Fundamental Analysis: Spotify

Guardians of the Balance Sheet

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Investment Thesis

Company Overview

Company Name	Spotify Technology S.A.
Ticker	SPOT
Current Price	473.99
Current Date	2/3/2026
Target Price	N/A
Target Date	N/A
Industry	Internet, Content, & Information
Sector	Communication Services
Shares Outstanding	208.5 M
Market Cap	98,819.9 M
Monthly Trading Volume	$2,0096,165
Beta	1.67

Spotify Technology S.A. is the world's most popular audio streaming subscription service with a community of 406 million monthly active users. It offers both premium and ad supported services. Its portfolio of industry-leading original podcast content is created and produced by its wholly-owned subsidiaries, Spotify Studios, Gimlet Studios, Parcast, and The Ringer, along with partnerships with some of the world's most well-known creators.

Investment Thesis

DO NOT BUY SPOT

PROS

- Dominant Market Leadership
- Product Diversification & AI

CONS

- Intense Competition
- Poor Strategic Decisions
- Low Margins/High Costs

Historical Performance

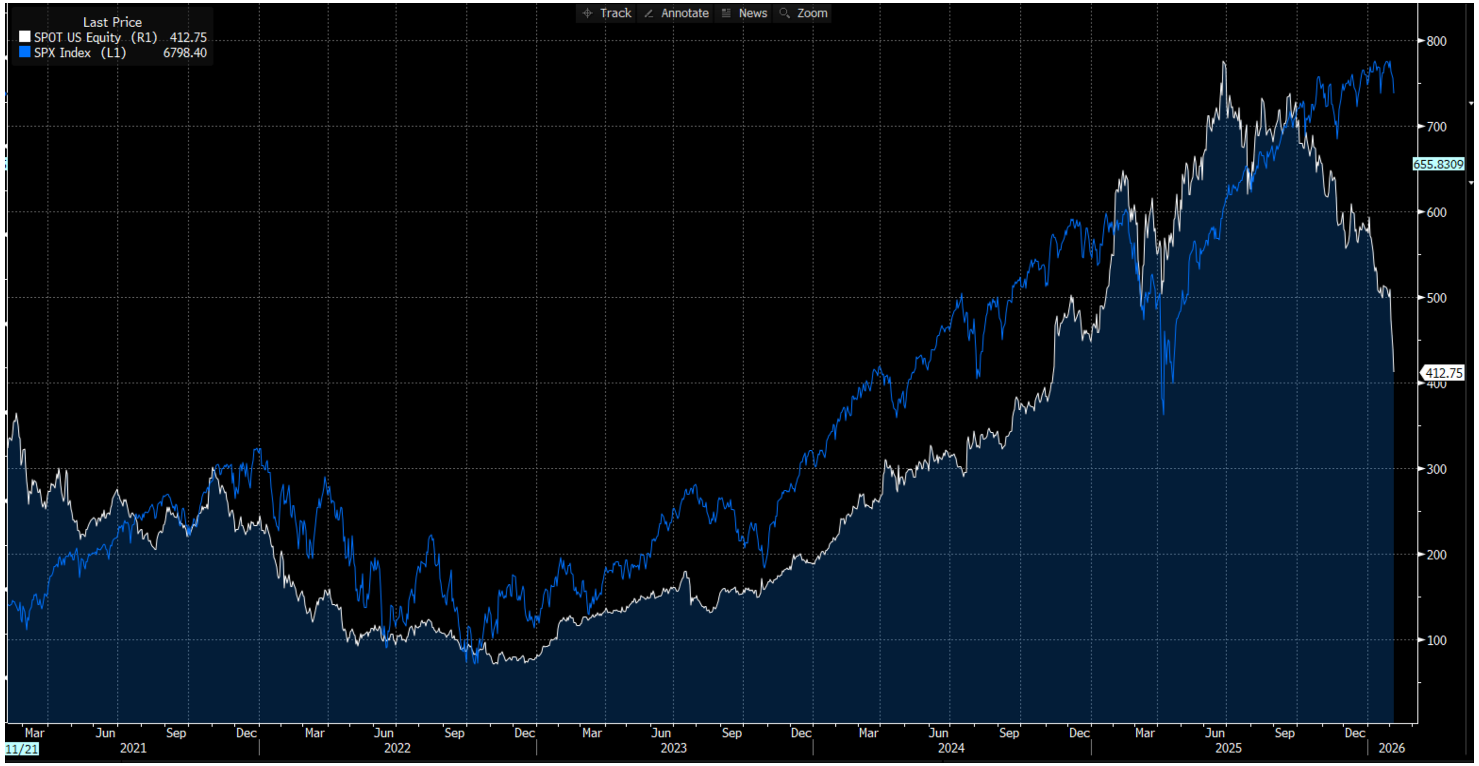
Recent Performance

- Total returns:

  YTD: -28.34%

  1 year: -35.39%

  5 year: +20.84%



Net Income Margins:

Fiscal Year	2020	2021	2022	2023	2024
Net Income Margin	–7.37%	–0.35%	–3.67%	–4.02%	+7.26%

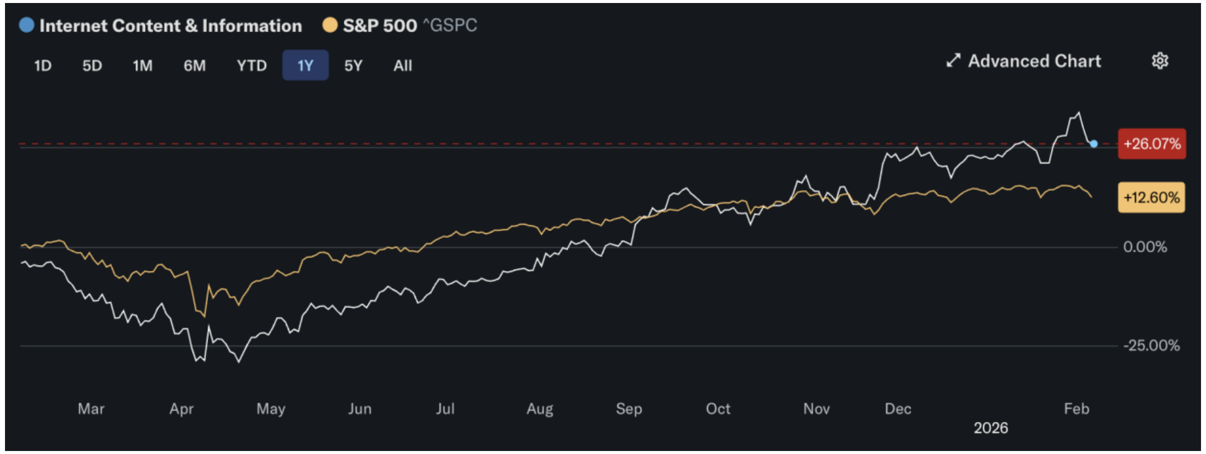
Volatility Measures

- Beta (5y, monthly): 1.67
- Standard Deviation: ~43%
- Maximum Drawdown: ~75%

Industry Trends – Present and Historically

Sector: Communication Services
Industry: Internet, Content, & Information (ex: GOOG, META, SPOT, RDDT, etc.)

