IN THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MELISSA FERRICK, et al., Plaintiff, vs. SPOTIFY USA INC., et al., Defendants.	No. 1:16-cv-08412 (AJN)

CORRECTED

EXHIBIT B-1 TO THE DECLARATION OF JOAO DOS SANTOS IN SUPPORT OF PLAINTIFFS' MOTION FOR FINAL APPROVAL

VOLUME 2 of 7

Exhibit B-1

1 "Spotify: A Global Streaming Leader"

2 "Spotify Showing Momentum Ahead of Possible Listing"

3 "Exclusive Report: Spotify Artist Payments Are Declining in 2017, Data Shows"

4 "Spotify Research Report: The Rock Star of Streaming Services"

5 TuneCore Blog: How We're Getting Your Mechanicals From Streams"

6 "Spotify Hit With $150 Million Class Action Over Unpaid Royalties"

7 "Publishers Said to Be Missing as Much as 25 Percent of Streaming Royalties"

8 "Independent labels claimed 35% market share in the US last year … by ownership"

9 "Understanding and Measuring the Illiquidity Risk Premium"

10 "Pandora Media Corp – Spotify Sub Leap Evidence of Expanding Market For On-Demand"

11 "US' Music Streaming Royalties Explained"

12 Consolidated Financial Statements as of December 31, 2016 and Independent Auditor's Report

13 "Exclusive Report: Spotify Artist Payments Are Declining in 2017, Data Shows"

14 "Independent labels have a 37.6% global market share, says new report"

15 "An International Legal Symposium on the World of Music, Film, Television and Sport: Enterprise Valuation"

16 "A Primer for Valuation of Music Catalogs"

17 "Music Publishing's Steady Cash Lures Investors"

18 "Spotify, Valued at $13 Billion, to Launch Direct Listing on NYSE: Sources"

19 "Inside Spotify's Financials: Is There a Path to Profitability Or an IPO?"

20 "Global Music Investing 2.0: More Options = More Subs"

21 "Spotify's Product Roars Ahead Amid Business Model Challenges"

22 "Streaming Music Topic Primer"

23 "Mechanical and Performance Royalties: What's the Difference?"

24 "64 Amaxing Spotify Statistics and Facts (October 2017)"

25 "Apple Music Saw Over 40M Users On Mobile Last Month, Leading Spotify by 10M"

26 "Big Publishers Feeling Cheated After Spotify's Small Publisher Deal"

27 "Spotify Now Processes Nearly 1BN Streams Every Day"

28 "Spotify's Losses Grow Despite Revenue Doubling in 2012"

29 "The Spotify Settlement with NMPA: What it Means for Music Publishers"

30 "Spotify Music-Streaming Service Launches in U.S."

31 "Spotify vs. Apple Music: Which Service is the Streaming King?"

3

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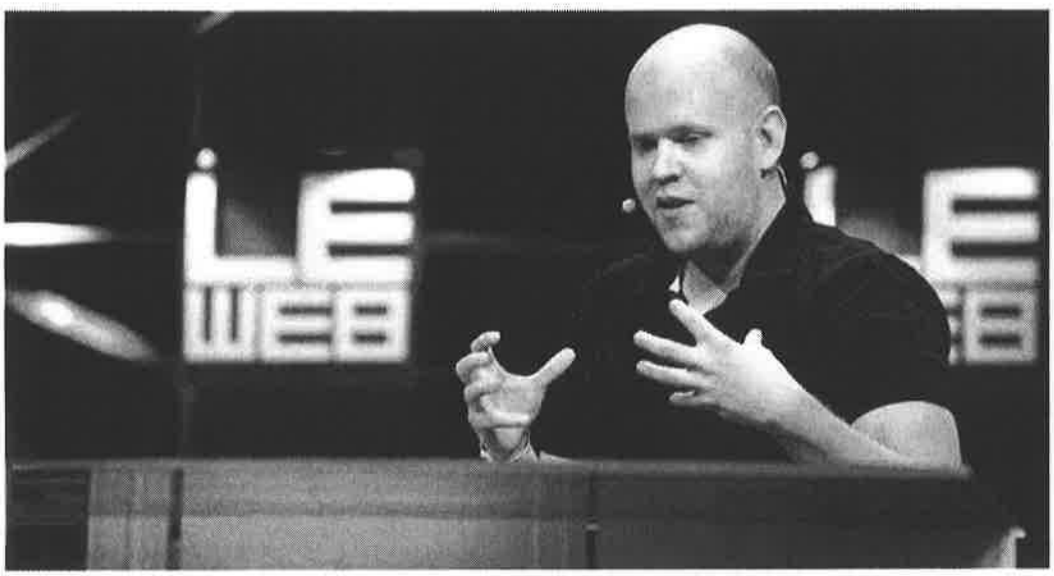
Exclusive Report: Spotify Artist Payments Are Declining In 2017, Data Shows

Daniel Sanchez (https://www.digitalmusicnews.com/author/dsanchez/) May 16, 2017 30 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comments)



(http://www.digitalmusicnews.com/wp-content/uploads/2017/05/Daniel-Ek-Official-Leweb-Photos.jpg)

As Spotify's revenue goes up, artist per-stream and revenue payouts are going way, way down. And here's the data to prove it.

Two years ago, in a funding round, investors valued Spotify at $8 billion. In the latest round, investors pushed that number above $13 billion. Sounds like some serious growth. Yet investors can't ignore one glaring fact: after ten years, the company has yet to turn a profit.

But maybe that's just another detail. Now, analysts expect the company to finally go public on Wall Street within a year. And the deals to make that a reality are finally starting to happen.

Recently, Spotify struck new long-term licensing deals with both Universal Music Group and independent music rep Merlin. They're also rumored to be closing a similar deal with Warner Music Group. Ahead of their long-awaited listing on Wall Street, Spotify seems to have it made.

Yet, why are artists receiving less money as Spotify grows, not more?

Top-line revenues at Spotify are surging ahead, thanks to a flood of new subscribers. A boost in monthly premium payments and increased advertising means a lot more revenue. That part is simple. Yet strangely, Spotify's per-stream royalties across both recordings and publishing appear to be sinking, according to data shared with DMN. That includes per-stream payments to labels (including indie labels and self-administered artists), plus mechanical royalty payments to publishers.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In other words, 1,000 streams on Spotify two years ago — when the platform was making less gross revenue — made rights holders more money than 1,000 streams today.

Musicians and labels on the service have felt the crunch. But why is this happening? Let's rewind a bit.

Two years ago, a report published (http://blog.audiam.com/2015/06/the-2014-interactive-streaming-data-as_20.html) by Audiam found that as Spotify's revenues went up, artists and label royalties went down. Audiam is a reproduction rights organization headed by Jeff Price, and recently purchased by Canadian rights group SOCAN. The company is basing a lot of its data on payouts reported under Section 115 of US Copyright Law.

Audiam stated then,

"However, the impact on the artists, songwriters, labels and music publishers is a bizarre, unexpected anti-intuitive equation that seems to subscribe to Newton's third law of physics: 'For every action, there is an equal and opposite reaction.'

"In this case, as more money is made from the music, music creators and copyright holders are making less."

So, two years later, with Spotify finally reporting growing revenue, have these numbers changed? Not even close. To put it bluntly, Spotify has found a way to keep more of the revenue they earn (per stream) in their pockets.

Spotify seems to be countering this accusation by pointing to increased overall royalty payments. But a closer look at the math shows that Spotify may be paying more — but is also taking a lot more. All of which means that Spotify (and its shareholders, which include major labels) are cutting costs on per-stream payouts.

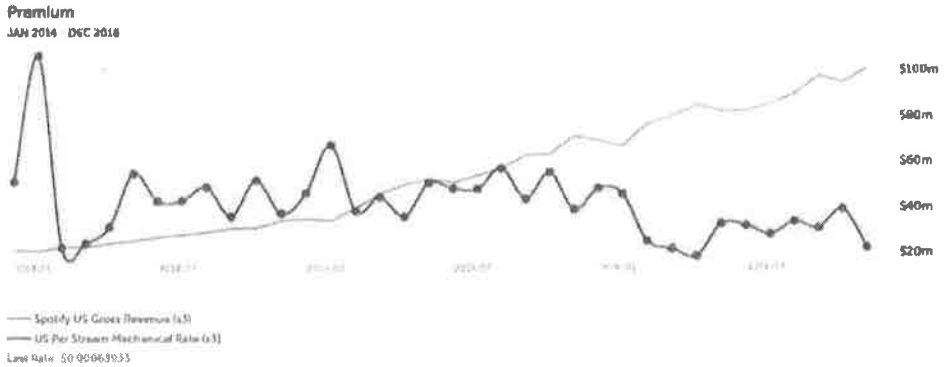
Audiam has now issued a new report, and shared it exclusively with Digital Music News. Again, Audiam is sourcing a lot of its data from publicly available stats. "The numbers I am providing are not Audiam's numbers," remarked Audiam founder Jeff Price. "They are numbers reported by Spotify as required under Sec 115 of US copyright law."

Essentially, the latest report updates the streaming service's per stream numbers ending February, 2017. And they reached the same conclusion: as Spotify's value and revenues go up, artists and publishers are making less.

