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# Spotify Technology (SPOT)

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Find Me Value Investment Research LLC

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# Overview



Company: **Spotify Technology S.A.**

Ticker: **"SPOT"**

Stock Price: **\$240**

YTD Performance: **+60%**



- Founded in 2006 by Daniel Ek (CEO) and Martin Lorentzon in Sweden
- Currently the global market share leader for paying audio streaming subscribers at 35% market share
- 299 million monthly active users (MAUs) and 138 million paying subscribers (both growing 30% y/y)
- Available in ~92 countries
- ~\$8.6bn in annual revenues, growing mid-20% due to ARPU compression
- ~25% gross margins due to cost structure with record labels
- Around 4% monthly subscriber churn (compared to 1.8% for SiriusXM)
- Market Cap and enterprise valuation of ~ \$44 billion



# Investment Highlights

Market leader in audio streaming on a global level

- 35% market share globally in music streaming (#1)
- 299m MAUs, 138m paying subscribers
- #1 global leader in podcasts, #2 in U.S.

Subscriber scale and growth provides advantage to become an “audio platform” company versus just music-only

- Invested over \$800m in last 18 months to push more into podcasts
- Feb. 2019 blog by CEO Daniel Ek stated new mission “Audio First” (and not just music)
- Still growing MAU’s ~30% with engagement 2x AAPL, 3x AMZN

Shift to non-music provides upside potential to margins, versus previously limited upside due to music label royalties

- ~22% of MAU’s engage in podcasts, growing >100% in consumption
- Podcasts are largely fixed cost, providing SPOT an opportunity for gross margin improvement vs. current strangle by the ~top 4 record labels (UMG, Sony, Warner, MERLIN)

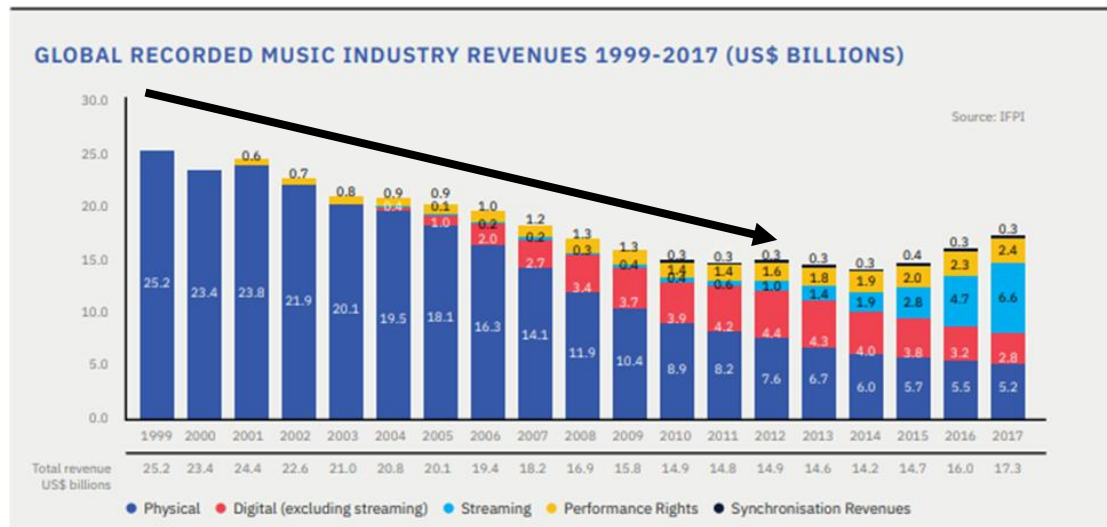
# The Backstory of SPOT

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- It was the 1990s and the music industry was booming with the continued growth of CD sales...at the backdrop was the advent of the internet, which like many industries, disrupted the music industry severely
- Historically if someone wanted to listen to a song from their favorite artist, they would purchase a Vinyl record, or cassette, or CD album. This was always a “pain point” for consumers as they often didn’t want the entire album but had to pay for it to hear the song they wanted
- With the creation of the internet saw the rise of Napster and Limewire, among others, that created a massive wave of illegally downloading music – people wanted to listen to certain songs when they wanted to (i.e. “on demand”)
- Piracy damaged the music industry, as music revenues:
  - Globally fell by ~40% from \$23.8bn in 1999 to \$14.3bn in 2014
  - US revenues fell from > \$14bn to ~\$6bn by 2010
- **The music industry needed a savior.....**