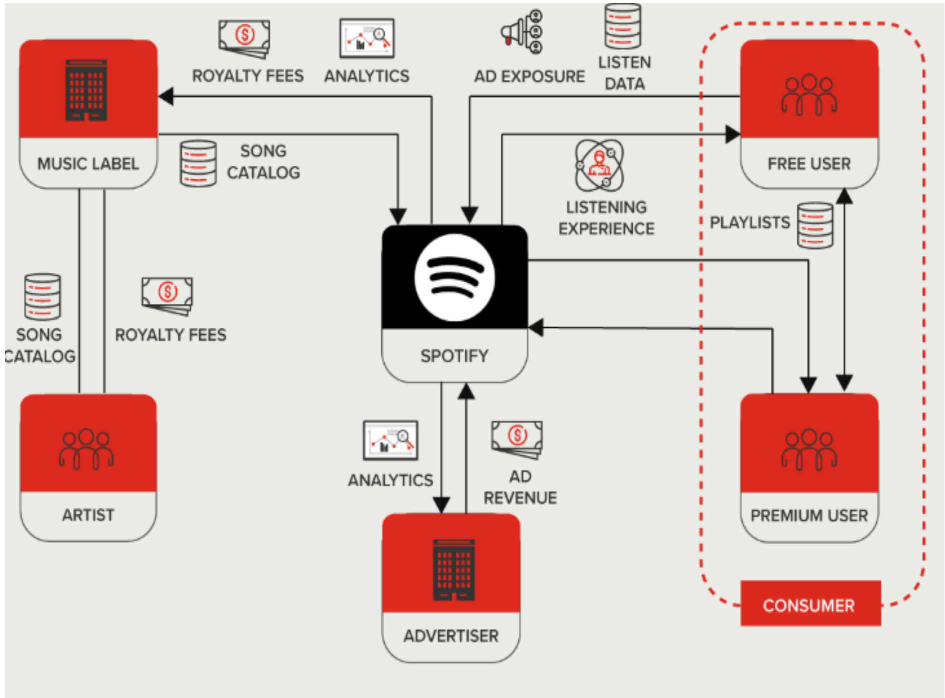
- Primarily B2C companies
- Industry Market Cap: $5.894T, Industry weight in sector: 73.69%
- High scalability with low marginal costs
- High competition between competitors and low switching cost for customers
- Monetization through ads, subscriptions, or a hybrid model
- Currently, market expectations are high because AI integration into services is expected to increase operational efficiency and revenue



Business Model

Business Model – Hybrid Premium subscription & Ad-supported model

- Music, Podcasts, Audiobooks
- Premium (88% of revenue)
  - 39% of total users (281 million)
  - Sourced from Ad-Supported segment
  - Subscription basis with packages for certain audience segments (family, student, etc.)
- Ad-Supported (12% of revenue)
  - 61% of total users (428 million)
  - Driven by the number of ad impressions from users (cost per thousand impressions)
- Cost Structure:
  - Cost of Revenue(~70% of revenue): Royalties and licensing costs
  - Other major expense: R&D & Advertising costs



DCF - WACC

WACC Calculations	
Capital Structure	
Total Debt	$2,148.40
Total Equity	$84,981.10
Debt-to-Total Capitalization	2.5%
Equity-to-Total Capitalization	97.5%
Cost of Debt	
Cost of Debt	3.5%
Tax Rate	17.5%
After-Tax Cost of Debt	2.8%
Cost of Equity	
Risk-free Rate	4.8%
Market Risk Premium	5.3%
Levered Beta	*1.67*
Cost of Equity	13.7%
WACC	**13.4%**

Capital structure data was derived from Bloomberg

Effective Tax rate of 17.5% since SPOT's business segments operate primarily in EU region

We used the 30-yr treasury yield for the risk-free rate due to interest-rate risk

Used market return 10.01% based off the S&P historical average since Feb. 6, 1996

