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RESEARCH GROUP

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Spotify

Spotify (NYSE: SPOT)

Overall Thesis: Sell
Estimated Fair Value: $468.01
Current Price: $646.00 (8/5/25)
YTD Growth: 41.33%
LTM Low-High: $319.07-$785.00

Company Overview

Spotify is the world's largest audio streaming service with over 675 million monthly active users (MAUs) and 263 million premium subscribers. Spotify currently operates in over 184 countries, and provides over 100 million different audio tracks, along with millions of podcast titles. The service allows individuals to stream music on demand, without having to worry about downloading or paying for the titles. A large portion of revenue for the company comes from its premium service, removing all advertisements and giving users exclusive rights like downloading music for offline use. Non-premium users must use the service with the exception of advertisements being played as they stream, making up the other large portion of revenue for the company.

Risks and Catalysts

Spotify is susceptible to several risk factors coming from its reliance on licensing, advertising, foreign operating software, and competition. At the same time, there is massive room for growth spearheaded by Spotify's expansion into other forms of entertainment, its integration of AI, and its market positioning. Below are some of the risks that could potentially impact Spotify in the near and long term.

- Licensing: Spotify can obtain the rights to stream content based on whether it can sign artists or record labels. Additionally, they must pay royalties to these artists based on their popularity on the platform. These costs have led to net operating losses in the past, and are a cost which Spotify incurs with little bargaining power, meaning that it will continue to rise as they expand, and may pose a threat to margins and bottom line growth. Additionally, these licenses and royalties lead to a minefield of obligations that Spotify has to navigate around, all while confusing the accounting for the company since royalties are difficult to forecast accurately.
- Competition: As mentioned in their most recent 10-K, "[Spotify] cannot assure you that the growth in revenue we have experienced over the past few years will continue at the same rate… market saturation, the maturation of our business, or increases competition [may cause revenue growth to decline]. Competitors like Apple Music, Amazon Music, and YouTube Music are continuing to expand their services, integrating them with their larger ecosystems that are already available (like the YouTube platform, the Apple ecosystem, and Amazon's Web Services). This larger integration is not something Spotify is able to do, given its one-dimensional business model.
- Advertising Variability: Spotify generates a significant portion of its revenue from the non-premium customers, who drive advertising revenue. However, macroeconomic factors, cybersecurity, legal regulation, and the lack of bargaining power with advertisers leaves Spotify vulnerable to losses if advertisers fail to see the value in their commitments to Spotify
- Infrastructure Vulnerability: Spotify relies on both foreign desktop and mobile interfaces and operating systems, and any change in these systems in the long-term could cause trouble for Spotify.

While these risks are certainly grounds for real concern, these risks are more inherent to the general model of the business, and most of them have not been manifested in any significant way for the company as of now. While these risks are generally not present in the current landscape, the following are catalysts for growth.

- Generative AI: Spotify has already been at the forefront of using ML models and AI to optimize consumer experiences within the app and their services. Strong user experiences drive further retention of customers, as well as both their advertising revenue or premium fees.
- Additional Services: Audiobooks and Podcasts are growing at astronomical rates on Spotify's platform, leading to another monetizable form of entertainment for the company.
- Industry Positioning: Spotify is currently the largest company in the music streaming services industry, holding over 30% of the market share (followed by Apple 12%, and Amazon 12%). The high brand recognition for the company means that it continues to drive interest and interaction from consumers by virtue of its name.

Figure 1: LTM Chart (Source: Trading view)

Figure 2: Trading Comps (Data as of July 23rd, except for Reddit (RDDT))

	P/E	EV/EBITDA	EV/REVENUE
Spotify	107.96	64.14	7.32
Netflix	58.84	19.82	13.36
TME	23.3	17.12	6.92
Disney	24.46	14.11	2.69
Reddit	89.11	242.43	21.42
WMG	34.58	17.23	3.02
High	89.11	242.43	21.42
75th	58.84	19.82	13.36
Median	34.58	17.23	6.92
Average	46.06	62.14	9.48
25th	24.46	17.12	3.02
Low	23.30	14.11	2.69

Figure 3: Perpetuity Growth Rate Sensitivity Analysis

€ 431.28	9.50%	9.75%	9.99%	10.25%	10.50%
3.00%	€ 437.58	€ 421.31	€ 421.31	€ 392.17	€ 379.07
3.25%	€ 451.45	€ 434.04	€ 434.04	€ 402.98	€ 389.06
3.50%	€ 466.49	€ 447.79	€ 447.79	€ 414.59	€ 399.78
3.75%	€ 482.83	€ 462.69	€ 462.69	€ 427.09	€ 411.28
4.00%	€ 500.65	€ 478.88	€ 478.88	€ 440.59	€ 423.67

Figure 4: EBITDA Multiple Exit Sensitivity Analysis

€ 468.22	9.50%	9.75%	10.00%	10.25%	10.50%
15.0x	€ 385.94	€ 382.21	€ 378.52	€ 374.89	€ 371.30
17.5x	€ 431.72	€ 427.46	€ 423.27	€ 419.13	€ 415.04
20.0x	€ 477.49	€ 472.72	€ 468.01	€ 463.37	€ 458.78
22.5x	€ 523.27	€ 517.98	€ 512.76	€ 507.61	€ 502.53
25.0x	€ 569.05	€ 563.24	€ 557.51	€ 551.85	€ 546.27