# The Backstory of SPOT

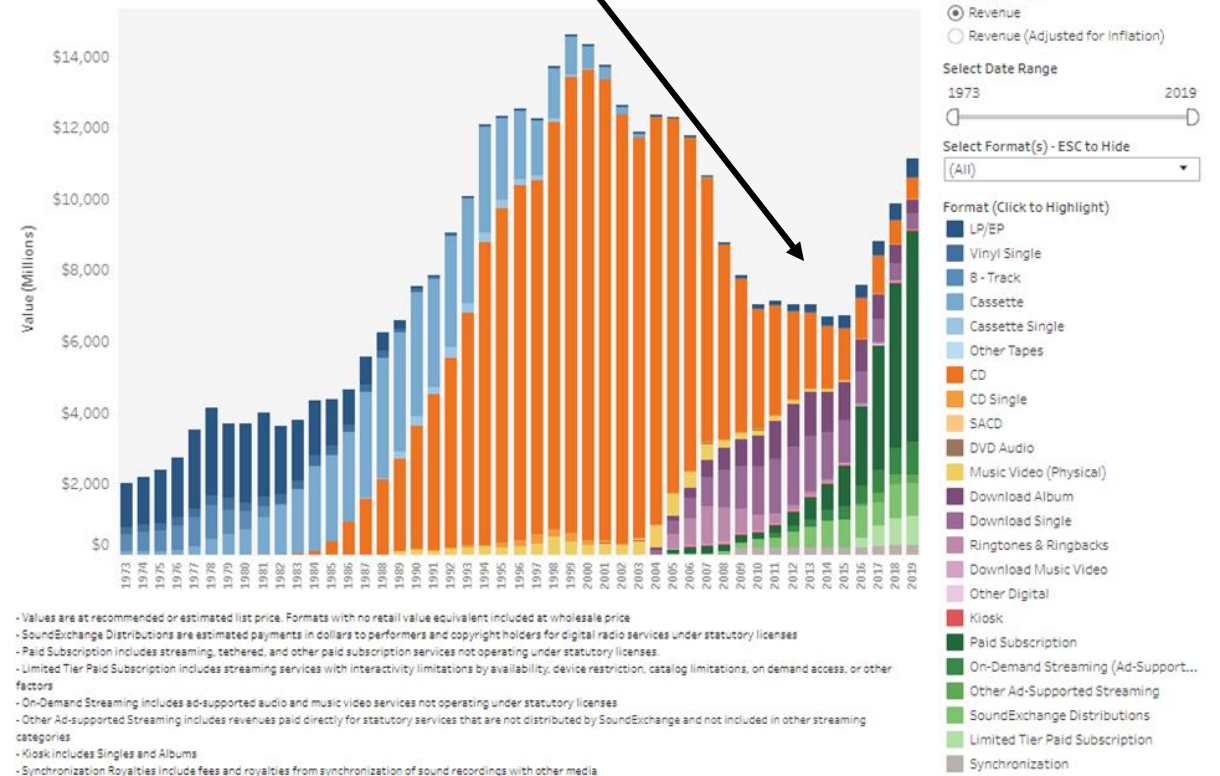
Global Music Revenues (1999 – 2017)



Piracy was crushing the music industry.....

