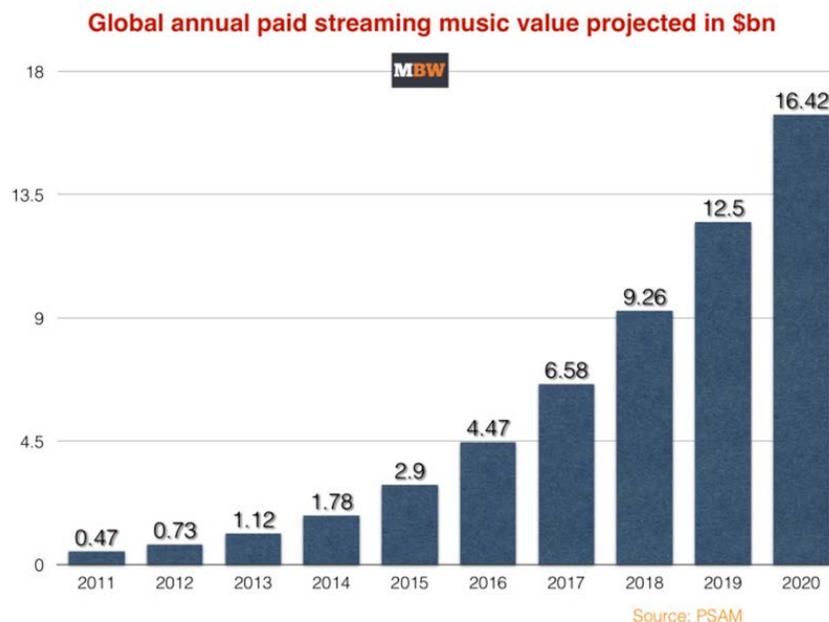




“Keep On Growing”

Spotify has seen positive headlines for the past several quarters, and recently signed an extension of its royalty agreement for streaming music from Universal Music Group. It provides some flexibility on both sides allowing artists to hold their latest releases out for a fortnight, and allowing a sliding scale of fees for Spotify to improve their margins. The other two major music catalogue companies, Sony and Warner Music Group, will likely follow suit shortly. We believe this bodes well for a liquidity event for Spotify in 2017.

The supply of Spotify shares in the secondary market is virtually non-existent presently, with prices having risen about 30% since late last year, to well above their last equity round done in 2015 at \$8.5B. We expect the IPO pricing to be in the \$12B-\$15B valuation range based upon 60mm+ paid subscribers and close to 200mm total subscribers forecast by the end of 2017. These assumptions could be low based upon selected markets like Japan where there is robust growth related to their recent launch, and with strong marketing support.



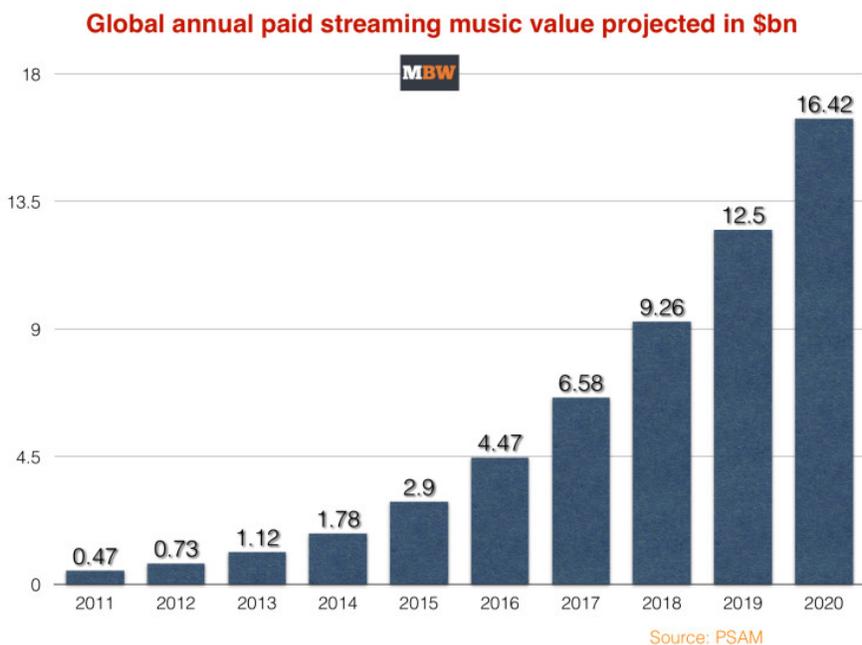
Their Q1 '17 acquisition of MightyTV added to the company's ability to curate playlists for your tastes, as this helps ad rates. It is a sign of things to come as they will likely use the public offering as currency to keep acquiring valuable technology & talent to keep them at the vanguard of the industry in all areas. Spotify seeks to add local news, sports, traffic and weather to your daily mix, as their goal is to simply become ubiquitous in your life.

