



Spotify – Growth is accelerating

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SPOTIFY – GROWTH IS ACCELERATING

Our updated valuation thesis by 2020

“BASE CASE: 100M PAYING USERS \$20 BN VALUATION”

“BEST CASE: 100M PAYING USERS \$53 BN VALUATION”

UPDATE

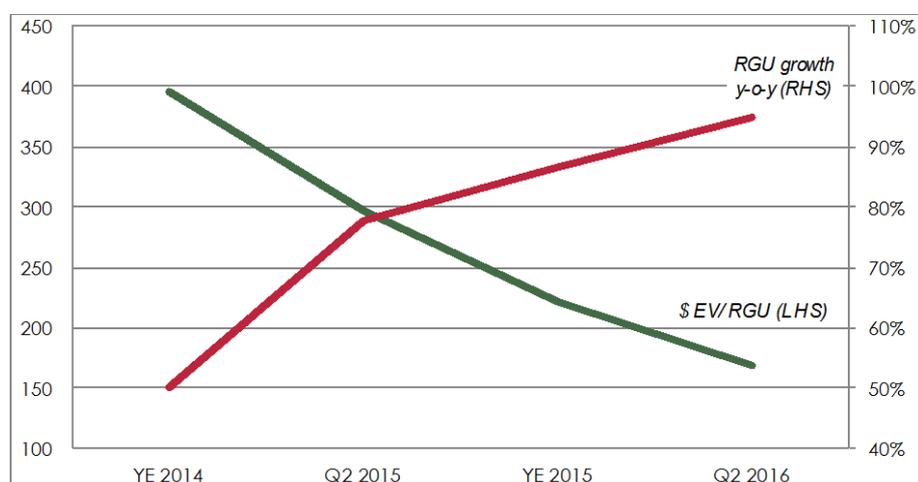
- Spotify is trending towards 50m paying users in 2017, our previous Base Case
- We believe Spotify will have more than 100m paying users before 2020, our new Base Case
- We think a US IPO in 2017 is likely but also don't discard the possibility of a sale to Facebook
- In September 2015 we said “Apple music launch will increase growth of streaming industry”
 - US streaming music revenues accelerated to +46% growth in 2015 vs +27% growth in 2014
- In September 2015 we said “Spotify likely to benefit from Apple's halo effect”
 - Spotify's paying user base now grows with 2m/month, previously 1m/month
 - The growth in paying users has accelerated to almost 100% while valuation has not moved
- Spotify has maintained its position as the best-of-class streaming service globally, therefore we view Netflix as the best comparable, trading at +5x LTM sales
- At a 2017 IPO, Spotify is likely to have 5 BUSD in annualized revenue with more than 50m paying and more than 100m non-paying users
- Our target 2017 IPO valuation range for Spotify is between 15-20 BUSD
- Our new Best and Base case both factor in 100m paying users but different margins and valuations
- The long-term case for Spotify is now more about profitability and valuation multiples
- Short term margin uplift hinges on outcome of current label negotiations
- Growing the video content business and implementing best-of-class social features is key to reaching our Best Case scenario

Scenario overview

	<i>Base</i>	<i>Best</i>
IMPLIED MARKETCAP	\$20 Bn	\$53 Bn
Paying users (M)	100	100
Revenue per paying user (\$/year)	89	89
Paying user revenue (\$ M)	8,864	8,864
Revenue non-paying user (\$/year)	10	14
Non-paying users (M)	200	200
Ad revenues (\$ M)	2,000	2,800
Ad revenue %	18.4%	24.0%
TOTAL REVENUES	10,864	11,664
COGS paying users	-6,825	-6,763
COGS ad revenueus	-1,000	-1,400
TOTAL COGS	-7,825	-8,163
<i>Gross margin</i>	<i>28%</i>	<i>30%</i>
EBIT	866	1,984
<i>EBIT%</i>	<i>8.0%</i>	<i>17.0%</i>
EBITDA	975	2,101
<i>EBITDA %</i>	<i>9.0%</i>	<i>18.0%</i>
EV/EBITDA multiple	20x	25x
Enterprise Value	19,491	52,528
Net debt	-200	-200
Market cap	19,691	52,728
NOSO FD (M)	4.2	4.2
Share price	4,636	12,415
Return from \$1800	2.6x	6.9x
Implied EV/Revenue	1.8x	4.5x
Implied EV/Gross profit multiple	6.4x	15.0x
Implied EV/EBIT multiple	22.5x	26.5x

Source: annual reports, CapitalIQ, GP Bullhound analysis

Revenue generating user (RGU) overview



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