

Spotify Technology

Same song on profitability push; reiterate
Buy

Reiterate Rating: BUY | PO: 265.00 USD | Price: 231.92 USD

4Q review: Profitability push bears fruit in 4Q

Spotify (SPOT) reported a strong 4Q as gross margins, MAUs, premium subscribers, operating income and FCF were above our forecast while revenue was modestly below. All in, total 4Q23 revenue grew +16% Y/Y (20% ex FX) to €3,671mn (vs. our €3,705mn est.), reflecting ~300bps of sequential acceleration vs. 3Q (constant currency), driven by 17% growth in Premium revenue and 12% in ad-supported revenue on a reported basis. Gross profit grew +22% Y/Y to €980mn (vs. our €984mn est.) and operating income of -€75mn (vs. our -€100mn est.) benefitted from lower marketing spend and lower personnel costs. Excluding €143 million in charges associated with efficiency actions, 4Q adjusted OI was €68mn.

Momentum to continue into '24

SPOT's 1Q guidance indicates continued momentum in MAUs and Premium subscribers along with a significant 1Q ramp in operating income. SPOT projects 4Q revenue of €3.6bn (including 250 bps headwind from FX) and total MAUs of 618mn. Premium subscribers are expected to be 239mn (vs. our prior 236mn est.) while gross margins are forecast to be 26.4% (vs. our 26.6% estimate) and operating income is projected to be €180mn (vs. our prior €103mn). Critically, SPOT appeared to be approaching breakeven in podcasting in 4Q and expects podcasting to be profitable in 2024. This coupled with expense management should drive operating income growth in the upcoming year.

Adjusting estimates for 4Q results and 1Q24 guide

We are significantly increasing our operating income forecast to reflect 4Q results and 1Q24 guidance. We now project 1Q revenue of €3.6bn (inline with company guidance and directionally inline with our prior forecast) and gross margins of 26.4% (inline with company guidance and vs our prior forecast of 26.6%). We significantly increase our '24 OI forecast to €936mn from €618mn previously. We also increase our '24 FCF estimate to €1,000mn (up nearly 50% Y/Y) from €901mn previously.

Reiterate Buy and \$265 PO

We reiterate our Buy rating and \$265 PO. We remain bullish on the longer-term potential of SPOT, which should benefit from an improvement in advertising, contributions from new business lines and deeper penetration in existing markets. Furthermore, price increases as well as management's recent commentary and actions on expenses should drive continued improvement in the underlying margin trajectory of the business.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS	(3.03)	(2.74)	3.53	6.11	8.24
EPS Change (YoY)	-183.2%	9.6%	NM	73.1%	34.9%
Consensus EPS (Bloomberg)			2.39	4.14	6.55
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	61.2x	35.3x	26.2x
EV / EBITDA*	NM	NM	37.3x	23.1x	17.5x
Free Cash Flow Yield*	0%	1.6%	2.3%	4.0%	5.6%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 07 February 2024 05:00AM EST

07 February 2024

Equity

Key Changes

(EUR)	Previous	Current
2024E Rev (m)	15,556.3	15,578.9
2025E Rev (m)	17,297.3	17,355.3
2026E Rev (m)	NA	18,859.5
2024E EPS	2.28	3.53
2025E EPS	4.07	6.11
2026E EPS	NA	8.24
2024E EBITDA (m)	740.4	1,054.1
2025E EBITDA (m)	1,193.3	1,707.2
2026E EBITDA (m)	NA	2,243.1

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Stock Data

Price	231.92 USD
Price Objective	265.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-1-9
52-Week Range	114.64 USD - 248.67 USD
Mrkt Val (mn) / Shares Out (mn)	46,035 USD / 198.5
Free Float	61.7%
Average Daily Value (mn)	378.35 USD
BofA Ticker / Exchange	SPOT / NYS
Bloomberg / Reuters	SPOT US / SPOT.N
ROE (2024E)	23.5%
Net Dbt to Eqty (Dec-2023A)	-123.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