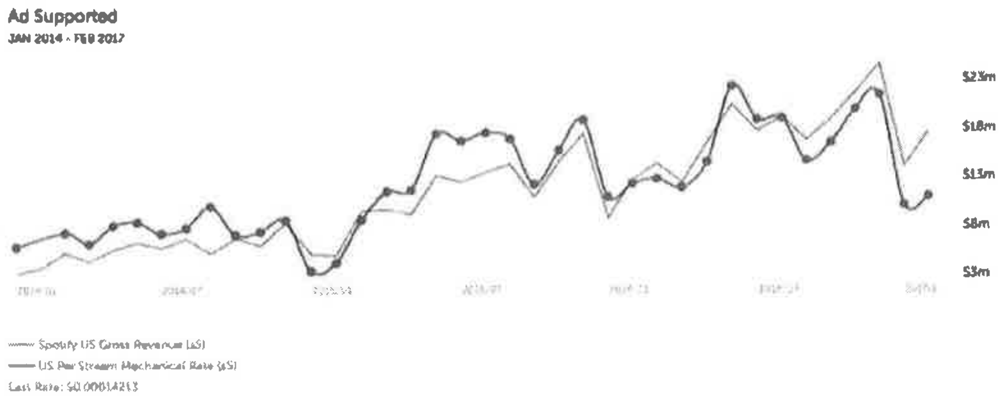
Mechanical royalty rates are continuing to decline in 2017, at least for Spotify's premium (ie, subscription) streams.

Let's start with Spotify's ad-supported tier. In February 2017, a single ad-supported stream generated $0.00014123 on the streaming service. This means an artist would earn $100 in mechanical royalties after 703,581 streams. Although this number represents a 1.1% increase from January, in December 2016, the number was at $0.00022288.

For the premium tier during the same month, Spotify paid out $0.00066481 per stream in mechanicals. In this scenario, artists would earn $100 after 150,419 streams. This number is up 5.2% from January. Sounds great, until you see the year-over-year trend.



Another key thing to notice is the following discrepancies. In December 2016, to earn $100 from ad-supported streams, a song would need be played 448,672 times. Spotify paid out $0.00022288. Yet, just one month later, the number dropped down to $0.00013508. To earn $100 from ad-supporter streams, a song would have to be played 740,302 times. Note that this didn't apply to premium streams.



Between December 2016 and January 2017, Spotify cut their ad-supported payouts by nearly half. The number continues dropping as the year progresses, with premium streams slightly increasing.

Spotify US Mechanical Rate

December 2016

Ad Supported (Tier: S5)

$0.00022288 Per Stream
$100 = 448,672 streams

Premium (Tier: S3)

$0.00063933 Per Stream
$100 = 156,414 streams

Calculate Your Own Earnings

Spotify US Mechanical Rate

January 2017

Ad Supported (Tier: S5)

$0.00013508 Per Stream
$100 = 740,302 streams

Premium (Tier: S3)

$0.00065749 Per Stream
$100 = 152,094 streams

Calculate Your Own Earnings

(http://www.digitalmusicnews.com/wp-content/uploads/2017/05/Spotify-Jan-US-Mechanical-Rate.png)

AUDIAM

Spotify US Mechanical Rate

February 2017

Ad Supported (Tier: S5)

$0.00014213 Per Stream
$100 = 703,581 streams

Premium (Tier: S3)

$0.00066481 Per Stream
$100 = 150,419 streams

Calculate Your Own Earnings

What goes up must come down. Just not in Spotify's world.

In a strongly-worded piece in his blog (http://lefsetz.com/wordpress/2017/01/11/spotify-payments/), Bob Lefsetz defended the low payouts. According to him, Spotify pays out over 69% of its revenues. So, why the criminally low payouts? Blame the music labels. Calling out Audiam's founder and CEO Jeff Price, Lefsetz explains,

> *"You're being screwed by the label. And Spotify can't say this, because the labels are their partners."*

But Lefsetz seems to be ignoring the reality that most of the recordings on Spotify come from self-distributed artists. These artists aren't signed to a label, they *are* the label. But also seemingly disregarding Audiam's previously published numbers (http://blog.audiam.com/2015/06/the-2014-interactive-streaming-data-as_20.html), Lefsetz attacked,

> *"What about Jeff Price, its old fired founder, bullsh—ting that Spotify is not paying on so many tracks? That's a registry problem, that's not Spotify seeking to rip-off rights holders, that's the result of an archaic system wherein we don't know who wrote what and who owns what. Does it need to be cleared up? Yes."*

However, Lefsetz, seemingly Spotify's apologist, can't defend the following stats, no matter how hard he tries. Take a look at the numbers:

- 2016 Total Gross Revenue: Slightly over $1.1 billion
- Average streaming rate: $0.0046524
- Total plays: Over 162 billion
- Royalty pool amount: $75.4 million
- PRO fees: Almost $72 million

What can we deduce from the amounts? The same conclusion that Audiam came to in 2014. As Spotify's top line Gross Revenue increases, the per stream mechanical rate continues to drop.

As Spotify continues to prepare for their long-awaited IPO, there's no clear explanation as to why they continue to pay out artists such little money. Audiam posted a publicly available website (http://resources.audiam.com/rates) to show historically falling per stream mechanical royalty rates. And despite Lefsetz' best attempts to protect Spotify (calling Jeff Price out of touch), his final defense of the company ultimately sounds very hollow.

"But you've got an historical deal with a label that pays an incredibly low percentage, you've got a very low royalty rate, is this a problem? Absolutely. BUT IT IS NOT SPOTIFY'S FAULT!"

Or, is it?

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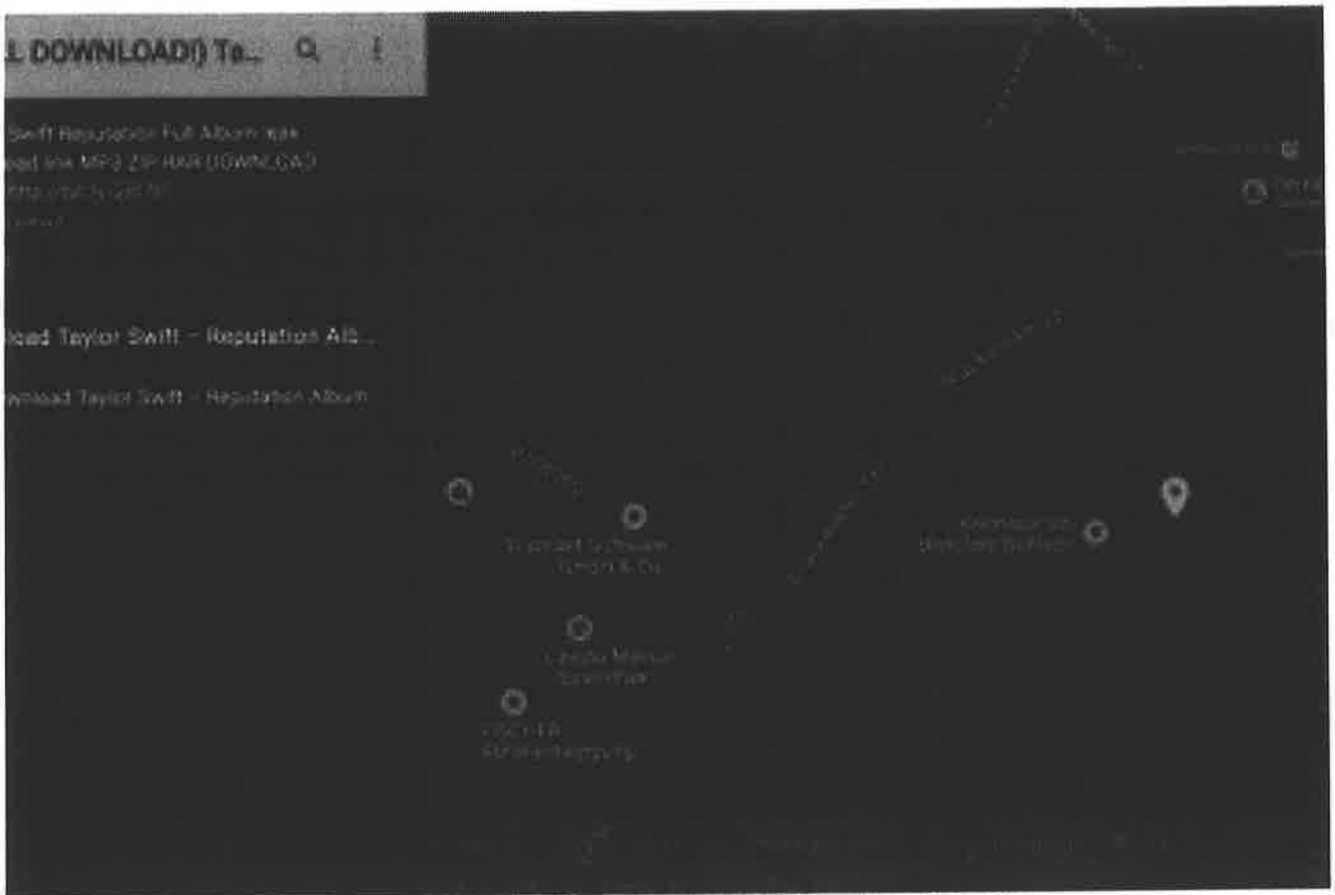

