

Spotify

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Investment decision: *Did not invest*

Introduction:

Our group chose to analyze Spotify due to its position as the leading global audio streaming platform and its relevance within the competitive digital media sector. While Spotify has strong brand recognition and user growth, its stock has experienced significant volatility and inconsistent returns in recent years. We wanted to evaluate whether recent strategic and operational changes have meaningfully improved the company's investment profile.

Company and Valuation Details:

Spotify operates a freemium business model, generating revenue through premium subscriptions and advertising. Despite its scale and global reach, the company faces structurally low margins due to high music licensing costs and intense competition from large ecosystem players such as Apple and Amazon. Based on our valuation assumptions, we arrived at an implied stock price of approximately \$262, compared to a current trading price of around \$412, suggesting limited upside at current levels. While recent operational discipline has improved near-term results, current valuation appears to price in continued margin expansion and successful execution of new initiatives. Given competitive pressures, margin constraints, and recent strategic decisions—including expansion into audiobooks and the physical book space—we believe the risk-reward profile is unattractive.

Historical Performance:

Over the past five years, Spotify has generated approximately a 32% total return, or about a 5.6% annualized return, significantly underperforming the S&P 500 over the same period. The stock has exhibited high volatility, with a beta of roughly 1.7 and a maximum drawdown of approximately 75%. While Spotify reported its first full year of profitability in 2024, this profitability came after a prolonged period of losses and remains relatively recent. Given the company's history of large drawdowns, elevated risk, and late transition to profitability, we do not believe Spotify offers an attractive risk-adjusted return at this time.