13.0 %	17.4 %	16.0 %	15.4 %	12.7 %	13.1 %	12.1 %	11.4 %	10.9 %	8.0 %	3.0 %	3.0 %
EBIT-%	-3.4 %	8.8 %	11.2 %	11.9 %	13.3 %	14.8 %	15.6 %	16.7 %	17.0 %	18.0 %	18.0 %	18.0 %
EBIT (operating profit)	**-446**	**1,362**	**2,022**	**2,471**	**3,119**	**3,919**	**4,626**	**5,521**	**6,252**	**7,149**	**7,363**	
+ Depreciation	281	139	124	100	90	91	93	95	97	99	101	
- Paid taxes	-44	-71	0	-133	-338	-525	-736	-1,028	-1,337	-1,535	-1,473	
- Tax, financial expenses	16	-17	0	-2	-4	-5	-6	-7	-8	-8	0	
+ Tax, financial income	-11	15	0	11	30	40	48	69	95	113	0	
- Change in working capital	535	411	540	637	512	478	458	412	431	406	224	
Operating cash flow	**330**	**1,839**	**2,685**	**3,085**	**3,409**	**3,999**	**4,483**	**5,062**	**5,529**	**6,224**	**6,215**	
+ Change in other long-term liabilities	-7	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-63	-142	-97	-99	-101	-103	-105	-107	-109	-111	-120	
Free operating cash flow	**260**	**1,697**	**2,588**	**2,986**	**3,308**	**3,896**	**4,378**	**4,955**	**5,420**	**6,113**	**6,095**	
+/- Other	0	634	0	0	0	0	0	0	0	0	0	
FCFF	260	2,331	2,588	2,986	3,308	3,896	4,378	4,955	5,420	6,113	6,095	121,286
Discounted FCFF		**2,322**	**2,383**	**2,542**	**2,603**	**2,834**	**2,944**	**3,080**	**3,115**	**3,247**	**2,993**	**59,561**
Sum of FCFF present value		87,625	85,303	82,920	80,378	77,775	74,941	71,996	68,916	65,802	62,554	59,561
Enterprise value DCF		**87,625**										
- Interest bearing debt		-1,696										
+ Cash and cash equivalents		4,214										
-Minorities		0										
-Dividend/capital return		0										
Equity value DCF (MEUR)		**90,143**										
Equity value DCF per share (EUR)		**447.2**										
Equity value DCF per share (USD)		**468.1**										

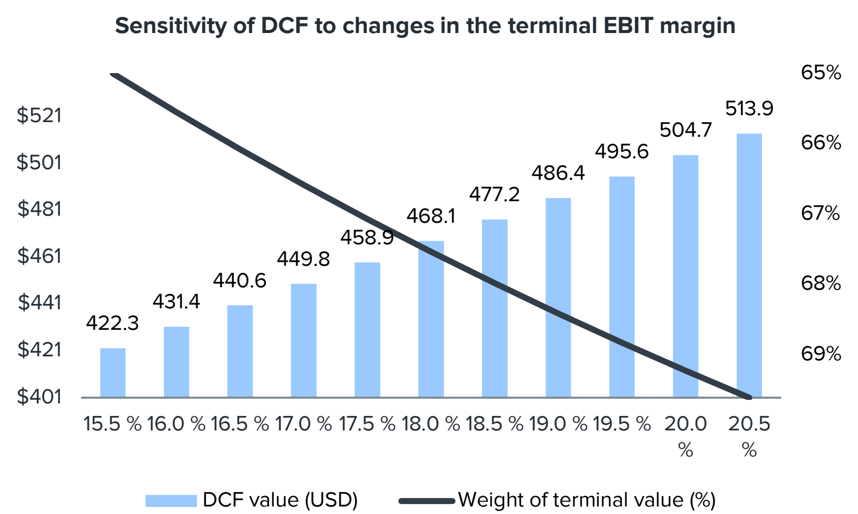
WACC	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	0.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.2 %**
Weighted average cost of capital (WACC)	**8.2 %**