Given the ascendance of streaming music, now the leading source of revenues for all musicians, Spotify has a major opportunity to capture more of this rapidly growing market. By the end of

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2020 streaming music is expected to represent \$16B in annual revenues with approximately 500mm people using these paid services, up from 100mm in total today.



The title of this quarter’s letter comes from the historic *Layla* album, based on a 7th century Persian love story, *Layla & Majnun*, which was given to Eric Clapton by a friend 50 years ago. It embodies the challenges faced by humans in their life, and parallels the journey of Spotify from start-up to industry-leading technology company. As in the past, we salute the nimble steps by company management and wish them continued success to “Keep on Growing.”

Eric Munson

PSP Ventures

Relevant Article:

<http://www.musicbusinessworldwide.com/streaming-will-double-the-music-industry-by-2020-and-universal-must-go-it-alone/>

<https://techcrunch.com/2017/04/18/spotify-is-launching-a-messenger-bot-for-sharing-song-clips-with-friends/>

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Music Industry Revenue Forecast

\$ in millions

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Recorded Music												
Physical	11,851	10,157	9,396	8,753	7,730	6,571	5,585	4,915	4,443	4,102	3,850	3,660
% Change	-12%	-14%	-7%	-7%	-12%	-15%	-15%	-12%	-10%	-8%	-6%	-5%
Downloads	3,081	3,406	3,824	3,997	3,934	3,344	2,842	2,501	2,261	2,088	1,959	1,863
% Change	21%	11%	12%	5%	-2%	-15%	-15%	-12%	-10%	-8%	-6%	-5%
Paid Streaming	264	322	465	732	1,116	1,782	2,901	4,477	6,580	9,261	12,544	16,421
% Change	22%	22%	44%	57%	52%	60%	63%	54%	47%	41%	35%	31%
Advertising Supported Streaming	176	184	258	394	470	616	769	923	1,070	1,206	1,329	1,438
% Change	22%	5%	40%	53%	19%	31%	25%	20%	16%	13%	10%	8%
Mobile	836	690	568	282	294	294	294	294	294	294	294	294
% Change	-24%	-17%	-18%	-50%	4%	0%	0%	0%	0%	0%	0%	0%
Other Digital	44	0	52	225	59	0	0	0	0	0	0	0
% Change	NA											
Total Digital	4,402	4,602	5,168	5,630	5,872	6,035	6,807	8,194	10,205	12,849	16,126	20,016
% Change	10%	5%	12%	9%	4%	3%	13%	20%	25%	26%	26%	24%
Performance Rights	677	794	783	929	1,106	1,275	1,430	1,569	1,692	1,798	1,887	1,963
% Change	13%	17%	-1%	19%	19%	15%	12%	10%	8%	6%	5%	4%
Synchronization and Other Revenue	0	317	313	334	322	322	322	322	322	322	322	322
% Change			-1%	7%	-4%	0%	0%	0%	0%	0%	0%	0%
Total Revenue	16,930	15,870	15,660	15,646	15,030	14,202	14,144	15,001	16,661	19,070	22,185	25,961
% Change	-7%	-6%	-1%	0%	-4%	-6%	0%	6%	11%	14%	16%	17%

Streaming and Subscription Forecast

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Estimated Smartphone Installed Base (Units, m)	826	1,299	1,884	2,487	3,031	3,549	4,004	4,394	4,737	5,032
Estimated LTE Installed Base (Units, m)	10	101	362	713	1,166	1,672	2,112	2,542	2,976	3,412
LTE as % of the Installed Base	1%	8%	19%	29%	38%	47%	53%	58%	63%	68%
Paid Streaming Subscribers at Year End (m)	13	20	28	45	68	98	135	177	225	277
% Change		54%	40%	61%	52%	44%	37%	32%	27%	23%
as a % of LTE Installed Base		20%	8%	6%	6%	6%	6%	7%	8%	8%
Average Paid Streaming Subscribers (m)	11	17	24	37	57	83	116	156	201	251
Monthly Revenue per Average Subscriber (\$)	3.69	3.70	3.87	4.07	4.27	4.48	4.71	4.94	5.19	5.45
% Change		0%	5%	5%	5%	5%	5%	5%	5%	5%
Paid Streaming Revenue (\$m)	465	732	1,116	1,782	2,901	4,477	6,580	9,261	12,544	16,421
% Change		57%	52%	60%	63%	54%	47%	41%	35%	31%

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