KPI = Key performance indicator

MAUs = Monthly active users

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iQprofileSM Spotify Technology

iQmethodSM – Bus Performance*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-5.3%	-5.2%	15.6%	21.5%	22.4%
Return on Equity	-26.1%	-19.8%	23.5%	29.8%	28.6%
Operating Margin	-5.6%	-3.0%	6.0%	9.2%	11.4%
Free Cash Flow	21	674	1,000	1,733	2,399

iQmethodSM – Quality of Earnings*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	1.5x	1.5x	1.5x
Asset Replacement Ratio	0.1x	0x	0.3x	0.3x	0.4x
Tax Rate	NM	NM	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-103.4%	-123.4%	-123.8%	-124.4%	-124.5%
Interest Cover	-5.0x	-1.8x	17.7x	30.2x	40.4x

Income Statement Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Sales	11,727	13,247	15,579	17,355	18,859
% Change	21.3%	13.0%	17.6%	11.4%	8.7%
Gross Profit	2,926	3,441	4,271	5,019	5,592
% Change	12.9%	17.6%	24.1%	17.5%	11.4%
EBITDA	(488)	(244)	1,054	1,707	2,243
% Change	NM	50.0%	NM	62.0%	31.4%
Net Interest & Other Income	289	(59)	(20)	(7)	13
Net Income (Adjusted)	(589)	(488)	687	1,195	1,618
% Change	-185.9%	17.1%	NM	73.9%	35.4%

Free Cash Flow Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(430)	(488)	687	1,195	1,618
Depreciation & Amortization	171	158	118	106	98
Change in Working Capital	191	464	(319)	(252)	(137)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	114	546	545	718	857
Capital Expenditure	(25)	(6)	(31)	(35)	(38)
Free Cash Flow	21	674	1,000	1,733	2,399
% Change	-92.4%	NM	48.4%	73.3%	38.4%
Share / Issue Repurchase	41	365	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,483	3,114	4,114	5,848	8,246
Trade Receivables	695	878	1,081	1,216	1,418
Other Current Assets	1,174	1,268	1,524	1,567	1,606
Property, Plant & Equipment	348	247	209	184	169
Other Non-Current Assets	2,936	2,839	2,803	2,756	2,711
Total Assets	7,636	8,346	9,731	11,570	14,151
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,516	4,090	4,675	5,136	5,795
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	1,719	1,733	1,733	1,733	1,733
Total Liabilities	5,235	5,823	6,408	6,869	7,528
Total Equity	2,401	2,523	3,324	4,701	6,622
Total Equity & Liabilities	7,636	8,346	9,731	11,570	14,151

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Music

Company Description

SPOT owns the largest streaming music subscription service in the world, controlling a 1/3 market share of the premium music streaming market. SPOT generates roughly 90% of its revenues from premium service subscriptions and roughly 10% of its revenue from advertising via the company's free, limited-access streaming service along with original and exclusive podcasts. SPOT also owns a 8% stake in Tencent Music Entertainment, the largest music streaming platform in China.

Investment Rationale

We view SPOT as an attractive pure play on the high-growth streaming music market - a subscription-driven opportunity underpinned by the global appeal of music and rising smartphone adoption with optionality from recent podcasting and Two-Sided Marketplace initiatives. Although the high level of the company's streaming music costs are less than ideal, we believe a path to improved profitability is visible, setting the stage for significant value creation potential provided execution continues.

Stock Data

Average Daily Volume 1,631,386

Quarterly Earnings Estimates

	2023	2024
Q1	-1.16A	0.67E
Q2	-1.55A	0.73E
Q3	0.33A	1.00E
Q4	-0.36A	1.12E

Exhibit 1: SPOT – Variance Table

We raise our CY24 OI to €936mn (from €618mn)

