



Mid-Year Updates 2017

“With a Little Help from My Friends”

Spotify had another stellar quarter ending in June of 2017, as its growth rate accelerated. Based upon numerous recent press reports, it appears to be headed for a public listing of its shares and while the path they may choose, a direct share listing on the NYSE, versus the pomp and circumstance of an IPO with its proverbial “Roadshow”, is clearly different, Spotify has always marched to its own drummer since being founded a decade ago by proven technology executives Martin Lorentzon and Daniel Eck. Recent additions to the board of directors also indicate the future growth trajectory of the company, with Tom Staggs, former COO of Disney, and Shishir Mehrotra, a former YouTube executive, joining to bolster their experience in video. Padmasree Warrior, former Cisco Executive with decades of experience in cloud-based technology. The new board, like the company itself, is diverse, experienced, hip, whip smart and very successful.

As one of Europe’s largest privately-held technology companies, it has long defied convention. Swedish-based, Luxembourg-registered, Spotify has survived the competitive challenges of many companies, and remains the largest music streaming company in the world today with over 140 Million users. Recent acquisitions in the video space lends many to believe they will soon become a major force in that dynamic marketplace as well. The entrepreneurship of its founders, who have sold several technology companies previously, permeates the entire company and is a major asset in the company's portfolio.

Essentially senior management, led by Daniel Eck, has evolved Spotify's business as market opportunity has allowed, creating a dynamic, fluid and opportunistic culture focused on the user experience. With the major record labels owning nearly 20% of the company, there has been, and continues to be, a positive alignment of interests. It has continued to expand into new markets, now in over 40 countries, with top-shelf curation for each individual market, and a solid core of “Freemium” and premium subscribers. We believe the subscriber numbers announced thus far, are low, with the truth soon becoming clear when they become a publicly reporting company. It is likely paid subscribers number closer to 60 million, versus the 50 million reported, for example, and we expect the overall subscriber base to grow still. .

Valuation remains modest, if the press is to be believed, with reports of a \$13B valuation, 3x revenues, 50% premium to their last raise done in ‘15 at \$8.5B, although the company has tripled its subscriber base. Netflix, which is a logical public comparison, sells at \$68B valuation or 200x earnings and at 7.5 x revenues. By this measure Spotify looks like a value play, as it’s growing as fast, if not faster, and has better cash flow characteristics than Netflix due to their expensive proprietary content.

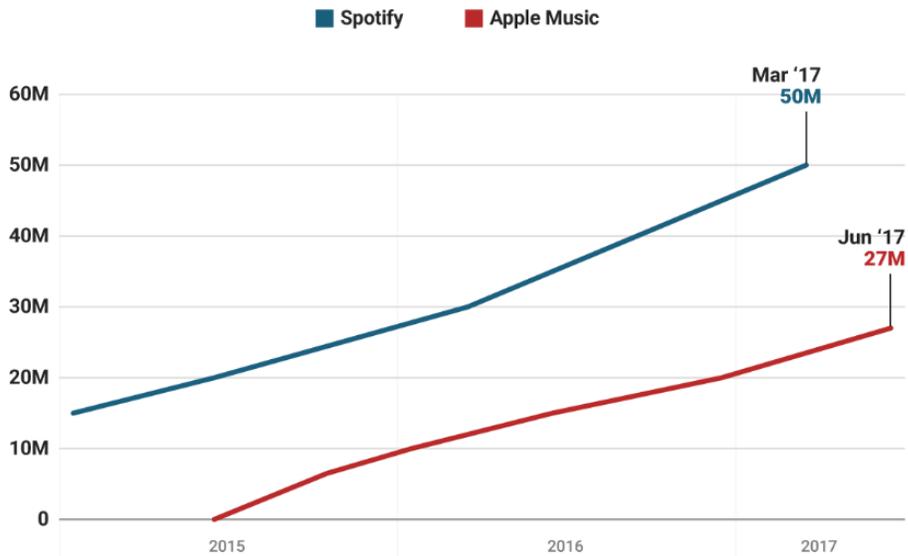
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TECH CHART OF THE DAY

NUMBER OF WORLDWIDE PAID SUBSCRIBERS



SOURCE: Company announcements

statista | BUSINESS INSIDER

Mike Nudelman/Business Insider/Statista

Spotify's public direct listing, if used, is an unconventional tool that may provide them an abundant stream of free publicity, well beyond the routine IPO with its requisite "Quiet" period. The company has been nimble in its use of PR, as evidenced by the Taylor Swift episodes, as well as Apple Music's launch, both of which kept the company atop the headlines/social media for months without spending a dime on advertising. If you're an investor in our SPFY, SPV, LP please expect a letter detailing distributions once listing terms are set, as future liquidity is good news!