DCF – Assumptions Base

Select Operating Data

				Projected Annual Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Period				1	2	3	4	5
Premium	$10,797.2	$12,509.0	$14,949.1	$18,208.1	$20,903.2	$23,771.8	$26,577.8	$29,198.9
Growth Rate (%)		15.9%	19.5%	21.8%	14.8%	13.7%	11.8%	9.9%
Ad-Supported	$1,554.6	$1,818.1	$2,005.6	$2,185.0	$2,426.0	$2,825.7	$3,227.0	$3,595.6
Growth Rate (%)		16.9%	10.3%	8.9%	11.0%	16.5%	14.2%	11.4%
Revenue	$12,351.8	$14,327.1	$16,954.8	$20,393.2	$23,329.2	$26,597.5	$29,804.8	$32,794.5
Growth Rate (%)		16.0%	18.3%	20.3%	14.4%	14.0%	12.1%	10.0%
EBITDA	($569.8)	($311.5)	$1,607.5	$2,668.5	$3,638.4	$4,663.5	$5,468.8	$6,249.7
EBITDA Margin (%)	(4.6%)	(2.2%)	9.5%	13.1%	15.6%	17.5%	18.3%	19.1%
EBIT	(389.7)	(546.2)	1,450.7	$2,323.7	$3,958.7	$5,272.9	$6,725.9	$8,127.9
EBIT Margin (%)	(3.2%)	(3.8%)	8.6%	11.4%	17.0%	19.8%	22.6%	24.8%
Depreciation & Amortization	$180.1	$170.9	$130.9	$344.9	$186.6	$212.8	$178.8	$196.8
D&A as a % of revenue	1.5%	1.2%	0.8%	1.7%	0.8%	0.8%	0.6%	0.6%
Accounts Receivable Growth (%)		28.4%	-15.9%	16.4%	10.4%	11.5%	(3.8%)	8.5%
D&A Growth(%)		-5.1%	-23.4%	163.4%	(45.9%)	14.0%	(16.0%)	10.0%
Stock Options Growth (%)		83.6%	37.9%	21.0%	18.0%	18.0%	16.0%	16.0%
Payable & Acccurals Growth (%)		20.2%	1.4%	18.8%	14.6%	15.8%	9.9%	7.5%
Accrued Expenses Growth (%)		-4.0%	-81.9%	27.4%	4.6%	9.2%	7.6%	4.4%
Debt Growth (%)		4.5%	10.3%	10.0%	12.0%	12.0%	15.0%	15.0%
Capital Expenditures Growth (%)		-26.1%	-29.2%	12.7%	10.7%	10.3%	11.3%	12.2%

DCF - Calculations

Terminal Value	
Growth in perpetuity method:	
Long term growth rate	3.0%
WACC	13.4%
Free cash flow (t+1)	6,513.0
Terminal Value	62,440.1
Present Value of Terminal Value	**$33,251.2**

Enterprise Value to Equity Value	
Enterprise Value	$49,589.5
Less: Net debt	(2,799.5)
Equity Value	**$52,389.0**
Diluted Shares Outstanding	205.9
Equity Value Per Share	**$254.45**

>10% YoY revenue growth for projections, long-term improvements in operational efficiencies, and stickiness of platform would perform 3% perpetual growth

DCF	**Implied Share Price**		
Approach	**Base**	**Downside**	**Upside**
Perpetuity	$254.45	$191.59	$369.04

Multiples

	Market and Financial Data						Valuation		
Company Name	Price	Market Cap (B)	Enterprise Value (M)	LTM Sales (M)	LTM EBITDA (M)	Earnings (M)	EV / Sales	EV / EBITDA	P/E
Target									
Spotify Technology S.A.	$ 422.610	$ 87.013	$ 126,653.000	$ 18,695.000	$ 2,307.000	$ 1,583.000	6.8x	54.9x	61.52
Comparable companies									
Sirius XM	22.60	7.66	16,760.00	8,550.00	2,612.00	1,097.00	2.0x	6.4x	6.41
Universal Music	21.28	39.03	42,150.00	13,165.00	2,990.00	2,257.00	3.2x	14.1x	13.87
Warner Music	29.05	15.20	18,690.00	6,710.00	1,028.00	365.00	2.8x	18.2x	20.24
Tencent Music	16.34	25.18	34,624.00	4,400.00	1,654.00	1,499.00	7.9x	20.9x	20.81
Netlfix	80.87	341.45	383,900.00	43,221.00	30,100.00	10,725.00	8.9x	12.8x	32.36

Mean	4.9x	14.5x	18.74
Median	3.2x	14.1x	20.2x
25 Percentile	2.8x	12.8x	13.87
75 Percentile	7.9x	18.2x	20.81
Standard deviation	3.188	5.556	9.589