Fiscal Year Ends 12/31		Current Quarter							Next Year						
		Guide	Act.	Act.		Old			Est	New		Old			
SPOT: BofAS Estimate Revisions		4Q23	4Q22A	4Q23A	Y/Y	4Q23E	Y/Y	D	2023E	2024E	Y/Y	2024E	Y/Y	D	
Monthly Active Users (MAUs) (mns)		601	489	602	23%	601	23%	1	602	682	13%	660	10%	22	
Net MAU Additions (Losses) (mns)			33	28	-15%	27	-18%	1	113	80	-29%	59	35%	21	
Premium Subscribers (mns)		235	205	236	15%	235	15%	1	236	259	10%	256	9%	3	
Net Subscriber Additions (Losses) (mns)			10	10	0%	9	-10%	1	31	23	-26%	21	17%	2	
Ad-Supported MAUs (mns)			295	379	28%	379	28%	0	379	436	15%	417	10%	19	
Premium ARPU			€ 4.55	€ 4.60	1%	€ 4.64	2%	-€ 0.04	€ 4.40	€ 4.61	5%	€ 4.56	3%	€ 0.04	
Revenues															
Premium			€ 2,717	€ 3,170	17%	€ 3,205	18%	-€ 35	€ 11,566	€ 13,583	17%	€ 13,311	15%	€ 272	
Ad-Supported			€ 449	€ 501	12%	€ 500	11%	€ 1	€ 1,681	€ 1,996	19%	€ 2,246	34%	-€ 249	
TOTAL Revenue			€ 3,700	€ 3,166	€ 3,671	16%	€ 3,705	17%	-€ 34	€ 13,247	€ 15,579	18%	€ 15,556	17%	€ 23
TOTAL Cost of Revenue			€ 2,365	€ 2,691	14%	€ 2,721	15%	-€ 30	€ 9,806	€ 11,308	15%	€ 11,301	15%	€ 7	
TOTAL Gross Profit			€ 801	€ 980	22%	€ 984	23%	-€ 4	€ 3,441	€ 4,271	24%	€ 4,255	23%	€ 16	
Margin %		26.6%	25.3%	26.7%	--	26.6%	--	0.1%	26.0%	27.4%	--	27.4%	--	0.1%	
Research and Development			€ 415	€ 468	13%	€ 468	13%	€ 0	€ 1,725	€ 1,530	-11%	€ 1,674	-3%	-€ 145	
Sales and Marketing			€ 453	€ 432	-5%	€ 451	-1%	-€ 19	€ 1,533	€ 1,312	-14%	€ 1,426	-8%	-€ 115	
General and Administrative			€ 164	€ 155	-5%	€ 166	1%	-€ 11	€ 585	€ 493	-16%	€ 536	-10%	-€ 43	
EBITDA			-€ 181	€ 102	nm	-€ 67	nm	€ 169	-€ 10	€ 1,054	nm	€ 740	nm	€ 314	
Depreciation and Amortization			€ 50	€ 34	-32%	€ 33	-34%	€ 1	€ 158	€ 118	-25%	€ 122	-22%	-€ 4	
Operating Income		-93 to -108	-€ 231	€ 68	nm	-€ 100	nm	€ 168	-€ 168	€ 936	nm	€ 618	nm	€ 318	
Net Income (Loss)			-€ 270	-€ 70	nm	-€ 80	nm	€ 10	-€ 532	€ 687	nm	€ 447	nm	€ 240	
EPS			-€ 1.40	-€ 0.36	nm	-€ 0.40	nm	€ 0.04	-€ 2.74	€ 3.53	nm	€ 2.29	nm	€ 1.24	
FCF			-€ 73	€ 396	nm	€ 172	nm	€ 224	€ 678	€ 1,000	48%	€ 901	98%	€ 99	
FCF/S			-€ 0.38	€ 2.02	nm	€ 0.87	nm	€ 1.15	€ 3.45	€ 5.13	49%	€ 4.61	100.5%	€ 0.52	

Source: BofA Global Research estimates

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Exhibit 2: SPOT – Income Statement