U.S. Music Revenues (1973 – 2019)

U.S. Recorded Music Revenues by Format  
1973 to 2019, Format(s): All  
Source: RIAA



# The Backstory of SPOT

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- Coming out of the Napster era in the mid-2000s, 23-year-old Daniel Ek set out to build a platform (launched in 2006) to fix the broken model of music distribution that was being destroyed through pirating
- It was launched in October 2008 as an invitation only service in Sweden, Norway, Finland, France, Spain, and UK
- Initial uptake was strong, so in February 2009 they opened up the service to anyone interested in those markets.
- Initially there was about 1.5m users = 1/3 from UK, and 40k new users joining daily with 50-60% from UK
- Originally it was free, on-demand access to millions of tracks, and similar to their current ad-supported free model today, revenue originally was advertising only, with digital ads displayed on the mobile app every ~20 mins.
- The name “Spotify” was a blend of “spot” and “identify”
- It was initially tough to compete against Napster (free), but the fact that Napster was illegal and it seemed as if government officials were working on cracking down on this hard, a free service that offered just as much convenience was very appealing. There were no other competitors similar to SPOT at the time.

“You have to create a product that is better than the pirate sites,” says Ek. “Remember that 95% of all music downloads are still illegal. If you can make money from that, the music business will be in a better position.”





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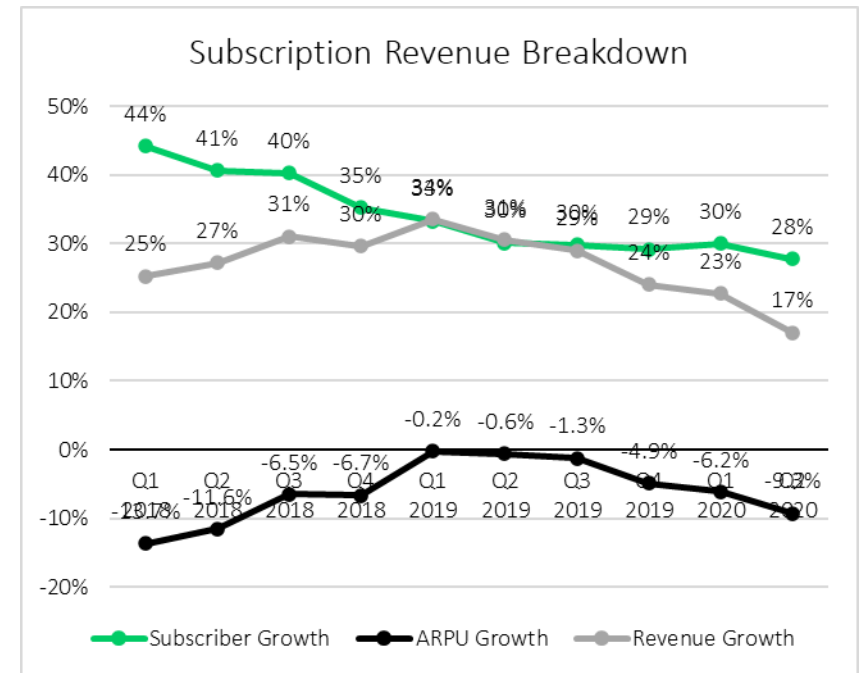
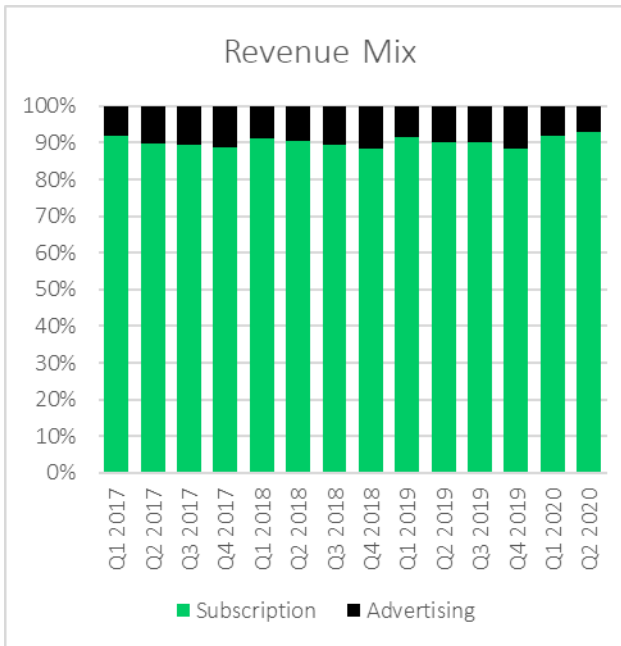
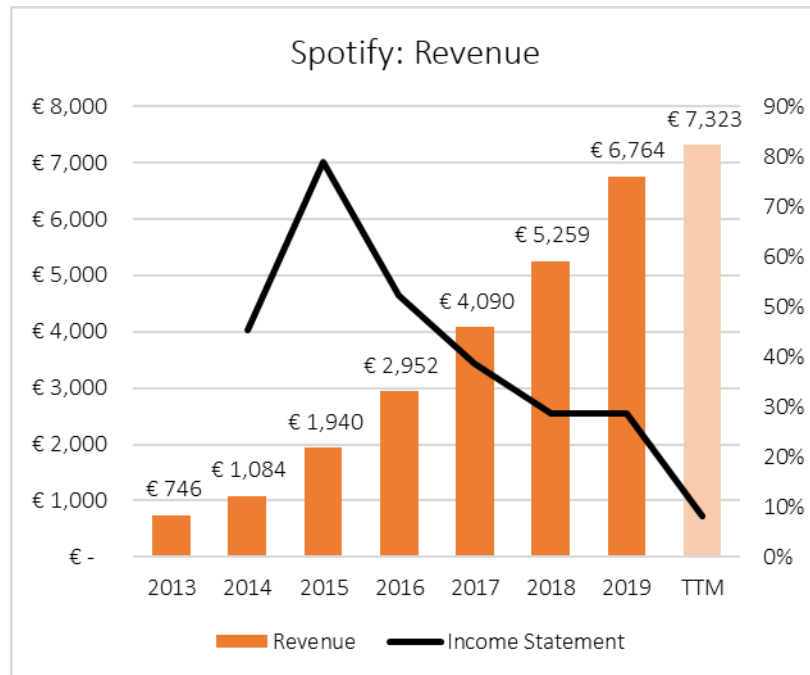
# The Business