DCF									
All numbers in millions									
					1	2	3	4	5
Income Statement	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	€ 9,668.00	€ 11,727.00	€ 13,247.00	€ 15,673.00	€ 18,023.95	€ 20,727.54	€ 24,251.22	€ 28,616.45	€ 33,767.41
% Growth	N/A	21.30%	12.96%	18.31%	15.00%	15.00%	17.00%	18.00%	18.00%
EBIT	€ 94.00	(€ 659.00)	(€ 446.00)	€ 1,365.00	€ 2,343.11	€ 3,109.13	€ 3,637.68	€ 4,292.47	€ 5,402.78
% of Revenue	0.97%	-5.62%	-3.37%	8.71%	13.00%	15.00%	15.00%	15.00%	16.00%
Taxes	€ 283.00	€ 60.00	€ 27.00	€ 203.00	€ 398.33	€ 528.55	€ 618.41	€ 729.72	€ 918.47
% of EBIT	301.06%	-9.10%	-6.05%	14.87%	17.00%	17.00%	17.00%	17.00%	17.00%
EBIAT					€ 1,944.78	€ 2,580.58	€ 3,019.28	€ 3,562.75	€ 4,484.31
Cash Flow Items									
D&A	€ 127.00	€ 171.00	€ 158.00	€ 121.00	€ 270.36	€ 310.91	€ 363.77	€ 429.25	€ 506.51
% of Sales	1.31%	1.46%	1.19%	0.77%	1.50%	1.50%	1.50%	1.50%	1.50%
CapEx	€ 85.00	€ 25.00	€ 6.00	€ 17.00	€ 18.02	€ 20.73	€ 24.25	€ 28.62	€ 33.77
% of Sales	0.88%	0.21%	0.05%	0.11%	0.10%	0.10%	0.10%	0.10%	0.10%
Change in NWC		(€ 236.00)	(€ 460.00)	(€ 641.00)	(€ 901.20)	(€ 1,036.38)	(€ 1,212.56)	(€ 1,430.82)	(€ 1,688.37)
% of Sales		-2.01%	-3.47%	-4.09%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
Unlevered FCF					€ 3,098.32	€ 3,907.14	€ 4,571.36	€ 5,394.20	€ 6,645.43
Present Value of FCF					€ 2,816.93	€ 3,229.69	€ 3,435.56	€ 3,685.79	€ 4,128.36
Sum of Future Cash Flows									€ 17,296.33
Terminal Value									€ 105,995.52
Present Value									€ 65,847.89
Implied Enterprise Value									€ 83,144.22
(-) Net Debt									(€ 5,268.00)
Implied Equity Value									€ 88,412.22
Outstanding Shares (millions)									205
Implied Share Price									€ 431.28

DCF Overview

Revenue and margin growth were both forecast around analyst expectations for the next three years, before being straightened or marginally increased for the last years. This is attributable to several factors, including the continued growth of premium subscribers, as well as the increasing value driven by ad-based MAUs. In recent quarters, Spotify has consistently outperformed in terms of both user growth and subscriber growth, highlighting the continued dominance Spotify maintains over its competitors globally. The expansion of podcast services, as well as the further integration of audiobooks into the app will continue to contribute to revenue growth throughout the next years as well. As stated in the most recent earnings call from Spotify, there has been over a 65% increase year over year in streamed podcasts on Spotify, with that number topping over 350 million users. Lastly, as mentioned by Gustav Soderstrom, co-president and chief technology officer, there is a slew of untapped potential in regard to generative AI, which will allow stronger user interaction and satisfaction in finding songs, making playlists, and preference optimization.

Both depreciation and capital expenditures were straight-lined as well, with the maturity of the company warranting less capital expenditures, and the lack of physical assets as core operating necessities leading to negligible growth of depreciation expenses. After discounting using a WACC of 9.99%, as well as a 3.5% growth rate, this leads to a valuation which indicates significant overvaluation in the current price of Spotify. It is worth noting that with a more conservative estimate of perpetual growth, such as 3.0%, this valuation shrinks further below current trading levels.

WACC	
Beta	1.41
Market Risk Premium	4.01%
Risk Free Rate	4.47%
Cost of Equity	10.12%
Cost of Debt	1.47%
Total Debt	2180
Total Equity	143360
Total Enterprise Value	145540
Percentage of Equity	98.50%
Percentage of Debt	1.50%
WACC	9.99%

EBITDA Multiple Exit	
Year 5 EBITDA	€ 5,909.30
Exit Multiple	20.0x
Implied Terminal Value	€ 118,185.92
Present Value	€ 73,420.97
Implied Enterprise Value	€ 90,717.30
(-) Net Debt	(€ 5,268.00)
Implied Equity Value	€ 95,985.30
Outstanding shares (millions)	205
Implied Share Price	€ 468.22

Figure 5: Weighted Average Cost of Capital Calculations
Figure 6: EBITDA Multiple Exit Calculations

Thesis

As Spotify continues to dominate the music streaming market, as well as invest in licensing and technological advances to improve user experience, our prediction is that Spotify will continue to drive strong earnings over the next few years. But despite that, technical analysis indicates that Spotify is significantly overvalued, both intrinsically and relatively. A DCF analysis based on analyst expectations for future growth pins Spotify almost 30% undervalued, even with a 3.5% perpetuity growth rate. This is despite street perpetuity growth rates being between 2.0%-2.5% on average. A brief look at its trading comps tells a similar story, with Spotify above median on several relevant metrics like P/E, EV/EBITDA, and EV/Revenue. These comparable indicate that investors in Spotify pay a premium for earnings, well above that of competitors. As Spotify also looks to increase its subscription prices, there is no doubt that it's largest differentiating factor, its market positioning, could even erode abroad. While growth may come in the form of generative AI, as well as new product offerings, the path to offerings like podcasts and audiobooks unlocking *substantial* future cash flow is unlikely. Undeniably, Spotify's biggest product is the music it keeps, and with risk factors related to licensing clouding their future certainty on maintaining their broad base of content, the outlook for the company can certainly be called into questions.