We forecast €15.58bn in CY24 revenue

	2023						2024							
Fiscal Year Ends 12/31	2021A	2022A	Q1A	Q2A	Q3A	Q4A	2023A	Q1E	Q2E	Q3E	Q4E	2024E	2025E	2026E
SPOT: Income Statement	2021	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024	2025	2026
Total MAUs	406	489	515	551	574	602	602	618	638	660	682	682	731	777
Premium Subscribers	180	205	210	220	226	236	236	239	245	252	259	259	277	295
Ad-supported MAUs	236	295	317	343	361	379	379	392	406	421	436	436	467	495
+ Premium Revenue	€ 8,460	€ 10,251	€ 2,713	€ 2,773	€ 2,910	€ 3,170	€ 11,566	€ 3,217	€ 3,286	€ 3,417	€ 3,663	€ 13,583	€ 14,897	€ 16,062
+ Ad-supported Revenue	€ 1,208	€ 1,476	€ 329	€ 404	€ 447	€ 501	€ 1,681	€ 394	€ 491	€ 530	€ 581	€ 1,996	€ 2,458	€ 2,798
= Total Revenue	€ 9,668	€ 11,727	€ 3,042	€ 3,177	€ 3,357	€ 3,671	€ 13,247	€ 3,611	€ 3,778	€ 3,947	€ 4,244	€ 15,579	€ 17,355	€ 18,859
Y/Y Growth	22.7%	21.3%	14.3%	10.9%	10.6%	16.0%	13.0%	18.7%	18.9%	17.6%	15.6%	17.6%	11.4%	8.7%
- Cost of Revenue	€ 7,077	€ 8,801	€ 2,276	€ 2,367	€ 2,472	€ 2,691	€ 9,806	€ 2,658	€ 2,752	€ 2,861	€ 3,037	€ 11,308	€ 12,336	€ 13,267
= Gross Profit	€ 2,591	€ 2,926	€ 766	€ 810	€ 885	€ 980	€ 3,441	€ 952	€ 1,026	€ 1,086	€ 1,207	€ 4,271	€ 5,019	€ 5,592
Margin %	26.8%	25.0%	25.2%	25.5%	26.4%	26.7%	26.0%	26.4%	27.1%	27.5%	28.4%	27.4%	28.9%	29.7%
Y/Y Growth	28.6%	12.9%	14.2%	15.1%	18.0%	22.3%	17.6%	24.3%	26.6%	22.7%	23.2%	24.1%	17.5%	11.4%
- Research and Development	€ 912	€ 1,387	€ 435	€ 453	€ 369	€ 468	€ 1,725	€ 379	€ 375	€ 363	€ 413	€ 1,530	€ 1,576	€ 1,592
- Sales and Marketing	€ 1,135	€ 1,572	€ 347	€ 399	€ 355	€ 432	€ 1,533	€ 282	€ 326	€ 335	€ 368	€ 1,312	€ 1,339	€ 1,352
- General and Administrative	€ 450	€ 626	€ 140	€ 161	€ 129	€ 155	€ 585	€ 111	€ 130	€ 122	€ 130	€ 493	€ 503	€ 503
= Operating (Loss) / Income	€ 94	(€ 659)	(€ 156)	(€ 112)	€ 32	€ 68	(€ 168)	€ 180	€ 195	€ 265	€ 296	€ 936	€ 1,601	€ 2,145
Margin %	1.0%	-5.6%	-5.1%	-3.5%	1.0%	1.9%	-1.3%	5.0%	5.2%	6.7%	7.0%	6.0%	9.2%	11.4%
Y/Y Growth	-132.1%	-801.1%	2500.0%	-42.3%	-114.0%	-129.4%	-74.5%	-215.4%	-274.2%	728.2%	335.1%	-657.2%	71.0%	34.0%
+ Depreciation and Amortization	€ 182	€ 171	€ 44	€ 44	€ 36	€ 34	€ 158	€ 31	€ 30	€ 29	€ 28	€ 118	€ 106	€ 98
= EBITDA	€ 276	(€ 488)	(€ 112)	(€ 68)	€ 68	€ 102	(€ 10)	€ 211	€ 225	€ 294	€ 324	€ 1,054	€ 1,707	€ 2,243
Margin %	2.9%	-4.2%	-3.7%	-2.1%	2.0%	2.8%	-0.1%	5.8%	6.0%	7.5%	7.6%	6.8%	9.8%	11.9%
Y/Y Growth	-275.8%	-276.8%	-461.3%	-55.8%	-137.0%	-156.4%	-98.0%	-288.3%	-430.9%	332.4%	217.8%	-10640.8%	62.0%	31.4%
+ Finance Income	€ 246	€ 421	€ 27	€ 33	€ 55	€ 46	€ 161	€ 8	€ 8	€ 8	€ 9	€ 33	€ 46	€ 66
+ Finance Costs	(€ 91)	(€ 132)	(€ 77)	(€ 27)	(€ 14)	(€ 102)	(€ 220)	(€ 13)	(€ 13)	(€ 13)	(€ 13)	(€ 53)	(€ 53)	(€ 53)
= (Loss) / Income Before Tax	€ 249	(€ 370)	(€ 206)	(€ 241)	€ 73	(€ 131)	(€ 505)	€ 175	€ 190	€ 260	€ 292	€ 916	€ 1,594	€ 2,158
- Income Tax (Benefit) / Expense	€ 283	€ 60	€ 19	€ 61	€ 8	(€ 61)	€ 27	€ 44	€ 47	€ 65	€ 73	€ 229	€ 398	€ 539
Tax Rate	113.7%	-16.2%	-9.2%	-25.3%	11.0%	46.6%	-5.3%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
= Net Loss Attributable to Owners of the Parent	(€ 34)	(€ 430)	(€ 225)	(€ 302)	€ 65	(€ 70)	(€ 532)	€ 131	€ 142	€ 195	€ 219	€ 687	€ 1,195	€ 1,618
+ Adjustments	(€ 172)	(€ 159)	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
= Net Loss Used for Diluted Loss per Share	(€ 206)	(€ 589)	(€ 225)	(€ 302)	€ 65	(€ 70)	(€ 532)	€ 131	€ 142	€ 195	€ 219	€ 687	€ 1,195	€ 1,618
Diluted Shares Outstanding	193	195	194	194	198	196	194	194	195	195	195	195	196	197
Diluted EPS	(€ 1.07)	(€ 3.03)	(€ 1.16)	(€ 1.55)	€ 0.33	(€ 0.36)	(€ 2.74)	€ 0.67	€ 0.73	€ 1.00	€ 1.12	€ 3.53	€ 6.11	€ 8.24

