

Current Quarter Snapshot: Spotify Technology S.A. (SPOT)

Q3 2025 Results | Investor/Shareholder Analysis

***Perspective:** Institutional GARP investor evaluating SPOT position — assessing whether the profitability inflection is durable and warrants continued overweight allocation.*

1. Three Key Financial Metrics (Q3 2025)

Metric	Q3 2025	Q2 2025 (QoQ)	Q3 2024 (YoY)
Revenue	€4.3B	€4.2B (+2.4%)	€3.8B (+13.2%)
Premium Subscribers	281M	276M (+1.8%)	251M (+12.0%)
Gross Margin	31.6%	31.5% (+10 bps)	31.0% (+60 bps)

Revenue growth sustained at double-digit YoY, though decelerating from 16% in Q4 2024. Operating income hit €582M, beating guidance by €97M — the fourth consecutive quarter of profitability following a €446M operating loss in FY2023 (20-F p.8).⁷ Record free cash flow of €806M, bringing LTM FCF to €2.9B¹ — a critical metric for GARP investors assessing cash generation durability. For context, FY2024 annual FCF was €2.3B (20-F p.49),⁷ confirming the sustained trajectory. Premium ARPU stood at €4.69 in FY2024 (20-F p.43), and the January 2026 price increase should lift this further, improving unit economics even if subscriber growth moderates.

2. Single Most Pressing Challenge

Pricing Power vs. Subscriber Retention Trade-off

Spotify announced its third price increase on January 15, 2026, raising U.S. Individual plans from \$11.99 to \$12.99/month.² This widens the gap vs. Apple Music (\$10.99) to \$2/month. JPMorgan analysts estimate the increase could add approximately \$500M in revenue,³ but the timing is precarious: SPOT stock has fallen 44% from its June 2025 peak of \$785 to approximately \$440,⁴ suggesting the market is already pricing in subscriber churn risk. The Q4 2025 earnings (due February 10, 2026) will be the critical test — any sign of subscriber growth deceleration will validate bearish concerns about pricing elasticity.

This is a NOW issue, not a perennial concern: the January 2026 price increase is the first since mid-2024, it makes Spotify the most expensive mainstream music streaming service, and the stock reaction has been severe. Spotify's own 20-F acknowledges this risk, noting that failure to "attract prospective users, retain existing users, and effectively monetize" would adversely affect growth and revenue (20-F p.5).⁷ For the first time, a \$2/month pricing gap exists against Apple Music, which includes lossless audio that Spotify has failed to deliver since its 2021 HiFi announcement.

3. Management Actions for the Next 90 Days

- **Product differentiation acceleration:** Launched AI "Prompted Playlists" in US/Canada (January 22, 2026)⁵ and "About the Song" feature (February 6, 2026)⁶ to justify premium pricing with features competitors lack.
 - **Content expansion:** Physical book sales via Bookshop.org and a Netflix video podcast partnership (January 2026), expanding TAM beyond pure audio streaming. Video podcasts have reached 400M viewers across 500K shows, creating a meaningful advertising revenue channel.
 - **Q4 2025 earnings release** (February 10, 2026): Guidance targets 289M Premium subscribers (+8M QoQ), €4.5B revenue, and 32.9% gross margin — beating these would reassure investors on the profitability thesis.
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Sources:

1. Spotify Q3 2025 Earnings Release, Spotify Newsroom, November 4, 2025
2. Spotify Premium Pricing Update, Spotify Newsroom, January 15, 2026
3. "Spotify Just Raised U.S. Prices", Yahoo Finance, January 2026
4. "Spotify Stock Tanks", EDMTunes, February 4, 2026
5. "Prompted Playlists Expansion", Spotify Newsroom, January 22, 2026
6. "About the Song", TechCrunch, February 6, 2026
7. Spotify 20-F Annual Report (FY2024), SEC EDGAR, pp. 44-49

AI Tools Used:

Claude Code (Claude Opus 4) for orchestration and analysis; Claude (Sonnet) for web research and data gathering; Google NotebookLM for SEC filing (20-F) extraction
