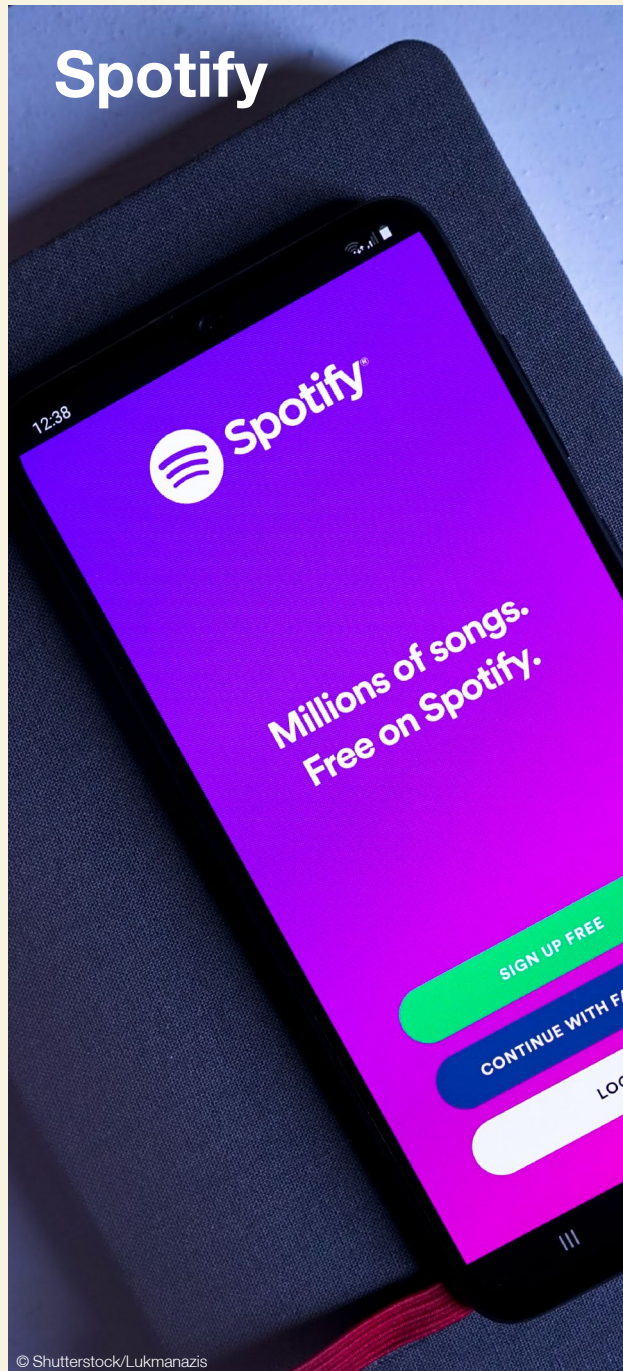


Spotify



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What it does

Spotify is a music streaming platform founded by Swedish entrepreneur Daniel Ek. Leveraging cloud computing technology, Spotify is a world leading service that has reinvigorated the music industry after years of decline. Ek's vision is to give a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it. Spotify is also making impressive inroads into the nascent but rapidly growing podcast and audiobooks markets.

Why we own it

- A vast opportunity to connect artists with fans through personalized discovery.
- 75% of music sales are via music labels and they retain 80% of profit. Over time Spotify can do what the labels do cheaper with superior data, benefitting both the company and the artists.
- Radio advertising revenues are c.2x the size of the recorded music industry. A huge opportunity for those revenues to shift towards the podcast market over the next decade. The opportunity in audiobooks is even larger.
- A remarkable and highly-respected leader on a mission 'to unlock the potential of human creativity'.

How it could be worth many times more

- 400m paid subscriptions x €60 annualised ARPU plus 600m free users x €24 each in ad revenues implies €36bn of revenue.
- Blended operating margin rises to 25%, helped by pricing, international markets, podcasts, value add to artists and labels through data analytics etc. This implies c. €9bn of after-tax profits and a market capitalization north of €100bn.

Where we might be wrong

- Breadth of creation and discovery proves illusory.
- Labels refuse to die. They fight back hard and cling on to more value for longer.
- Competitive landscape intensifies with YouTube and TikTok taking more share.
- Execution missteps in both advertising and podcasts sees that value being captured elsewhere.

Short 10 questions

Can sales double in the next five years?

1

A meaningful share of the 3 billion global radio listeners in the crosshairs. This translates into higher ARPU.

Ten years and beyond?

2

Traditional models upended as Spotify offers the creative space for artists to collaborate across cultures. Podcasting, advertising and audiobooks take off.

Competitive advantage?

3

Scale and sophistication of data/AI-led recommendation means Spotify is far from just another jukebox. Massive data led flywheel in search and discovery.

Is the business culture different?

4

Daniel Ek is key. 'Music geeks first and technologists second'.

Customers like you? Contribute to society?

5

Makes music, and audio more generally, an inseparable companion. Allowing artists to earn a living.

Are returns worthwhile?

6

Cash flow positive. Returns rise as record labels are circumvented.

Will they rise or fall?

7

Strong leverage in podcast investments and cross selling of value-added services to artists and labels. Gross margins of 40-50% are plausible in the medium to long term.

How is capital allocated?

8

Expanding the creative avenues for fans and artists.

Could it be worth 5x as much?

9

Yes, through a combination of user-growth, rising ARPU and margin expansion.

What doesn't the market understand?

10

Obsession with short-term gross margins and the ostensibly impressive, noisy competition.

Risk factors

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