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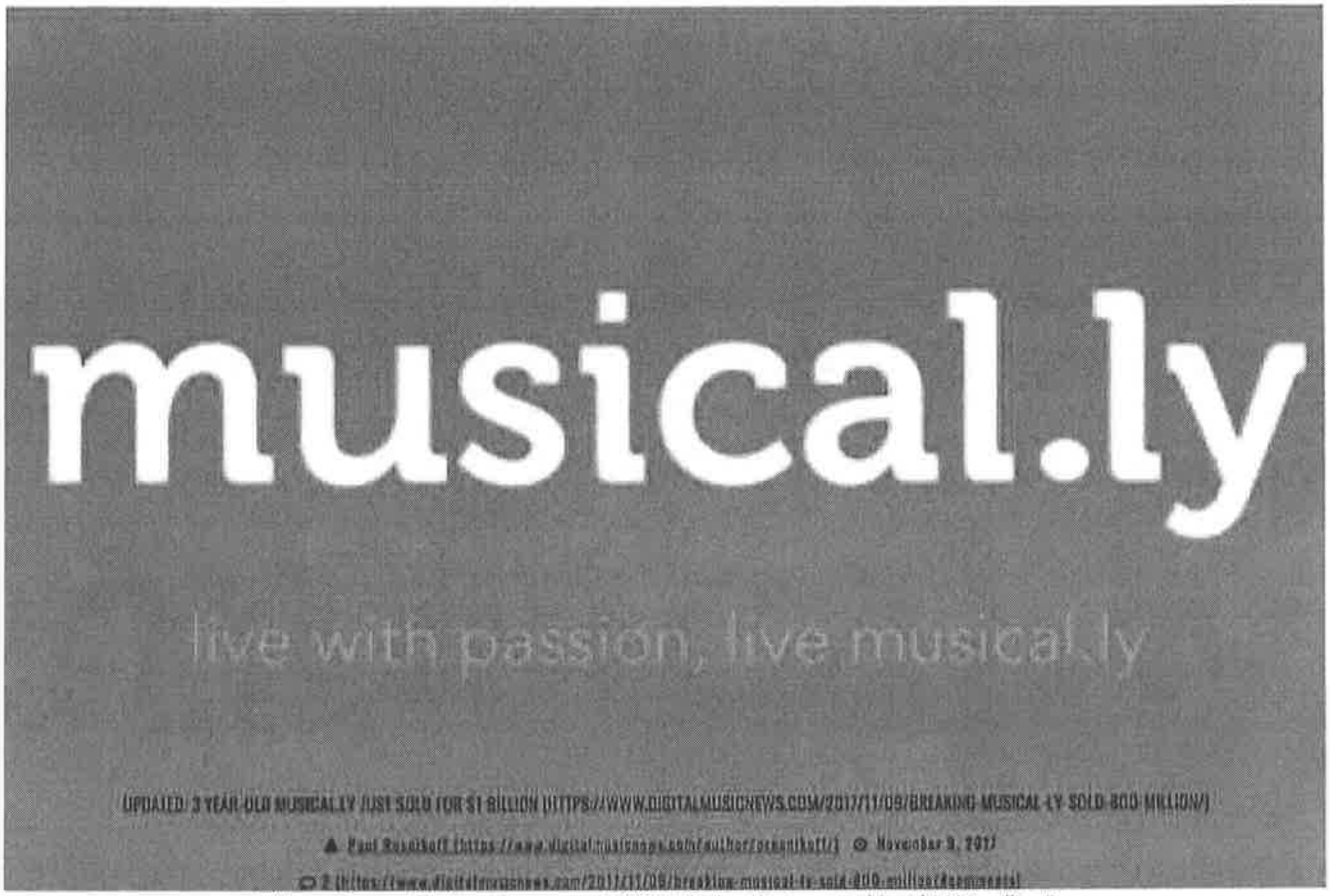

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30 RESPONSES

Trex

May 16, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288757)

Stop giving your work away

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288757#RESPOND)

lmao

May 16, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288759)

who the hell cares about mechanical royalties, trash article.... and fuck your mechanical royalties nobody cares about... LAME

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288759#RESPOND)

Will Buckley

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288888)

What's your point? Artists shouldn't get paid or the compensation is so LAME, who cares.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288888#RESPOND)

Anonymous

May 16, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288761)

The royalty rate is determined by taking the royalty pool for a given month, and dividing it by the number of plays during the same month. When the royalty rate decreases, this simply means that the number of plays is increasing at a greater rate than the amount of revenue. People with Spotify subscriptions are spending more hours each month listening to Spotify than they used to. When that happens, the per play rate goes down. It doesn't mean songwriters are earning less money overall though.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288761#RESPOND)

Steamer

May 16, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288777)

Isn't this the most obvious answer?

Spotify has done a lot to make users listen more – endless playlists, auto-play music when your lists ends, etc – so if the average # of tracks listened to per user goes up the per stream will go down.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288777#RESPOND)

Subscriber

May 17, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288793)

This is why Spotify NEEDS to switch to a "Subscriber Share" method of payouts. If I pay $10, then $3 goes to Spotify, and the other $7 should go to the artists I listen to in that month. Period. That's NOT how it works today, and that's why payouts are so bad. Bots are gaming the system, and this is the only way to fix it.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288793#RESPOND)

Tom

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288909)

It might seem so but bear in mind spotifies service does not make people listen to more music as much as it does different types. If they are growing in payouts to artists it is more likely because they have taken the market from another more traditional source with set royalty rates, radio being an obvious example.

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REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288909#RESPOND)

Anonymous

May 17, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288797)

Anonymous is correct but neither DMN or Audiam care about understanding how Spotify's economics work. They're just looking for attention.

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Will Buckley

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288937)

People don't listen music this way, they turn it on and forget about. It fills a void that this tech obsessed world is so used to.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288937#RESPOND)

Sad For You

May 16, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288773)

Cmon guys leave Paul alone. Spotify is about to go public and if it's a success his tabloid blog won't be able to survive on "Why is Apple Music Failing?" stories. Too bad labels decide royalty payouts, from what Spotify pays the label. Sad little article. #gettingdesperate

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288773#RESPOND)

Paul Resnikoff (http://www.digitalmusicnews.com/author/presnikoff/)

May 17, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288804)

Always fascinated by the endless, logical explanations we receive on how Spotify payouts work. I've not heard one, simple, elegant explanation since Spotify has launched. All of which works to the advantage of Spotify and its owners.

Call me anti-Spotify, call me whatever. I'm just describing a business model that may not be very artist-friendly, by design.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288804#RESPOND)

You people are idiots.

May 17, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288806)

Why the fuck per stream rate matters? Spotify is paying MORE money to artists as it grows.
Would you rather have a per stream payout of 7 usd and have people listen to only 1 song a month?

You really make no fucking sense Paul.
All that matters is the total amount that is being payed, and that is GROWING year by year, not declining.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288806#RESPOND)

Paul Resnikoff (http://www.digitalmusicnews.com/author/presnikoff/)

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288893)

But, are artists actually being paid more? That's an assumption worth challenging.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288893#RESPOND)

You people are idiots

May 19, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288947)

If the money doesn't get to artists the blame is on the labels. Spotify pays more revenue every year to the rightholders.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288947#RESPOND)

Me2

May 22, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289109)

" Yet strangely, Spotify's per-stream royalties across both recordings and publishing appear to be sinking, according to data shared with DMN. That includes per-stream payments to labels (including indie labels and self-administered artists), plus mechanical royalty payments to publishers."

So tired of the uninformed else shilling posts muddying the waters on this. Give it up.

Jeff Price

May 26, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289388)

Rights holders are being paid less as Spotify's value increases..

For example, in Jan, 2014 10,000 streams = $95 for the recording and composition.

Two years later, in Jan, 2016 10,000 streams = $74 for the recording and composition.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=289388#RESPOND)

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Tom

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288907)

People dont listen to more music because of playlists etc, just a more diverse music perhaps but peeps only have a certain amount of time in the day to dedicate to music consumption, so in this sense it is a zero sum game – if spotify is growing in plays and subscibers it is because they have taken the market share from someone else

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288907#RESPOND)

some random guy

May 17, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288808)

I don't know if spotify has a better-of revenue vs. per subscriber calculation method for their freemium tier on your given distributor, but that could be 1 reason.
Another reason could be that while revenue has increased, the market share of the label / distributor of your content is in decline – reason 2
The per play rate is determined by overall use, so more usage could also erode the per-play payout (all other things being equal)
There are a lot of reasons for this phenomenon...

