



The Song Remains the Same

Spotify announced it had 70 million paid subscribers, and 175 million total listeners at the end of 2017 as it sings its own hit song. Spotify continues its progress towards becoming a public company in 2018, announcing plans for a direct listing on the New York Stock Exchange. Much as the lyrics of the iconic Led Zeppelin song go, “I had a dream, Oh, yeah, Crazy dream” Daniel Ek and his band of merry minstrels continue adding to their following with creatively curated playlists, lifestyle deals across multiple platforms and strategically partnering with some of the largest music brands in the world. The latest release, disclosed in December with Tencent Music, values Spotify at over \$11B, with Tencent purchasing shares of Spotify, which bolstered its balance sheet, in exchange for cash & equity in Tencent Music. Importantly, Tencent controls 70% of the Chinese streaming music market, and has vast catalogues of proprietary content in its control. From where we sit, we believe it will prove to be one of the wisest choices this nimble management team has made in navigating the evolution of the global music industry. We expect to see them exceed 100 million paid subscribers in mid-2018, as streaming is a global phenomenon, with the market growing at 35% annually through 2025.

2017 saw tremendous growth for Spotify with revenues topping \$6B, with international subscriber growth powering its progress, alongside accelerating advertising revenues of over \$600mm, on their way towards \$1B in 2018 according to sources close to the company. Note that while music revenues are based upon a licensing model, with margins of 20%, ads offer robust profits and was a factor in positive cash flow of nearly \$100mm in 2017.

With the 60th annual Grammy Ceremonies at New York City’s Madison Square Garden this year, we can see from our offices the powerful place music holds in our city, our society and our world. We believe Spotify could outpace Apple Music, Amazon, and Google to become the single largest revenue source to the music industry. The major record labels, Sony, Universal and Warner, each own equity in Spotify, collectively owning about 20% of the shares. With Tencent & other strategic holding material stakes, we believe the share float will be modest, even with the direct listing not resulting in a lock-up for investors. It is difficult to predict the outcome of any offering and the stock market overall, and even harder in this case with so few data points to rely upon. Nonetheless, we believe the fundamentals of the company and the industry look solid. As to Spotify’s direct listing, we can’t know with certainty, but are cautiously optimistic. These new issues generally see some volatility, because after all, as J.P. Morgan famously said when asked about the stock market, “It will fluctuate”. Please take note Spotify fans.



PSPV has been involved with Spotify since 2014 and we are proud of their success. We focus our energy on identifying these disruptive, entrepreneurial businesses which offer us the opportunity to compound capital in a high-quality growth equity company. All Spotify shares held in SPFY Holdings, SPV LP will be distributed-in-kind by the Partnership. This is tax-efficient means of returning capital to our partners, and we are pleased to say PSP has retained Merrill Lynch Venture Services to manage this process on your behalf. With over 25 years of experience, 30 team members across the country, and 60% market share, we believe they are the industry leader in this segment. Expect to see information from them to assist you in this process. They do this regularly for thousands of clients, be them individuals, families or institutions around the world. There is no charge for these distribution services and they are not seeking to solicit you for anything, rather just in assisting you in the distribution process. Please call us if you have any other questions in this process, and on the portfolio in general.

In summary, I encourage you to tune in to the Grammys on Sunday, as they celebrate music. Secondly, consider making additional investments in the growth equity space as we see tremendous opportunities selectively in this segment, within names like Lyft, Palantir, SpaceX, and Decision Sciences among others. As the Song goes,

“You don’t know what you’re missing now, Any little song that you know, Everything that’s small has to grow, And its gonna grow now, push, push, yeah”.

Grow Spotify has, and we believe it will continue to do so, once it goes into the public domain. Happy investing, and please feel free to reach out to us anytime. Note www.pspventures.vc is our website full of updates, and we look forward to speaking with you in the months ahead.

Sincerely,

Eric Munson & the Team at *PSP Ventures*

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