Implied Stock Price	
25 Percentile	181.09
75 Percentile	373.01
Mean	265.20

Precedent Transactions

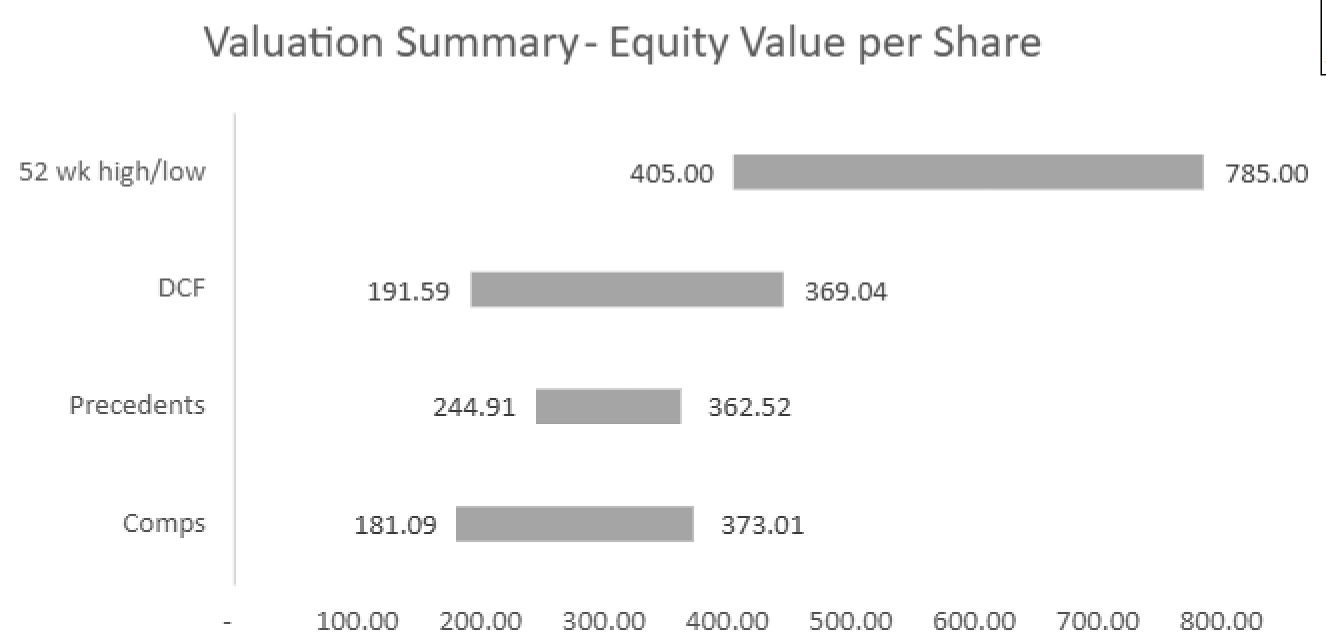
Date	Target	Buyer	Target Business Descrption	Transcation Value	Revenue	EBITDA	EV / Revenue	EV / EBITDA
9/24/2018	Pandora Media	SiriusXM	Largest US ad-supported and subscription audio streaming	3,500	1,470	-45	2.38x	8.10x
12/30/2020	Wondery	Amazon	Premium podcast studio and network specializing in chara	300	40	N/A	7.50x	N/A
6/11/2025	Ximalaya	Tencent Music	Leading Chinese podcast and long-form audio platform	2,400	857	N/A	2.80x	N/A
7/1/2014	Songza	Google	Curated music streaming service specializing in activity-ba	2,778	N/A	N/A	N/A	N/A
5/28/2014	Beats Electronics	Apple	Subscription music service and premium audio hardware e	276	920	20.14	2.31x	12.00x
7/11/2022	Sonantic	Spotify	Developer of hyper-realistic AI voice and text-to-speech te	1,066	N/A	N/A	N/A	N/A
				Mean			5.15x	10.05x
				Median			5.15x	10.05x
				25 Percentile			3.98x	9.08x
				75 Percentile			6.33x	11.03x
				Standard deviation			3.323	2.758