I am skeptical that they are not actually losing money with their free tier.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288808#RESPOND)

Zach Weinberg (Tuff Gong Worldwide)

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288895)

Something's not right here. Somewhere along the way, these numbers are wrong. As you reported both above in the summary, and in this article (http://www.digitalmusicnews.com/2016/05/26/band-1-million-spotify-streams-royalties/ (http://www.digitalmusicnews.com/2016/05/26/band-1-million-spotify-streams-royalties/)) based on actual royalty statements, the payout per stream is a little less than half of a penny. In Audium's assessment though, the payout is 1% of a penny and 6% of a penny between ad-supported and premium streams, respectively? That's a big gap. Now, if it's closer to half of a penny, which I assume it is, then the payout pool on 162 billion streams is $753.7 million, not $75.4 million. And 753.7/1100 ($1.1 billion reported revenue) = .685, or 68.5% of revenue going out to rights holders. That's pretty close to the 69% that Lefsetz is reporting.

So, I'm not sure who's right and who's wrong and where this disparity happened, but recheck your math and get back to us....

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288895#RESPOND)

wrong

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288922)

They aren't interested in being right, they are interested in bashing Spotify and streaming music. If they really wanted to call someone out why not make a case for all the stupid deals the labels are allowed to get away with? Labels as insisting on getting the same piece of the pie as when it was vinyl and big A&R budgets which means the artist and distributor get screwed with smaller pieces.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288922#RESPOND)

Jeff Price

May 26, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289387)

there are two sets of royalties for every stream.. One for the sound recording and a second separate one for the composition. For example: Sony hired Whitney Houston to sing "I Will Always Love You". Sony owns the recording of the song. However, Dolly Parton wrote the lyric and the melody (called the composition).

When the recording streams on Spotify, one royalty and payment goes to Sony and the second separate royalty goes to Dolly Parton. Different rates, different payments.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=289387#RESPOND)

Linda horn

June 3, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289644)

As a financial person I like your analysis.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=289644#RESPOND)

Tori

August 6, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-293112)

It's way worse than you've even noticed so far. Nearly all the numbers I've seen quoted across the board in these "debates" are incorrect. Half the numbers quoted are songwriter royalties with the authors representing them as artist royalties. The other half are the result of people dividing their total payment by total streams (often incorrectly or with decimals in the wrong place), then presenting them as fact with no mention of the enormous difference between rates in various countries, payment tiers, etc. Even official industry bloggers seem to not understand how to read a statement or use a calculator.

Spotify has actually paid HIGHER rates per paid stream in many countries than Tidal, Google, or Apple, for instance, yet the rampant skewing of stats misrepresents this reality. Overall rates have much more to do with free/paid mix of listeners and country of origin, but all of those are laid out exactly line by line for anyone to read if they just bother to do so.

I've yet to have a single conversation with anyone online who appears to even understand the difference between their line-item downloadable pdf final sales report, and their aggregate sales report that feeds live and gives overall numbers.

It's just a comedy of never-ending errors, but people are more interested in arguing than reading. The truth is very simple once you learn to properly read the data... but that requires understanding whether you're reading the CORRECT data.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=293112#RESPOND)

Nick

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288919)

Can you say "Highway robbery of artists"? There is no explanation more complicated than that.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288919#RESPOND)

Nick

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288920)

Why is everybody trying so hard to figure out what is simple theft of intellectual property, as if there were some kind of mysterious rationale to the way Spotify can justify this?

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288920#RESPOND)

wrong

May 18, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-288923)

They distribute music and pay out almost 70% of their revenue. Whatever is done with that 70% is not on them it is on the labels and artists and whatever deal they signed.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=288923#RESPOND)

Jeff Price

May 26, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289390)

Not really. Spotify's value comes from the number of people that use the service (market share). It does not come from how much money they make off music.

This is why they lose money and are going to have a public offering at a value of about $13 billion.

They use artists to get their fans to use their service and translate that market share to financial value.

Making money off the music is not a concern.

Imagine what it would look like if Spotify could only have a public offering if it was profitable. Then it would have to create a service where they priced the product at the right price and offered something everyone wanted.

Perhaps less would use it but pay more.

But they don't need to worry about that, they only need to worry about collecting people.

Which is why there is a "Free Tier" where anyone can use Spotify. And the amount paid to the songwriter when the recording stream is $0.00014, barely something you can call money.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=289390#RESPOND)

MKV

June 5, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-289728)

One point that I haven't really seen in these discussion is the fact that radio vs streaming is not that different. When a song plays on there's a relatively flat fee (which depends on a variety of factors), but a ton of people listen to it. With a popular station we might be talking about hundreds of thousands of people (I have no idea of actual numbers), so when you divide the amount payed per radio play to the artist with the number of listeners you might actually get very close to what an artist gets per stream.

That said, I have no clue whether this is the case, so someone would have to look up the stats and do the math. And, of course, there's the issue of buying records which streaming affects tremendously.

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=289728#RESPOND)

Blake

August 5, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-293102)

I'm not interested in a debate with all those who can't read a statement, confuse paid with free, quote combined rates, etc. For those who really are making their living this way, and can take a look at the exact per country and per tier rates, please help me understand something.

Spotify has consistently paid me $8k or more per month for most of the past year, so I am quite troubled to see that in the past couple of months (pay periods for March and April 2017), US paid tier per stream rate has dropped from ~1.4Eu to ~0.4Eu.

What the hell is going on? They've been extremely consistent up until this point, and that tier has not varied by more than .001 in at least the past year. For anti-Spotify noise out there, this is a massive and sudden shift. Something really has changed, and very suddenly at that.

Does anyone know what's going on? Accounting error? New deal with Universal means they're taking out money BEFORE they calculate the 70% Something huge has just happened. Who has info?

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=293102#RESPOND)

Ethhan

October 27, 2017 (https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/#comment-296750)

There are many problem with today's musical apps like Spotify for example. Here is why there are problems...GREEDY MEN...and here all the problems Spotify payed a flat flee for fake tracks; or, perhaps unwittingly took the songs of illegal sites were the artist don't make a fair amount of money.

Spotify refuses to state that they are "guilty" (hypebot.com). Spotify could just erase all the fake songs off their app and the problem would disappear. Which means Spotify could lose large sums of money and have to lay people off their jobs or close down the whole company. They need to live up to it.

Another reason is the artist who are on Spotify are loosing money. "2 years ago Spotify had investments from others at $8 billion and now its over $13 billion

REPLY (HTTPS://WWW.DIGITALMUSICNEWS.COM/2017/05/16/SPOTIFY-AUDIAM-LOW-RATES/?REPLYTOCOM=296750#RESPOND)

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4

MANHATTAN
VENTURE PARTNERS
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Spotify Research Report

Spotify

The Rock Star of Streaming Services

Streaming music is becoming, if it is not already, the premier mode of music consumption. Spotify has been at the forefront of this secular change displacing traditional modes of listening with on-demand service. We are updating our initiation report and introducing our new valuation based on comparative valuation and DCF analysis. We are reiterating our positive thesis on Spotify given the company's strong competitive position on the back of key differentiating factors such as ease of discovery, deep social element, loyal user base, a high free-to-paid conversion rate of listeners, and a large untapped addressable market, particularly in the emerging markets.

METHODOLOGY

Our research process involves proprietary channel checks with users, competitors and industry experts, and synthesis of publicly available information from the company and other reliable sources.

KEY POINTS

- **Still the Incumbent Leader...** Spotify is the largest on-demand music subscription service in the world, with over 30M paying subscribers and 89M active listeners. The company has maintained its competitive edge by virtue of its vast library of content, a freemium model combined with a high conversion rate, and compelling price points across its products. We expect 39M paying subscribers in 2016 and roughly 50M by 2017.

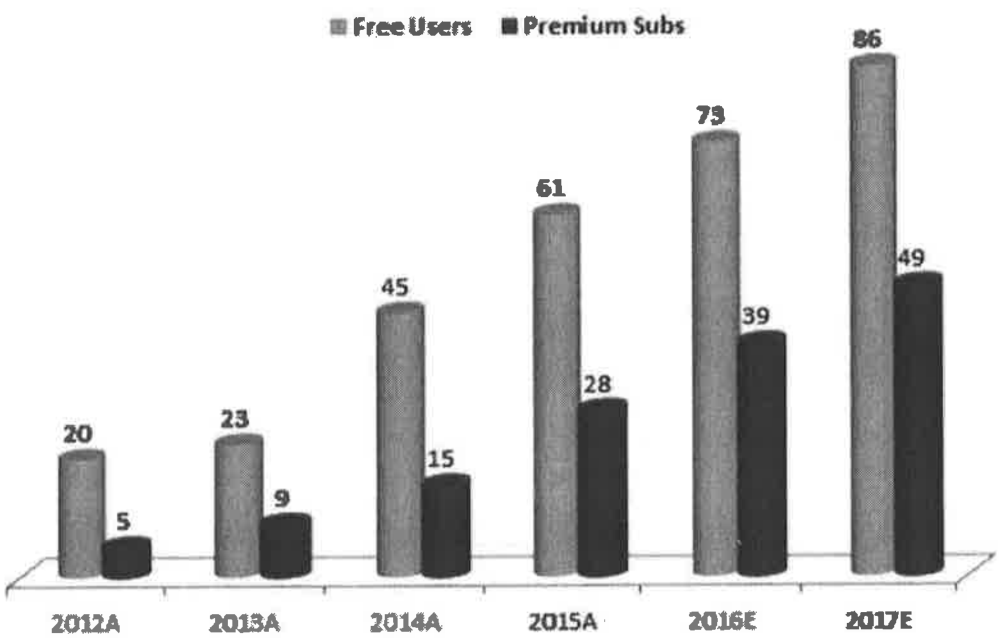
- **....But Space is Getting Crowded.** Revamped music services from tech giants are coming on strong, led by Apple Music, followed by Alphabet's YouTube, and Amazon's Prime Music. But unlike Spotify, which is a pure-play music company, the driving purpose of these companies is to reinforce their respective brands, pull users into their respective ecosystems, and ultimately sell their core products.