Source: BofA Global Research estimates

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Exhibit 3: SPOT – FCF Statement

We forecast €1.00bn in CY24 FCF

	2023						2024							
Fiscal Year Ends 12/31	2021A	2022A	Q1A	Q2A	Q3A	Q4A	2023A	Q1E	Q2E	Q3E	Q4E	2024E	2025E	2026E
SPOT: Free Cash Flow (FCF) Statement	2021	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024	2025	2026
Net Cash Flows from Operating Activities	€ 361	€ 46	€ 59	€ 13	€ 211	€ 397	€ 680	€ 125	€ 131	€ 273	€ 502	€ 1,032	€ 1,768	€ 2,436
+ Capital Expenditures	(€ 85)	(€ 25)	(€ 2)	(€ 2)	(€ 1)	(€ 1)	(€ 6)	(€ 7)	(€ 8)	(€ 8)	(€ 8)	(€ 31)	(€ 35)	(€ 38)
+ Change in Restricted Cash	€ 1	€ 0	€ 0	(€ 2)	€ 6	€ 0	€ 4	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
= Free Cash Flow	€ 277	€ 21	€ 57	€ 9	€ 216	€ 396	€ 678	€ 118	€ 124	€ 265	€ 494	€ 1,000	€ 1,733	€ 2,399
FCF/Share	\$1.43	\$0.10	\$0.29	\$0.05	\$1.09	\$2.02	\$3.45	\$0.61	\$0.64	\$1.36	\$2.53	\$5.13	\$8.85	\$12.20
Y/Y Growth	51.4%	-92.4%	159.1%	-75.7%	517.1%	-642.5%	3128.6%	107.2%	1274.2%	22.7%	24.6%	47.5%	73.3%	38.4%
Leverage Statistics														
Total Debt	€ 1,202	€ 1,128	€ 1,156	€ 1,167	€ 1,209	€ 1,203	€ 1,203	€ 1,203	€ 1,203	€ 1,203	€ 1,203	€ 1,203	€ 1,203	€ 1,203
- Cash and Cash Equivalents	€ 2,744	€ 2,483	€ 2,443	€ 2,550	€ 2,618	€ 3,114	€ 3,114	€ 3,232	€ 3,356	€ 3,621	€ 4,114	€ 4,114	€ 5,848	€ 8,246
= Net Debt	(€ 1,542)	(€ 1,355)	(€ 1,287)	(€ 1,383)	(€ 1,409)	(€ 1,911)	(€ 1,911)	(€ 2,029)	(€ 2,153)	(€ 2,418)	(€ 2,911)	(€ 2,911)	(€ 4,645)	(€ 7,043)
Gross Leverage	4.4x	nm	nm	nm	nm	nm	nm	3.8x	2.0x	1.4x	1.1x	1.1x	0.7x	0.5x
Net Leverage	-5.6x	nm	nm	nm	nm	nm	nm	-6.5x	-3.6x	-2.9x	-2.8x	-2.8x	-2.7x	-3.1x
TTM EBITDA	€ 276	(€ 488)	(€ 631)	(€ 545)	(€ 293)	(€ 10)	(€ 10)	€ 313	€ 606	€ 832	€ 1,054	€ 1,054	€ 1,707	€ 2,243