Implied Stock Price	
25 Percentile	244.91
75 Percentile	362.52
Mean	303.71

Weighted Valuation

Football Field Data

	Low bar	Difference	High Bar
Comps	181.09	191.92	373.01
Precedents	244.91	117.62	362.52
DCF	191.59	254.45	369.04
52 wk high/low	405.00	380.00	785.00



Implied Stock Price	
Total DCF	$254.45
Comparables	$265.20
Precedent Transactions	$303.71

Weights	
DCF	60%
Comparables	30%
Precedent Transactions	10%

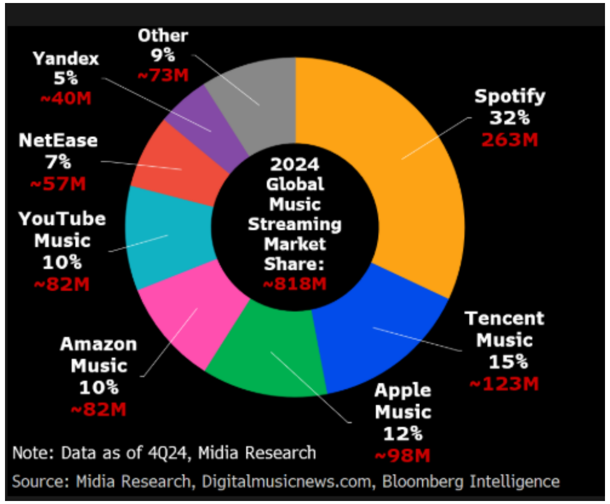
Target Price	262.60

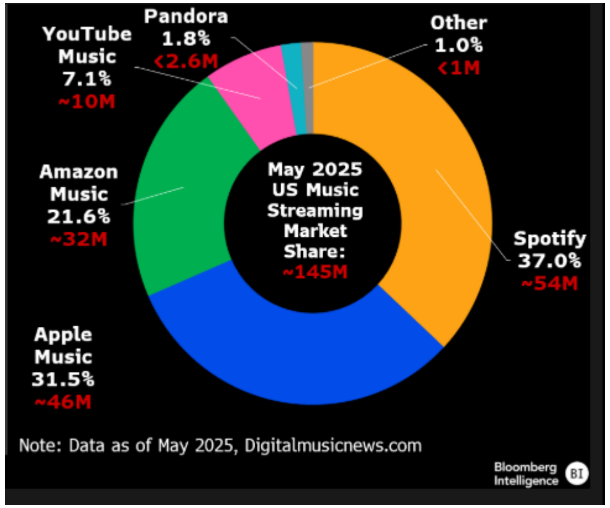
Current price	412.75

P	E	S	T	E	L
Political	Economic	Social	Technological	Environmental	Legal
Digital regulation Privacy enforcement laws	Ad revenue is sensitive to market downturns FX volatility Subscriber loss during market downturns	Creator dissatisfaction Content controversy Trust and Brand perception Non-essential service	VR Concerts and interactive experiences Predictive AI and Personalization Seamless Device Ecosystem	Net Zero 2030 Commitment Platform Advocacy	Data Privacy Complex Royalty Licensing App Store Anti-Steering Battles

Competitive Landscape

- Substitutes (Radio, cassettes, iPods, record players)
  - Recent growth
  - There are few substitutes in the market that pose serious threat to online streaming
- Suppliers (Record companies, artists, podcasters, etc.)
  - Industry relies on good relationships with suppliers
  - Relatively high competition among suppliers
- Rivals (AMZN, AAPL, GOOG, Soundcloud)
  - Integration with legacy platforms (e.g., Prime music included with Amazon Prime, YouTube music embedded in YouTube)
  - Have large base of users using their other offerings that can be converted
  - Cross-subsidization and higher investments in competitor platforms
  - Product stickiness
- Buyers
  - Buyers are insensitive to changes catalog size, algorithms, and other offerings unique to the platform (e.g., Wrapped, Jam)
  - Ad-block technology hurts monetization process for streams
- New Entrants
  - Matching or exceeding the catalog size of competitors extremely difficult
  - High entry barriers