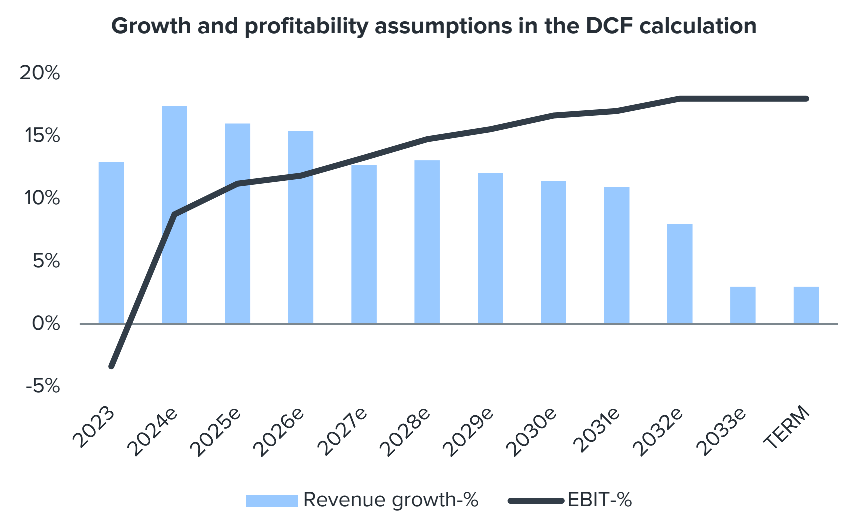


DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement (MEUR)	2021	2022	2023	2024e	2025e
Revenue	9,668	11,727	13,247	**15,554**	**18,046**
EBITDA	221	-488	-165	**1,501**	**2,146**
EBIT	94	-659	-446	**1,362**	**2,022**
PTP	249	-370	-505	**1,320**	**2,192**
Net Income	-34	-430	-532	**1,249**	**2,192**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet (MEUR)	2021	2022	2023	2024e	2025e
Balance sheet total	7,170	7,636	8,346	**9,977**	**12,894**
Equity capital	2,119	2,401	2,523	**3,772**	**5,964**
Goodwill	894	1,168	1,137	**1,119**	**1,119**
Net debt	-1,719	-1,668	-2,518	**-4,175**	**-6,934**

Cash flow (MEUR)	2021	2022	2023	2024e	2025e
EBITDA	221	-488	-165	**1,501**	**2,146**
Change in working capital	71	156	535	**411**	**540**
Operating cash flow	44	-429	330	**1,839**	**2,685**
CAPEX	1,033	-662	-63	**-142**	**-97**
Free cash flow	1,079	-1,100	260	**2,331**	**2,588**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	4.0	1.1	2.3	**5.7**	**4.7**
EV/EBITDA	>100	neg.	neg.	**58.8**	**39.9**
EV/EBIT (adj.)	>100	neg.	neg.	**64.8**	**42.3**
P/E (adj.)	neg.	neg.	neg.	**74.0**	**43.0**
P/B	19.1	6.0	13.1	**24.5**	**15.5**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data (EUR)	2021	2022	2023	2024e	2025e
EPS (reported)	-0.18	-2.23	-2.73	**6.20**	**10.66**
EPS (adj.)	-0.18	-2.23	-2.73	**6.20**	**10.66**
OCF / share	0.23	-2.22	1.70	**9.12**	**13.06**
FCF / share	5.64	-5.70	1.34	**11.56**	**12.59**
Book value / share	11.08	12.44	12.96	**18.71**	**29.01**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	23%	21%	13%	**17%**	**16%**
EBITDA growth-%	-221%	-321%	-66%	**-1010%**	**43%**
EBIT (adj.) growth-%	-132%	-801%	-32%	**-405%**	**48%**
EPS (adj.) growth-%	-94%	1154%	23%	**-327%**	**72%**
EBITDA-%	2.3 %	-4.2 %	-1.2 %	**9.6 %**	**11.9 %**
EBIT (adj.)-%	1.0 %	-5.6 %	-3.4 %	**8.8 %**	**11.2 %**
EBIT-%	1.0 %	-5.6 %	-3.4 %	**8.8 %**	**11.2 %**
ROE-%	-1.4 %	-19.0 %	-21.6 %	**39.7 %**	**45.0 %**
ROI-%	9.3 %	-6.0 %	-6.9 %	**34.0 %**	**34.0 %**
Equity ratio	29.6 %	31.4 %	30.2 %	**37.8 %**	**46.3 %**
Gearing	-81.1 %	-69.5 %	-99.8 %	**-110.7 %**	**-116.3 %**

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Date	Recommendation	Target	Share price
2024-12-13	Reduce	$ 470	$ 480

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