Source: BofA Global Research estimates

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Price objective basis & risk

Spotify Technology (SPOT)

Our \$265 price objective is based on a DCF valuation, driven by a discount rate of 12.3% and a 9% terminal growth rate. Our valuation accounts for SPOT's positioning within a secular growth area of Media & Entertainment, its ramping profitability, and the premium valuations ascribed to leading subscription streaming media services.

Upside risks to our price objective are faster-than-expected revenue growth, margin expansion, increased market share, increased operating leverage, and traction from new growth initiatives.

Downside risks to our price objective are margin pressure, increased content costs, reduced streaming market share, slower revenue growth and the potential that the Joe Rogan controversy drives an increase in churn or artists pulling their songs from the platform.

Analyst Certification

I, Jessica Reif Ehrlich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
NEUTRAL				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
UNDERPERFORM				
	Altice USA, Inc.	ATUS	ATUS US	Jessica Reif Ehrlich
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
RSTR				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich
	Sirius XM Holdings Inc	SIRI	SIRI US	Jessica Reif Ehrlich

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

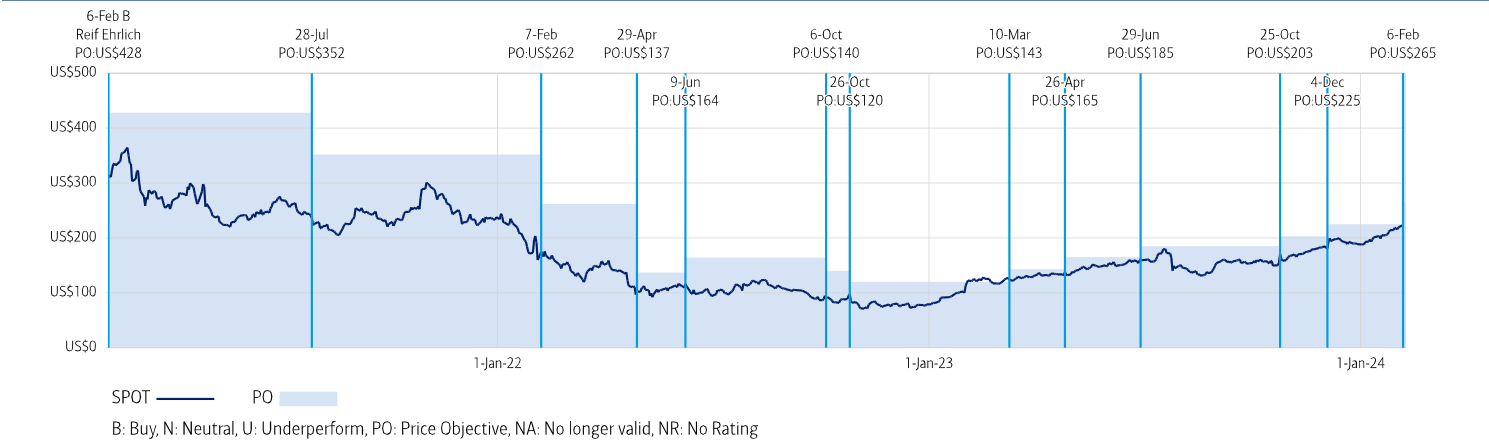
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Spotify (SPOT) Price Chart



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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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