- **Product Update.** Spotify has expanded its product offering, in step with its competitors. While Apple continues to maintain its "walled garden" of only providing its Music app on Apple TV, Spotify is partnering with other technology companies with a living room presence. In Q1 2016 Spotify became available on Android TV and Amazon Echo, expanding the Spotify use cases from mobile and desktop to other media formats. In addition, the company announced its video initiative and deepened its tie-up with Facebook.

- **Royalty Payments Remain a Hurdle to Profitability.** Spotify distributes roughly 70 – 75% of all the revenues that it receives back to rights holders – labels, publishers, distributors, and independent artists. We expect Spotify to leverage its growing scale and constructive relations with the record labels to negotiate lower royalty rates and move toward profitability.

- **Spotify Fairly Valued At $9.5B.** Spotify's comparative EV/Rev valuation is $10.91B and our 10-year DCF valuation is $8.06B. We believe Spotify is fairly valued at the mid-point of these two values, or $9.48B. We believe the premium valuation to its last private round of $8.5B is justifiable given the company's strong subscriber growth, its high conversion rate, the recurring subscription model, constructive relations with the major record labels, and its strong competitive position.

Exhibit 1: Spotify User Base (Mil)



(http://mvp.vc/?attachment_id=1907)

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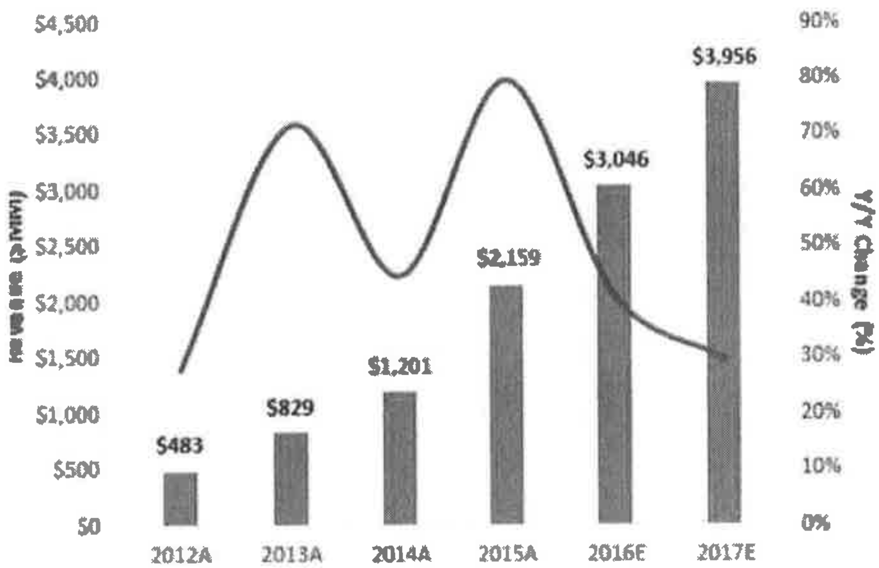
Source: Spotify, MVR Estimate

Exhibit 2: Spotify Revenue ($Mil)

(http://mvp.vc/?attachment_id=1909)

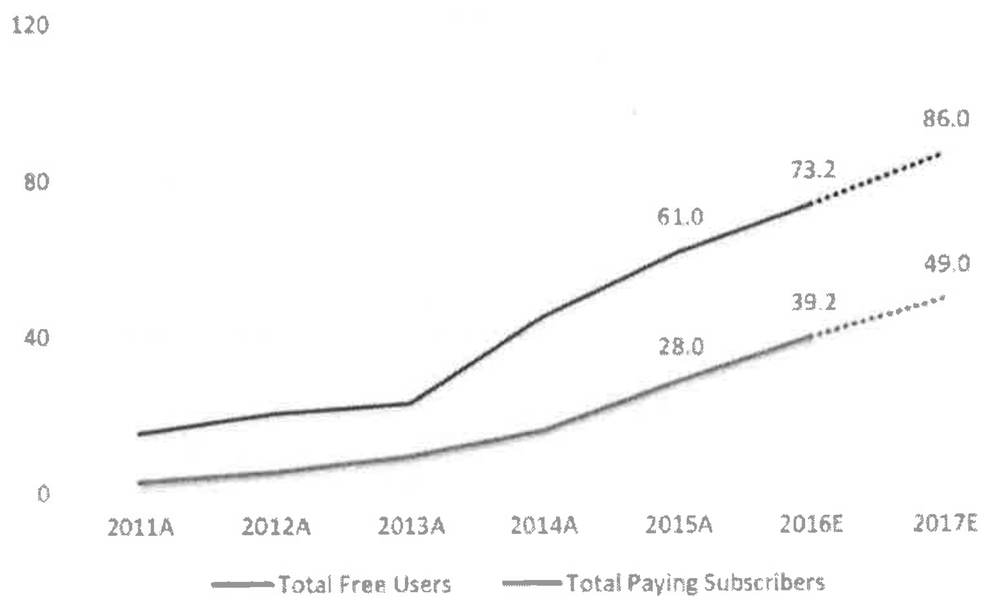


Source: Spotify, MVR Estimate

Spotify Update – Leading the Pack

There have been a few changes since our initiation report in December 2014. The company beefed up its offering, is more widely available, raised more money including a convertible debt round, and made three acquisitions. Through it all, Spotify has maintained its competitive lead in on-demand music streaming, exiting 2015 with 89 million total listeners, including 28 million paying subscribers and 61 million free listeners.

Figure 2: Spotify Listener Base (Mil)



(http://mvp.vc/?attachment_id=1910)

Source: Company reports, Manhattan Venture Research (MVR) estimates

Product Update

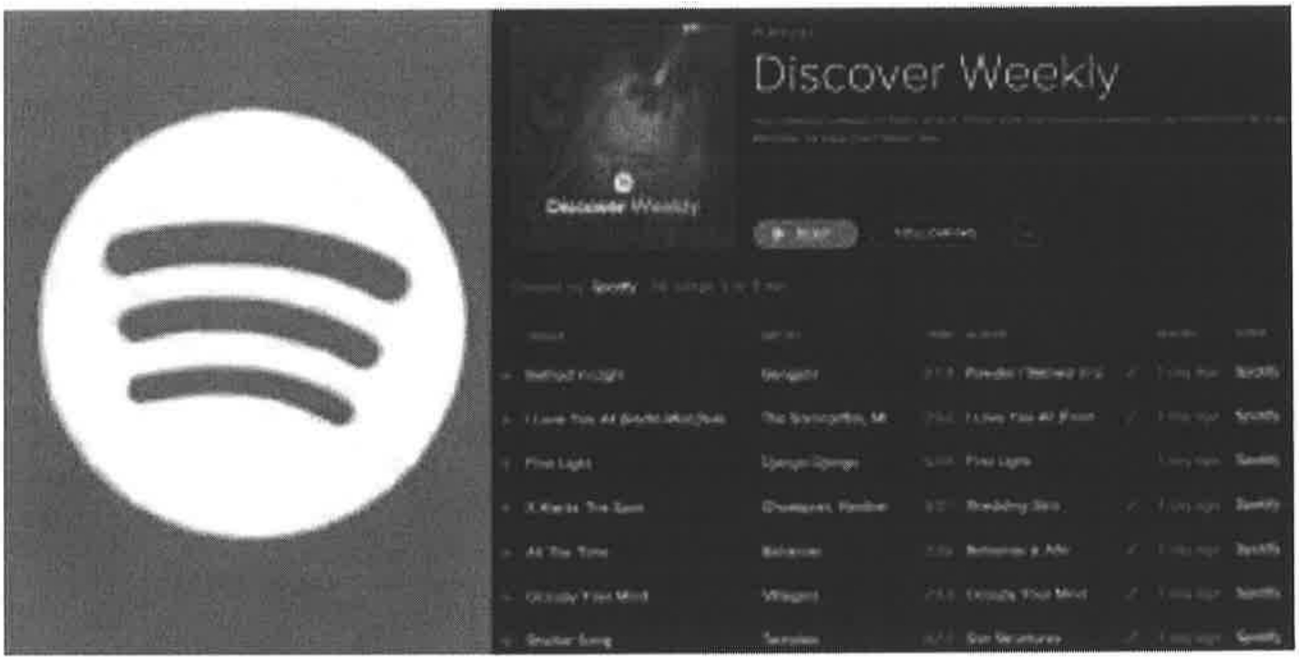
As competition heats up in the streaming space, Spotify has continued to expand its product offering in the hopes of converting more subscribers to its streaming service. While Apple continues to maintain its "walled garden" of only providing its Music app on Apple TV, Spotify is partnering with other technology companies with a living room presence. In Q1 2016 Spotify became available on Android TV and Amazon Echo, expanding the Spotify use cases from mobile and desktop to other media formats.

