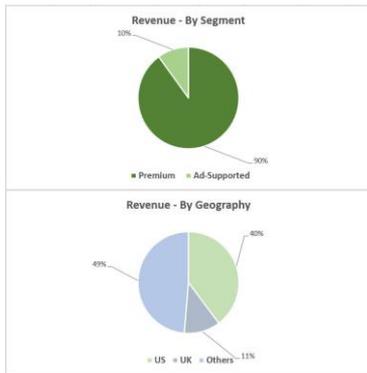


**Company Overview**



Spotify Technology S.A. is a provider of music streaming services. It offers commmer free music for subscribers and ad-supported services for non-subscribers. It currently operates in 80 countries as listed on its website, available in all continents in the world from Africa to Oceania.

| (\$ M)        | FY17A   | FY18A  | FY19E | FY20E |
|---------------|---------|--------|-------|-------|
| Revenue       | 4,090   | 5,259  | 6,578 | 8,222 |
| Gr Rate (%)   | 38.5%   | 28.6%  | 25.1% | 25.0% |
| Gross profits | 849     | 1,353  | 1,743 | 2,021 |
| Margin (%)    | 20.8%   | 25.7%  | 26.5% | 24.6% |
| Net Income    | (1,235) | (78)   | 184   | 256   |
| Margin (%)    | (30.2%) | (1.5%) | 2.8%  | 3.1%  |
| ROA           | (39.7%) | (1.8%) | 3.0%  | 5.9%  |
| ROE           | (519%)  | (3.7%) | 15.2% | 12.2% |

**Investment Thesis**

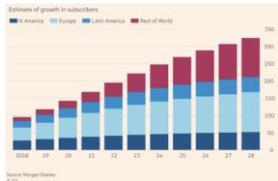


Figure 1. Spotify subscriber growth by areas ~2028F

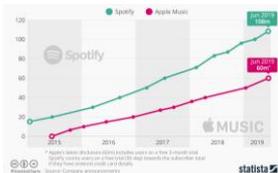


Figure 2. Spotify v. Apple subscriber count to Q2 2019

- Sustained momentum of premium subscribers:** Spotify's premium subscribers has grown steadily, seeing 54% CAGR 2015A-2018A and 30% YoY at 2Q19, aided by international expansion strategy to localization in tastes of music and payment channels. This affirms Spotify's ability to attract consumers and expects growth in this main revenue source to sustain.
- Spans two operating systems:** Spotify can be downloaded on both Android and IOS systems, with no major competitor on Androids platforms. Potential market for Spotify is significantly greater than Apple Music, its strongest competitor, and is expected to capture the growth of Android users. Moreover, the partnership between Spotify and Samsung declares Spotify as the default music streaming channel, increases speed of accumulating Spotify users.
- Reaffirms leading position amid competition:** Main competitors in the music streaming business include Apple Music, Amazon Music, and Pandora. Spotify has reaffirmed its lead by increasing its market share gap with Apple, with 36.2% and Apple with 21.8% market share in 2Q 2018 in terms of subscribers, increasing to 48.7% and 27.0% in Q2 2019, respectively.

**12M Industry Outlook**

Figure 2. Market Forecast for Smartphone Penetration Rate in India from 2018 - 2023

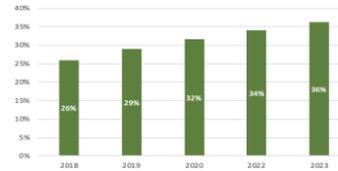
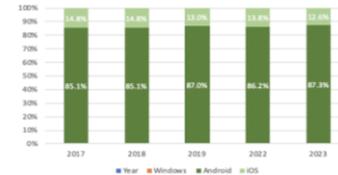


Figure 3. Market Forecast for Smartphone Platform Market Share from 2017 - 2023



- Number of Users** of music streaming is expected to sustain its increase, reaching 1.17 billion in 2023. This would sustain Spotify's revenue model as both non-premium users generate revenue through advertising while premium users bring in revenue through subscription costs .
- India** presents a growing market which Spotify has recently entered into with its smartphone penetration rate expected to continually climb from 26% in 2018 to 36% in 2023, inspiring confidence that revenue from India will continue to grow.
- Android phones** are expected to continue to make up a large majority of the addition in smartphone users globally. The market share which android phones own is expected to increase from 85.1% in 2017 to 87.3% in 2023. This is good news for Spotify as it represents an expanding market which it is poised to capture and one that its main competitor, Apple music cannot compete for.

**Valuations**

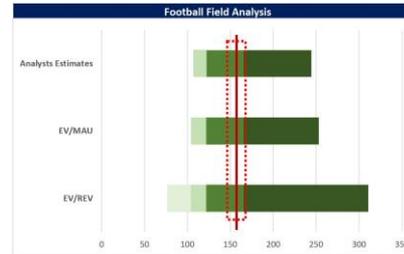


Figure 4. Blended 12m forward EV/MAU, EV/REV valuation

12M blended price target stands at US\$155.4 (average of both valuation methods). Implied upside of +37.0% based on last closing price of US\$118.83 as at valuation date.

Primary valuation method: EV/REV achieved a price target of US\$155.4.  
Secondary valuation method: EV/MAU , comparing its MAU to EV to its peers in.

As spotify is still a growth stock, a premium should be used compared to its peers. It is rather hard to find comparable companies as there were no pureplay present. Apple music is the most similar in terms of business model but it is not a pureplay so it is not an appropriate comparable. We chose companies such as YY Inc, IQIYI which are based on subscribers and ad revenue as well as a close proxy.