Management and Employees

Leadership	Board Independence & Compensation	Labor/Workforce	Legal Controversies
• New Co-CEO leadership structure (introduces uncertainty) • **Gustav Soderstrom:** has been at Spotify for 17 years, previous Chief Product & Technology Officer • **Alex Norstrom:** has been at Spotify for 14 years, previous Chief Business Officer managing subscriber & advertising business • Founder & Executive Chairman - **Daniel Ek:** stepping down from previous CEO role to focus on long-term planning	• Board uses a mixed structure but is majority independent, but company leadership holds significant decision-making power • Has a lead independent director (Christopher Marshall) to help ensure balance of power • Executive compensation is primarily stock-based to align incentives with shareholders (**Daniel Ek** does not take a base salary or bonuses, relying solely on stock appreciation)	• In Dec. 2023, Spotify laid off approx. 17% of its global workforce (1,500 employees) to reduce costs and improve profitability • Decentralized organizational structure emphasizes autonomy, experimentation, and innovation ("Squads, Tribes, Chapters, Guilds")	• Royalty and licensing disputes (no current lawsuit but is an ongoing risk) • Content moderation & free speech controversies (especially for podcasts) • AI-generated content and labelling starting to become an issue that should be watched

SWOT Analysis

Strengths

- Strong personalized recommendations/algorithm, and user experience
- Diversification beyond music into podcasts & audiobooks
- Network effects and inconvenience from switching platforms retains users

Weaknesses

- Low Margins due to structure of royalty payments
- Limited revenue streams
- Limited pricing power and dependence on external stakeholders

Opportunities

- Margin growth through expansion of non-music products
- Partnerships with other entertainment/streaming services to offer bundles
- Advertising growth
- Emerging markets

Threats

- Intense competition from Apple Music, Amazon Music, YouTube Music who can offer lower prices
- Regulatory/legal threats
- Discretionary subscriptions weaken in economic downturn

Conclusion

Investment Thesis – SPOT is overvalued.

Business Model – hybrid subscription and ad-based, generates revenue through premium memberships and ads for non-premium members

Industry Analysis – intense competition between key industry players

Risks and Growth – thin margins, high rivalry between competitors, potential legal battles

Governance – tenured leadership team but recent structural changes bring uncertainty

Recommendation – DO NOT BUY SPOT

Exhibits

DCF – Assumptions Downside

Select Operating Data

				Projected Annual Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Period				1	2	3	4	5
Premium	$10,797.2	$12,509.0	$14,949.1	$17,939.0	$19,001.1	$20,044.1	$20,990.5	$21,818.5
Growth Rate (%)		15.9%	19.5%	20.0%	5.9%	5.5%	4.7%	3.9%
Ad-Supported	$1,554.6	$1,818.1	$2,005.6	$2,185.0	$2,329.6	$2,559.9	$2,778.0	$2,968.4
Growth Rate (%)		16.9%	10.3%	8.9%	6.6%	9.9%	8.5%	6.9%
Revenue	$12,351.8	$14,327.1	$16,954.8	$20,124.0	$21,330.7	$22,604.0	$23,768.5	$24,786.9
Growth Rate (%)		16.0%	18.3%	20.3%	6.0%	6.0%	5.1%	4.3%
EBITDA	($569.8)	($311.5)	$1,607.5	$2,414.9	$2,133.1	$2,260.4	$1,901.5	$1,487.2
EBITDA Margin (%)	(4.6%)	(2.2%)	9.5%	12.0%	10.0%	10.0%	8.0%	6.0%
EBIT	(389.7)	(546.2)	1,450.7	$2,293.0	$3,619.6	$4,481.2	$5,363.7	$6,143.3
EBIT Margin (%)	(3.2%)	(3.8%)	8.6%	11.4%	17.0%	19.8%	22.6%	24.8%
Depreciation & Amortization	$180.1	$170.9	$130.9	$322.0	$170.6	$135.6	$95.1	$99.1
D&A as a % of revenue	1.5%	1.2%	0.8%	1.6%	0.8%	0.6%	0.4%	0.4%
Accounts Receivable Growth (%)		28.4%	-15.9%	16.4%	14.5%	15.8%	(2.6%)	12.3%
D&A Growth(%)		-5.1%	-23.4%	146.0%	(47.0%)	(20.5%)	(29.9%)	4.3%
Stock Options Growth (%)		83.6%	37.9%	13.0%	12.0%	12.0%	9.6%	9.6%
Payable & Acccurals Growth (%)		20.2%	1.4%	(2.0%)	(2.0%)	0.0%	0.0%	4.0%
Accrued Expenses Growth (%)		-4.0%	-81.9%	27.4%	4.6%	9.2%	7.6%	4.4%
Debt Growth (%)		4.5%	10.3%	10.0%	9.0%	9.0%	7.0%	7.0%
Capital Expenditures Growth (%)		-26.1%	-29.2%	12.7%	10.7%	10.3%	11.3%	12.2%