The expansion likely served as a pairing with Spotify's other big push—moving into video. The company announced original video content on the service in May, with music-focused programming that could eventually lead the way to greater advertising revenue and more branded content. The enhanced streaming video could be an interesting addition to Spotify's push to move more original and artist-specific content—for example, streaming concert performances.

In a similar vein, Spotify is seeking to use its strong presence in social to further its user experience and brand. Facebook data drives its new Discover Weekly playlist, which has been hailed for its "uncanny" accuracy in finding new music users like—taking Pandora's main value-add and enhancing it significantly. Likewise, Spotify is integrating its data into Bumble, a popular dating app, to help users select potential dates based on common music preferences, and is now featured in Twitter audio cards as well.

Figure 3: Spotify Discover Weekly Playlist – Screenshot

(http://mvp.vc/?attachment_id=1911)



Source: Spotify Website

Pricing

Spotify has also had to accept more competitive pricing in recent months. Apple Music and Google Play Music already had family plans available at $14.99 for up to 6 people, while Spotify charged a monthly fee for each additional user until it shifted to the $14.99 price point. Overall, however, pricing in the industry seems stable despite a few new entrants.

Spotify's Discover Weekly playlists have 40 million listeners and Apple Music will get a cleaner interface for finding new music when iOS 10 launches this fall. All seem to be hunting for that sweet spot where a little bit of user choice guides a ton of algorithmically-chosen songs.

Other than the promotions and occasional tweaks, the company's pricing grid remains the same: Premium subscription for $9.99/month beginning with a free 30-day free trial. The subscription comes with the following features: shuffle play, ad-free, unlimited skips, ability to listen offline, play any track and high-quality audio. The Free option allows only shuffle play and does not include the other features of premium subscriptions.

Acquisitions

Twitter's recent investment into SoundCloud highlighted the value media and tech companies now see in direct user engagement. Spotify has managed to stay ahead of the curve here, using cash from the late 2015 funding round to bolster its position on both sides of the app: engagement with artists and the user experience. Spotify's success comes from both increasing its user base and deepening their engagement, and the company is using acquisitions to drive the latter with purchases of Soundwave, Cord, and CrowdAlbum.

- Soundwave will help enhance Spotify's already popular music discovery features like Discover Weekly and playlist radio. Expanding users' music tastes with new songs and artists fits into Spotify's hope to increase usage of the app by existing users;
- Cord, which designs voice messaging for phones and tablets, likely figures into a similar plan to create a messaging product that will take advantage of Spotify's social integration and allow users to discuss their favorite songs more easily;
- Streaming services increasingly see helping smaller artists monetize their audiences as part of their value proposition. Spotify's April 2016 purchase of CrowdAlbum will enhance the artists' ability to gather content from their live performances and deliver and promote the content to audiences.

Overall, Spotify's record of acquisitions this year shows the company is keen on creating a more comprehensive listening experience that connects artists and listeners in as many ways as possible.

Funding

Spotify has raised $2.1 billion to date from a wide range of investors. Except for the most recent convertible debt offering of $1 billion, all seven funding rounds were equity rounds from a wide range of investors. Prominent investors include Kleiner Perkins, Accel Partners, Fidelity Ventures, Goldman Sachs, Li Ka-Shing, Coca-Cola and Technology Crossover Ventures. The last equity funding round in June 2015, Series G, was for $526 million at a post-money valuation of $8.5 billion.

Spotify tapped the debt markets this past spring, raising $1 billion in convertible debt from a number of prominent investors including TPG, Dragoneer, and clients of Goldman Sachs. As Spotify gears up for a battle to protect market share against its deep-pocketed rival Apple, additional funds will help make acquisitions and fund growth in marketing to artists and subscribers.

Terms on the deal include 5% annual interest, with the option to convert debt to equity at a 20% discount. There is also a condition increasing the interest rate and discount if Spotify does not conduct its initial public offering (IPO) by March 2017—suggesting the company is strongly considering one and increasing the incentive to do so. With the strong numbers released for 1H16, another strong performance combined with a thaw in the IPO market might bring the right ingredients together to go public—and would undoubtedly be one of the blockbuster offerings of the year.

Given Spotify's balance sheet position holding nearly $1B in cash, the company seems confident about its prospects going forward and saw the opportunity to raise cash without diluting current equity holders.

On a related note, it is worth noting that the record labels are early investors in Spotify. The five companies and their respective holdings include the following: Sony BMG (5.8%), Universal Music (4.8%), Warner Music (3.8%), EMI (1.9%), and Merlin (1.0%). These investments are particularly noteworthy given that Spotify has become the poster child for all that is wrong with the music industry – including dwindling industry revenues and declining artists' compensation. On one hand, the labels are holding onto the status quo, while on the other they have a vested interest in Spotify's success.

Figure 4: Spotify Funding Rounds

(http://mvp.vc/?attachment_id=1912)

Investors	Round	Date	Total Raise ($M)	Post-Money Valuation ($M)
Li Ka-shing Creandum Northzone Horizon Ventures	Series A	n/a	$17.0	n/a
Li Ka-shing Horizon Ventures Wellington Partners	Series B	Aug-09	$49.0	$327
Founders Fund Sean Parker	Series C	Feb-10	$15.7	n/a
Digital Sky Technologies Kleiner Perkins Caufield & Byers Accel Partners	Series D	Jun-11	$100.0	$1,000
AFSquare Coca-Cola Fidelity Ventures Lakestar Goldman Sachs	Series E	Nov-12	$100.0	$3,000
Technology Crossover Ventures Kleiner Perkins Caufield & Byers Edastra Venture Capital Shakil Khan Goldman Sachs Capital Partners	Series F	Nov-13	$250.0	$5,270
2020 Ventures Asset Management Partners D. E. Shaw & Co	Series G	Jun-15	$526.0	$8,530
Total Equity Funding			$1,057.7	$8,530
TPG Capital Dragoneer Investment Group Goldman Sachs Wealth Mgmt	Convertible Debt	Mar-16	$1,000.0	-
Total Raised			$2,057.7	$8,530

Source: Pitchbook

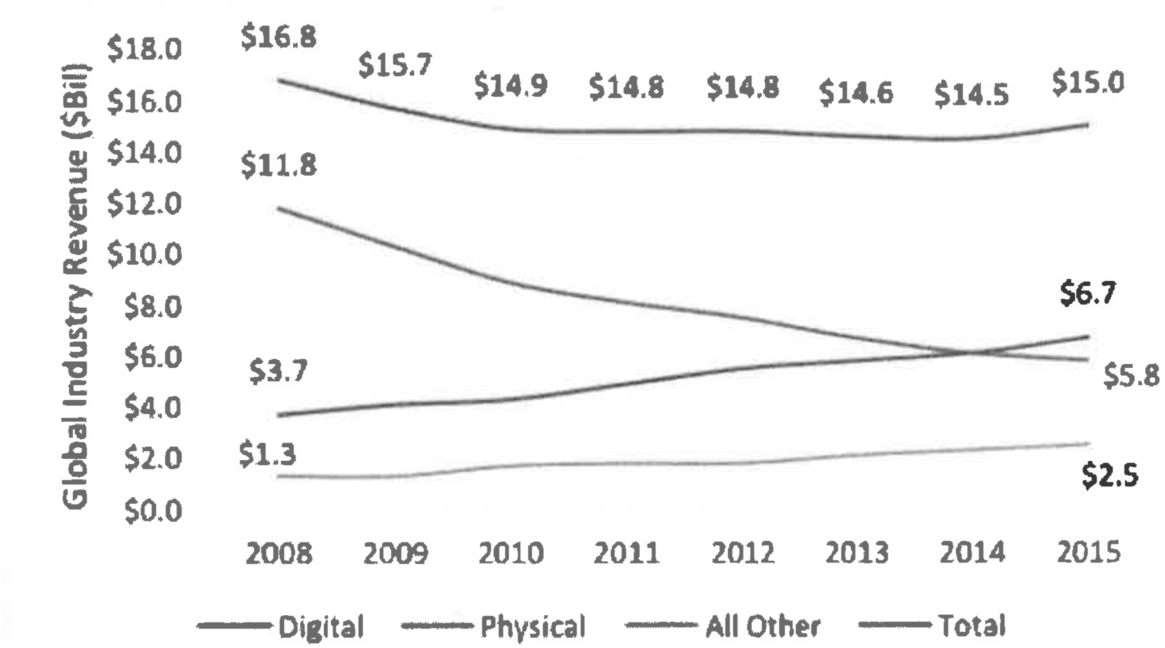
Industry Update

The recorded music industry has evolved further since our initiation report in December 2014. As we noted in the report, the industry has been a helpless bystander in the face of changing music consumption pattern and dwindling industry revenues. But there are signs of changes – for the better. After two decades of sequential declines, and for the first time since the Napster-led industry crash, 2015 was a pivotal inflection year in a number of respects: revenue grew globally, music consumption exploded all over, and digital revenues overtook revenues from physical formats for the first time. Global sales of the recorded music in 2015 touched $15.0 billion, well below the high of $29 billion in 1999 and a most recent high of $16.8 billion in 2008, but increasing sequentially to $15 billion from $14.5 billion in 2014.

