



Q3 2017 End of an Era

Spotify is the leading streaming company in the world today with over 150 million listeners, and over 60 million paid subscribers as of mid-year 2017. Like the quality music they stream, we expect the hits to keep on coming with recent joint ventures with Hulu (\$4.99/month student pricing for both services), and the other multitude of announcements putting them in your life at every opportunity. Microsoft announced it was shuttering its “Groove” music service and is sending all its subscribers to Spotify. This is not a new trend, rather, just another signpost along the road to success for this company.

The financial press has released news of the company doing a direct listing on the New York Stock Exchange, and we believe this to be a highly likely outcome fairly soon. The company has signed major labels to renew licensing agreements, and has settled many of the pending litigation issues surrounding their payment of fees to the music industry. Streaming surpassed all other forms of revenues for the industry last year, and remains the shining growth engine for artists everywhere. Spotify is seemingly everywhere these days, with recent launches in Japan, Indonesia and other countries accelerating their subscriber growth. One need only look at their consistent 35% - 40% growth, and the surprisingly sticky conversion rate, from “Freemium” to Premium subscribers, in excess of 20% per annum, to imagine the company at 300 million listeners with over 100 million paid subscribers around the world.

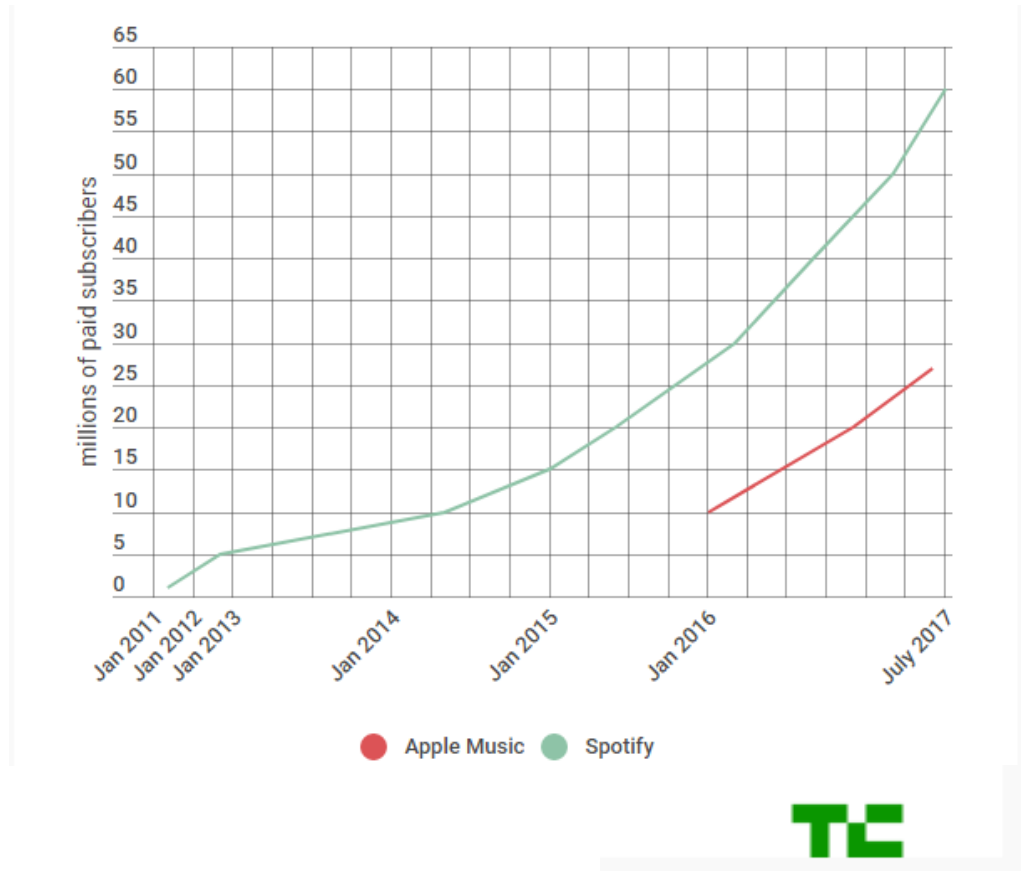
Revenues are estimated to exceed \$5B in 2018, growing to nearly \$8B in 2021. Overall growth in streaming is still accelerating, and with it, Spotify’s musical footprint on the world. Video will also drive subscriber growth when they choose to roll it out to their large subscriber base. The company has been nimble at taking opportunities when they present themselves, and has survived larger rivals such as Apple and Google entering their markets. We believe such an opportunity will become apparent in the video realm sometime soon, as the capable management team executes very well.

The company’s valuation, while increasing from its last venture round in ’15 at \$8.5B to over \$15B currently, is less than 4x revenues a fraction of Netflix at \$77B and 8x revenues. We therefore believe the stock has major upside, a long-term trend follower, streaming is here to stay. Expect to hear from us soon, once we get definitive news from the company on its plans.

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Spotify vs Apple Music (Paid Subscribers)



This quarter we dedicate our letter to Tom Petty, who passed following his 40th anniversary tour. He was a true original and sold 80 million records worldwide in his 40 year career. As I listen to his songs writing this, I am struck by the honesty in his words. In his iconic “Won’t Back Down” he writes, “Well, I know what’s right, I got just one life”. This much is true no doubt, and we believe what’s right is that Spotify will enjoy great success ahead. They won’t back down either, as management has stood up to Apple, Google and others so far.

Thank you for your support, happy investing and happy fall. Contact us anytime to talk about things, as we, like Tom Petty, relish our collaborations and discussions with our partners. As Tom wrote in Square One on the Elizabethtown soundtrack, “My slate is clear”. Peace. Out.

Eric Munson & the Team at *PSP Ventures*

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Relevant Articles:

Spotify on pace to grow revenue 40% this year, according to report:

<https://www.cnbc.com/2017/10/12/report-on-spotify-earnings-h1-2017-revenue-loss-margins-growth.html>

Executive Turntable: New Hires at Spotify, Plus Moves at Warner Bros., Pandora and More:

<http://www.billboard.com/articles/business/7990202/executive-turntable-spotify-hires-warner-bros-pandora-moves>

Spotify voice commands now work on any Google Assistant-supported device:

<https://www.theverge.com/tech/2017/10/4/16424644/spotify-voice-commands-google-assistant-supported-devices>

Spotify's valuation turned up to \$16 billion in private trades – sources:

<http://www.reuters.com/article/us-spotify-listing-exclusive/exclusive-spotifys-valuation-turned-up-to-16-billion-in-private-trades-sources-idUSKCN1C226W>

Spotify preps to go public with 60M subscribers, outpacing Apple:

<https://techcrunch.com/2017/07/31/spotify-vs-apple-music/?ncid=mobilenavtrend>

This Is Why Spotify Is Beating Apple Music:

<https://www.forbes.com/sites/bobbyowsinski/2017/09/16/spotify-apple-music/#bfdc584170b5>

Spotify and Hulu are offering a combined service for students — for \$4.99:

<https://www.cnbc.com/2017/09/07/spotify-and-hulu-bundle-deal-announced-for-students.html>

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