Profitability is at hand, now that the company is at scale, as revenue is expected to exceed \$4B at year-end, mostly from subscriptions around the world. Catching the tailwinds of a global recovery will help them continue to ride the technological wave of the world's consumers seeking to have their music, whenever and wherever they want it. The overall streaming market will keep growing and Spotify is likely to remain a major player for decades to come. Even Taylor Swift succumbed to peer pressure, putting her songs up on the platform again, as we predicted she would in '16. Please see our past quarterly piece "Shake it off" where we mentioned "TSwift" & predicted Spotify would survive a competitive threat from Apple, and subscriber growth accelerated, as in the chart above.

As always, this quarter's piece is dedicated to one iconic artist. This time it's the Beatles, as the "Sgt. Pepper's Lonely Hearts Club Band" album is now 50 years old. This iconic album resulted from the Beatles choosing to take on alter egos as they had grown weary of the hysteria their celebrity had brought. Technologically this album set new standards beyond what anyone else had ever else conceived, much less recorded. When 4-track recording was the norm, they used creativity, innovation and just plain teamwork to increase the tracks 12-fold in many cases, inspiring musicians everywhere. Brian Wilson & the Beach Boys, for example, as well as the Bee Gees, The Police, Lou Reed, Dave Grohl, Kurt Cobain, Billy Joel, AC/DC, Oasis, Bruce

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Springsteen, and U2 among countless others. Spotify as well continues to inspire millions of listeners, and no doubt other entrepreneurs, who want to do it their way, just as Spotify has.

This spirit of individuality and innovation will serve Spotify well, and is a hallmark of entrepreneurship, and successful companies. The only way to compete in a dynamic market environment is to continue to create, evolve and innovate to meet the competitive challenges and needs of customers. All of the largest public companies today: Facebook, Amazon, Apple, Microsoft, Netflix, and Google have embraced change by monetizing secular trends as part of their business models. Like in the Epic Beatles Song “The End” with all four Beatles playing beautifully together to a crescendo, Spotify has brought Scale, Technology, and, perhaps most importantly, Convenience to consumers at a reasonable price to make their business soar.

We look forward to hearing some definitive, official information on the Company’s plans going forward, as to date, all reports have been from the press. We will certainly provide you with all the facts as we get them, and look forward to another successful outcome for one of our investments. This is extremely gratifying both personally and professionally, as we provide our investor partners opportunities to invest profitably in the new economy as we outlined in our presentations. PSP continues to seek the best & brightest companies to invest in going forward.

Until then, we ask you to continue sharing your comments with us as, we also get by “With a Little Help from Our Friends”. As for Spotify, we feel it is “Getting Better All the Time” as the track of the album states. Investors will be the judge in the quarters ahead. This company clearly has lots of friends and we are proud to be among the investors supporting it. Based upon public comparisons like Netflix, with its \$68B market cap, Spotify can be worth \$20B+ within the next 12-24 months if it continues to scale revenues at over 50% per annum, as it has for a decade now.

Happy summer and happy investing.

Eric Munson & the Team at *PSP Ventures*

Relevant Articles:

<http://www.cnbc.com/2017/06/02/spotify-stock-listing-could-be-within-a-year.html>

<http://fortune.com/2017/06/02/new-york-tech-acquisitions/>

<https://venturebeat.com/2017/06/15/spotify-announces-140-million-users-as-its-paying-subscription-base-approaches-40/>

<http://www.marketwatch.com/story/spotify-may-have-wider-appeal-than-netflix-analysts-say-2017-06-28>

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