Figure 5: WW Digital Sales versus Physical Sales ($B)

Year	Digital	Physical	All Other	Total
2008	$3.7	$11.8	$1.3	$16.8
2009	$4.1	$10.3	$1.3	$15.7
2010	$4.3	$8.9	$1.7	$14.9
2011	$4.9	$8.1	$1.8	$14.8
2012	$5.5	$7.5	$1.8	$14.8
2013	$5.8	$6.7	$2.1	$14.6
2014	$6.1	$6.1	$2.3	$14.5
2015	$6.7	$5.8	$2.5	$15.0

(http://mvp.vc/?attachment_id=1913)



(http://mvp.vc/?attachment_id=1914)

Source: IFPI Global Music Report 2016, MVR

The Rise and Rise of Streaming Services

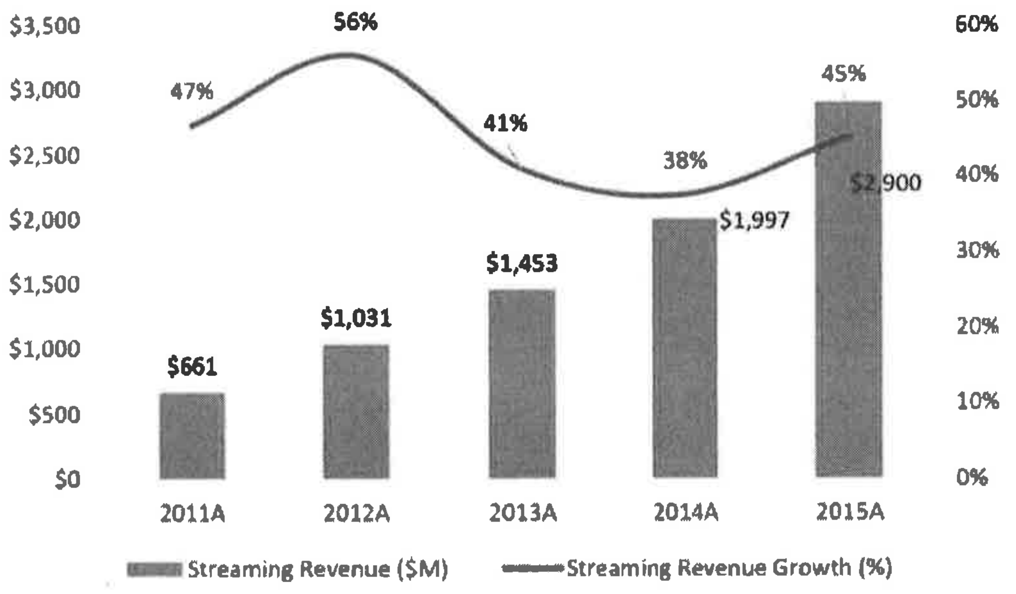
Streaming music is becoming, if it is not already, the premier mode of music consumption, outpacing the traditional modes of listening. The competitive landscape has become more intense with the renewed focus of Apple, Google and Amazon to enter and/or beef up their respective music offerings. Spotify remains the incumbent leader in terms of premium on-demand subscribers with over 28 million paying subscribers and 89 million listener base (as of Dec. 2015), well ahead of Apple Music, the company's closest competitor, with 15 million paying subscribers.

Digital sales have been a bright spot in the music industry. Sales grew sequentially since 2008 touching $6.7 billion in 2015 (+10.2% Y/Y), driven in large part by growth in subscription services. Subscription revenues grew 45.2% in 2015, more than offsetting the decline in downloads and physical formats. A number of factors have contributed to this surge: increasing broadband penetration and internet speeds making the listening experience better; access from multiple devices – particularly mobile; successful bundling deals with ISPs and mobile operators; and integration with popular social networks such as Facebook and Twitter. All these factors in combination with a low monthly subscription fee have made the value proposition of subscription services too compelling to ignore.

Globally, digital now accounts for 45% of total industry revenues, and now account for more than half the recorded music market in 19 markets. In 2015, an additional four countries – Colombia, New Zealand, Philippines and Taiwan – saw digital revenues cross the 50% threshold.

Streaming remains the industry's fastest-growing revenue source. Revenues increased 45.2% to $ 2.9 billion and, over the five year period up to 2015, have grown more than four-fold.

Figure 6: Global Streaming Revenue Growth ($Mil)



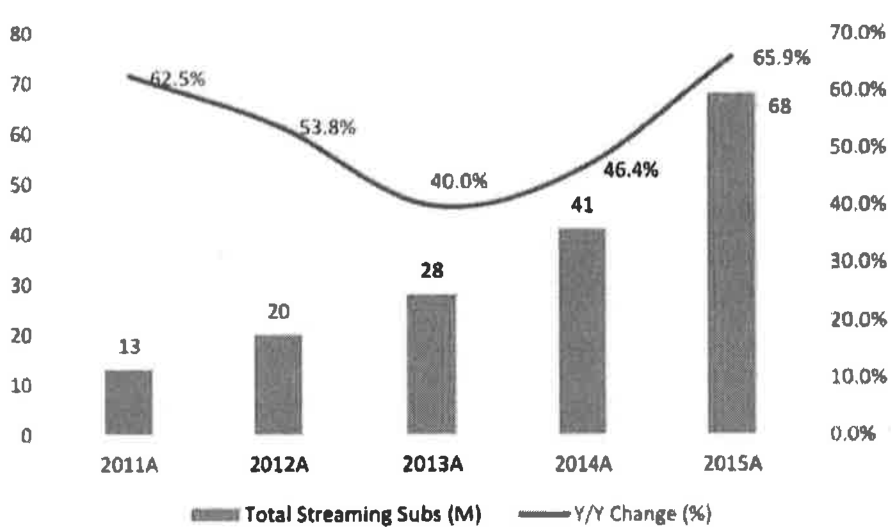
(http://mvp.vc/?attachment_id=1915)

Source: IFPI Global Music Report 2016, MVR

Helped by the spread of smartphones, increased availability of high-quality subscription services and connected fans migrating onto licensed music services, streaming has grown to represent 19% of global industry revenues, up from 14% in 2014. Streaming now accounts for 43% of digital revenues and is close to overtaking downloads (45%) to become the industry's primary digital revenue stream.

Premium subscription services have seen a dramatic expansion in recent years with an estimated 68 million people now paying a music subscription. This figure is up from 41 million in 2014 and just eight million when data was first compiled in 2010.

Figure 7: WW Streaming Subscribers (Mil)



(http://mvp.vc/?attachment_id=1916)

Source: IFPI Global Music Report 2016

Downloads remain a significant offering, accounting for 20% of industry revenues. Income was down 10.5% to $ 3.0 billion – a higher rate of decline than in 2014 (- 8.2%). Full album downloads are still a major part of the music fans' experience and were worth $1.4 billion. This is higher than the level of sales in 2010 ($983 million) and 2011 ($1.3 billion).

Performance rights revenue – revenue generated through the use of recorded music by broadcasters and public venues – increased 4.4% to $2.1 billion and remains one of the most consistent growing revenue sources. This revenue stream now accounts for 14% of the industry's overall global revenue, up from 10% in 2011.

Revenues from physical formats declined, albeit at a slower rate than in previous years, falling by 4.5% compared to 8.5% in 2014 and 10.6% in 2013. The sector still accounts for 39% of overall global income and remains the format of choice for consumers in a number of major markets worldwide including Japan (75%), Germany (60%), and France (42%).

Audio Streaming Surpasses Music Videos

Despite the popularity of video streaming, Americans are consuming more on-demand audio streaming than music videos. According to data from BuzzAngle, an analytics provider, since the start of 2016 Americans purposefully played 114 billion audio streams on apps like Spotify, Tidal, and Apple Music, versus watching 95 billion music video streams on apps like YouTube. This represents a big resurgence for pure listening since the rise of MTV.

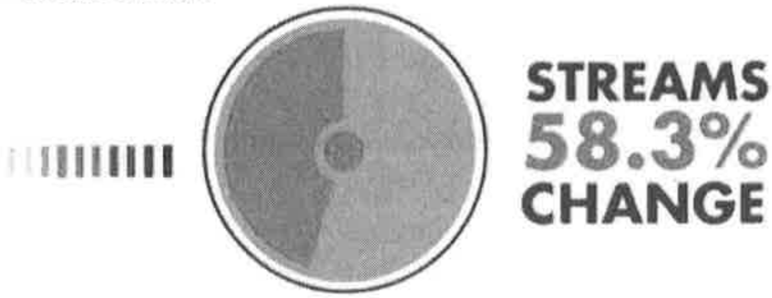
On-demand audio streaming was up 107.8% in the US in the first half of 2016 compared to the first half of 2015, while video streaming grew 23%. On-demand streaming as a whole rose 58.3%, and these numbers don't count online radio streaming like Pandora.