# Financial Overview: *Revenues*

~\$8 bn in annual revenue, growing around mid-teens (largely due to advertising decline in Q2 2020).  
Revenue growth fueled by MAU/ sub growth

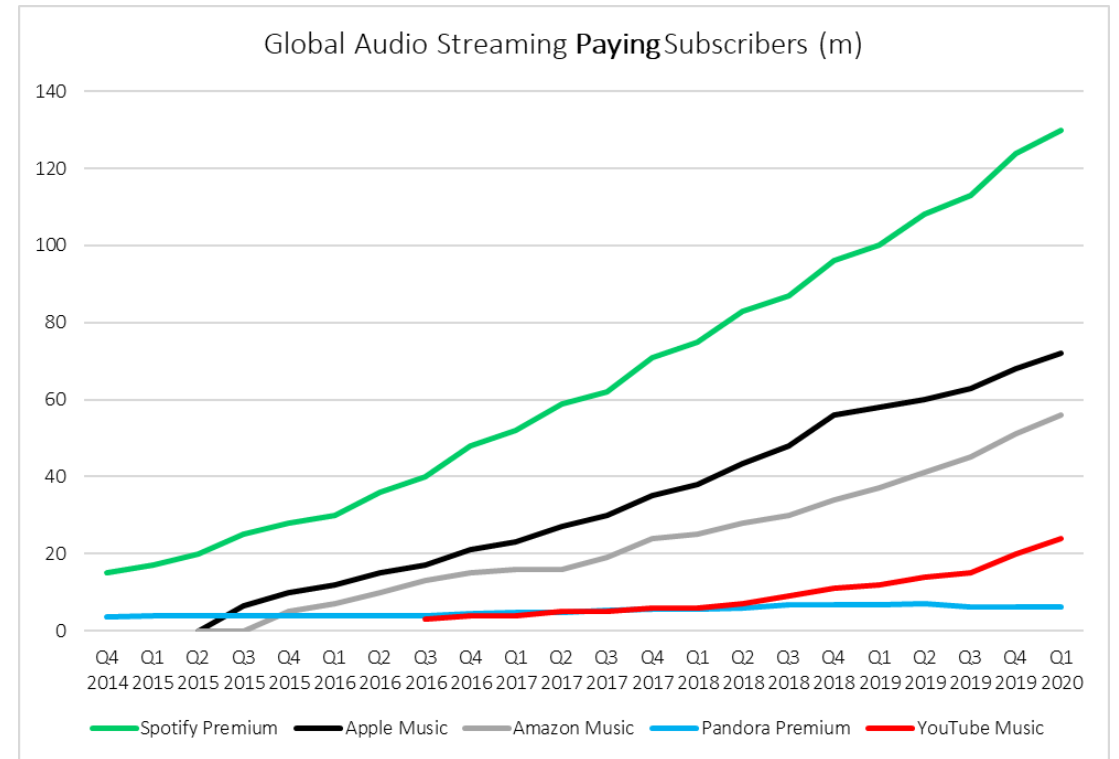
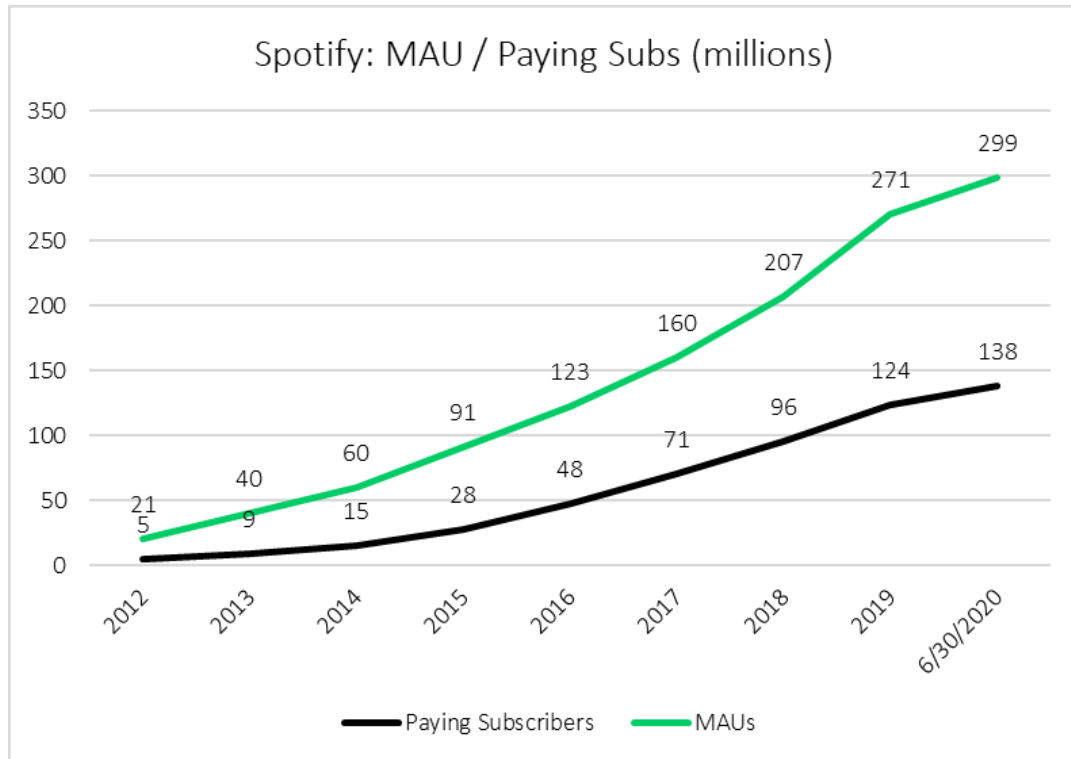
> 90% of revenue is from monthly subscription

Subscriber growth drives premium revenue; SPOT has pushed sub growth on the backs of lower priced student plans (\$5/mo.) and family plans (\$15/mo.), which has hurt ARPU.



# Financial Overview: *MAU / Sub Growth*

Most competition launched in 2015 and after, and despite the firepower of competitors (AAPL, AMZN, GOOG), SPOT has maintained strong subscriber growth



# Thank You

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- I appreciate you reading this and would love to hear any feedback, comments, or discussion around SPOT
- Feel free to email me: [findmevalue@gmail.com](mailto:findmevalue@gmail.com)