DCF – Assumptions Upside

Select Operating Data

				Projected Annual Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Period				1	2	3	4	5
Premium	$10,797.2	$12,509.0	$14,949.1	$18,208.1	$21,711.7	$25,585.1	$29,511.2	$33,294.7
Growth Rate (%)		15.9%	19.5%	21.8%	19.2%	17.8%	15.3%	12.8%
Ad-Supported	$1,554.6	$1,818.1	$2,005.6	$2,185.0	$2,498.3	$3,033.4	$3,593.4	$4,127.0
Growth Rate (%)		16.9%	10.3%	8.9%	14.3%	21.4%	18.5%	14.8%
Partnership Revenue				$611.8	$726.3	$1,144.7	$1,324.2	$1,871.1
As a % of revenue				3.0%	3.0%	4.0%	4.0%	5.0%
Revenue	$12,351.8	$14,327.1	$16,954.8	$21,004.9	$24,936.3	$29,763.3	$34,428.8	$39,292.8
Growth Rate (%)		16.0%	18.3%	20.3%	18.7%	19.4%	15.7%	14.1%
EBITDA	($569.8)	($311.5)	$1,607.5	$3,150.7	$5,055.7	$6,784.2	$8,212.4	$9,734.6
EBITDA Margin (%)	(4.6%)	(2.2%)	9.5%	15.0%	20.3%	22.8%	23.9%	24.8%
EBIT	(389.7)	(546.2)	1,450.7	$2,393.4	$4,806.3	$6,486.6	$7,936.9	$9,420.2
EBIT Margin (%)	(3.2%)	(3.8%)	8.6%	11.4%	19.3%	21.8%	23.1%	24.0%
Depreciation & Amortization	$180.1	$170.9	$130.9	$355.2	$249.4	$297.6	$275.4	$314.3
D&A as a % of revenue	1.5%	1.2%	0.8%	1.7%	1.0%	1.0%	0.8%	0.8%
Accounts Receivable Growth (%)		28.4%	-15.9%	16.4%	10.4%	11.5%	(3.8%)	8.5%
D&A Growth(%)		-5.1%	-23.4%	171.4%	(29.8%)	19.4%	(7.5%)	14.1%
Stock Options Growth (%)		83.6%	37.9%	13.0%	8.0%	8.0%	6.4%	6.4%
Payable & Acccurals Growth (%)		20.2%	1.4%	14.4%	14.1%	15.2%	9.5%	7.2%
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Debt Growth (%)		4.5%	10.3%	10.0%	13.0%	13.0%	15.0%	15.0%
Capital Expenditures Growth (%)		-26.1%	-29.2%	12.8%	12.4%	13.5%	14.6%	15.4%