Figure 8: Audio Streams vs Video Streams: 1H16 vs 1H15

STREAMS

	Streams	Audio Streams	Video Streams
2016 YTD	209,398,643,459	114,226,566,336	95,172,077,123
2015 YTD	132,259,281,712	54,961,808,648	77,297,473,064
% Change	58.3%	107.8%	23.1%

Note: Streams are On-Demand Streams



(http://mvp.vc/?attachment_id=1917)

Source: BuzzAngle

Investment Thesis

We are reiterating our positive thesis on Spotify. We believe the company has established a strong competitive position in the on-demand music streaming business and is well positioned to capture a growing share of the addressable market ahead. Our positive opinion is tempered modestly by the high royalty payout structure and rising competition from the Internet majors. We highlight the key positives and negatives below.

Positives

• **Curated Access.** The music world has come a long way from the days when ownership of physical records or listening to the non-interactive terrestrial radio was the only way to listen to music. Today it is all about curation and discovery to engage a fickle audience and build loyalty. Spotify is at the forefront of this changing dynamic, if not the key service driving this change. The company has staff-curated playlists, and users can also make their own playlists. There are more than a billion playlists on the site, essentially functioning as the album of the streaming world.

Users can attract followers, follow friends, share and co-generate playlists. Users in motion can crowdsource and share on uniquely mobile and social platform. Well, known artists have and are emerging as hundreds of thousands of followers play and discover songs and artists from those whom they follow.

Engagement and sharing make Spotify compelling and sticky while using social network effects to speed and lower the costs of new customer acquisition. The company has invested in improving the algorithms to drive the discovery process and keep listeners engaged and sharing. The acquisition of Echo Nest gave Spotify an enormous competitive edge. With Echo Nest's expertise in music intelligence and Spotify's access to a large trove of valuable data on listener preferences, the in-house programmers have developed powerful discovery tools. In effect, Spotify is using song analytics and user data to help both human and intelligent machine curators select the right songs for certain activities or moods, and build playlists for those moments. The harvested data, strategic partnerships and learning algorithms erect barriers to entry and make the Spotify experience unique and hard to replace.

- **A Deep Social Layer.** Spotify has been on the forefront of driving social initiatives. In our view, music is a fundamentally social experience; we recognize that every activity, be it sports, dining, or entertainment, has natural personal and shared benefits, and we believe music is no less a shared experience than any of these. The company's partnership with Facebook has been vital to its successful launch in the U.S.

Spotify has developed a unique "Play" button, whereby its service can be available on other social networking partner sites (Google+, Twitter, Yahoo, among others), and third party websites (Huffington Post, Entertainment Weekly, Mashable, Guardian, among others). Spotify's platform allows for the development of third-party apps, and content/service providers, such as Songkick, Rolling Stone, Pitchfork, Fuse, and Billboard, to develop apps on Spotify. Mobile apps and mobile usage dominate Spotify engagement today and are increasingly the way users consume audio entertainment. The company is able to be ever present and serve all of the needs of users. This is behind their best in class ability to convert free users into paid subscribers and retain their subscribers in the face of growing competition.

- **Constructive Working Relations with Record Labels.** Spotify has excellent relations with the major record companies and publishers. This is based on talking to a few music industry executives who have worked closed with the streaming companies. The motive of the labels for having good relations with Spotify is understandable for two reasons: (1) Streaming services are generating material revenues for the labels at a critical time in the evolution of the music industry;

and (2) Record labels have an equity stake in Spotify. Beyond good relations, several important rights owners have actively partnered with Spotify.

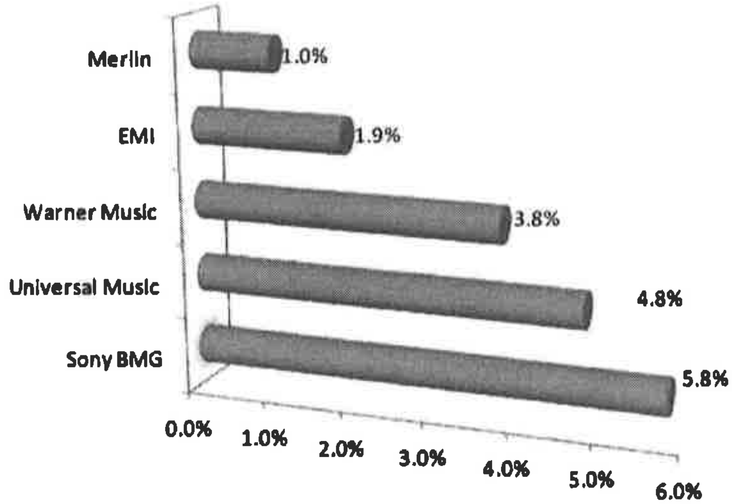
Spotify and Pandora, its closest peer, are actually generating money for the music labels. Warner Music Group, for instance, indicated that streaming services contributed 25% of the digital revenue in fiscal 2013. What's more encouraging for Warner — and presumably the rest of the big labels — is that streaming revenue is growing at a healthy rate and offsetting decline in download revenue – a key revenue source for the labels. Just as encouraging from Warner's perspective is that the declines in physical revenue continue to outpace digital revenue's growth in the recorded music industry, something the industry has been aiming for since the late 1990s.

Not just the major labels, Spotify has also developed good relationships with individual record labels. While Spotify's on-demand, online streaming model necessitates the signing of licensing deals on a label-by-label basis, our channel checks suggest that these relationships are far deeper than simple revenue-sharing arrangements.

Another noteworthy aspect of the relationship between the record labels and Spotify is the former's ownership stake in Spotify. According to a report published in TechCrunch, the record companies were awarded roughly 17% of the company in the early days of the company. Assuming this report to be accurate – albeit counter-intuitive given that Spotify has disrupted the music consumption model – we believe the record companies have a vested interest to work constructively with Spotify for the mutual benefit of both. And they are doing just that. The record labels have helped, and continue to help, Spotify develops various audience growth and marketing initiatives, and jointly plan various strategic actions. In return, Spotify has paid out more than $500 million in royalties to the labels and has been transparent in all its dealings.

Figure 9: Ownership Stake of Record Companies in Spotify

(http://mvp.vc/?attachment_id=1918)



Source: Company reports, MVR

Spotify's relations with the record labels have meaningful financial implications. The company pays out 70% of its revenues in royalties, severely clouding its path to profitability, and threatening the sustainability of its business model. Spotify has been losing money consistently since inception, and the biggest obstacle has been the high payout rate of 70% to 75% to the labels. To the extent the company can prove its "absolute value" to the labels and the industry as a whole – which we believe it will – we expect the payout rate to get more favorable in the near future and remove any doubts about its business model. We believe that the value of Spotify has been demonstrated and that all leading labels now understand that streaming music is the future.

- **Growing Addressable Market.** The global music market is large and growing. According to market data, radio accounts for 80% of total music listening or roughly 13 hours per week per person, and in any given week, 93% of the U.S. population listens to the radio at least once. Additionally, nearly half of all radio hours are consumed in cars, while just over one-third are consumed at home. The majority of the rest are consumed during office hours. Furthermore, 84% of all radio listener hours are on the traditional terrestrial radio. The remaining 16% is split evenly between satellite radio and Internet radio. Pandora dominates the Internet radio category with nearly three-quarters of all Internet radio listening hours. Sirius XM dominates the satellite radio category.

Against this backdrop, Spotify, with roughly 100 million active listeners, and presence in only 59 countries, has just scratched the surface. Two particularly significant growth opportunities lie in tie-ups with telecom carriers and automobile companies given rising smartphone penetration worldwide and improved broadband speeds.

Negatives

Two concerns underlie our positive thesis: a complex and prohibitive royalty structure, and an increasingly competitive landscape driven in large part by the Internet majors Apple, Google, Amazon.

- **Complex & Prohibitive Royalty Structure.** Spotify pays royalties for all of the listening that occurs on its service. The current contracts stipulate a distribution of roughly 70% to 75% of all the revenues that it receive back to rights holders – labels, publishers, distributors, and, through certain digital distributors, independent artists themselves. The payout is split amongst the rights holders in accordance with the popularity of their music on the service. Essentially, the music companies get paid percentages of each subscriber and then get a per-stream rate or a share of the ad revenue, whichever is greater. The label or publisher then divides these royalties to each artist depending on their individual deals. Furthermore, when Spotify pays a rights holder, it provides all the information needed to attribute royalties to each of their artists, thereby ensuring complete transparency.

Spotify's high royalty rate is a cause for concern and has clouded the company's path to profitability, despite its strong revenue growth. In 2015, the company reported a net loss of €173 million, and we expect profitability to remain elusive at least early 2018. We believe this is partly a function of the industry at large, which has seen multiple players grow revenue at a fast pace but ultimately find it challenging to generate profits because of high royalty levels. Spotify's ad-based radio offering, however, has similar economics as that of Pandora, and, therefore, to the extent that the company can grow this offering, Spotify could see some relative margin lift. We have modeled profitability in mid-2018 given the current payout structure and the cost run rates.

- **Hyper Competitive Landscape.** The music streaming industry is overcrowded with too many players chasing elusive profits and a fickle audience. The biggest beneficiary in this hyper-competitive landscape has been the active music listener. At any given time, he or she can consume music from a wide range of outlets: Internet Radio, on-demand services, downloads, terrestrial radio, or personal collection of physical records.

Figure 10: Listening Options

(http://mvp.vc/?attachment_id=1919)

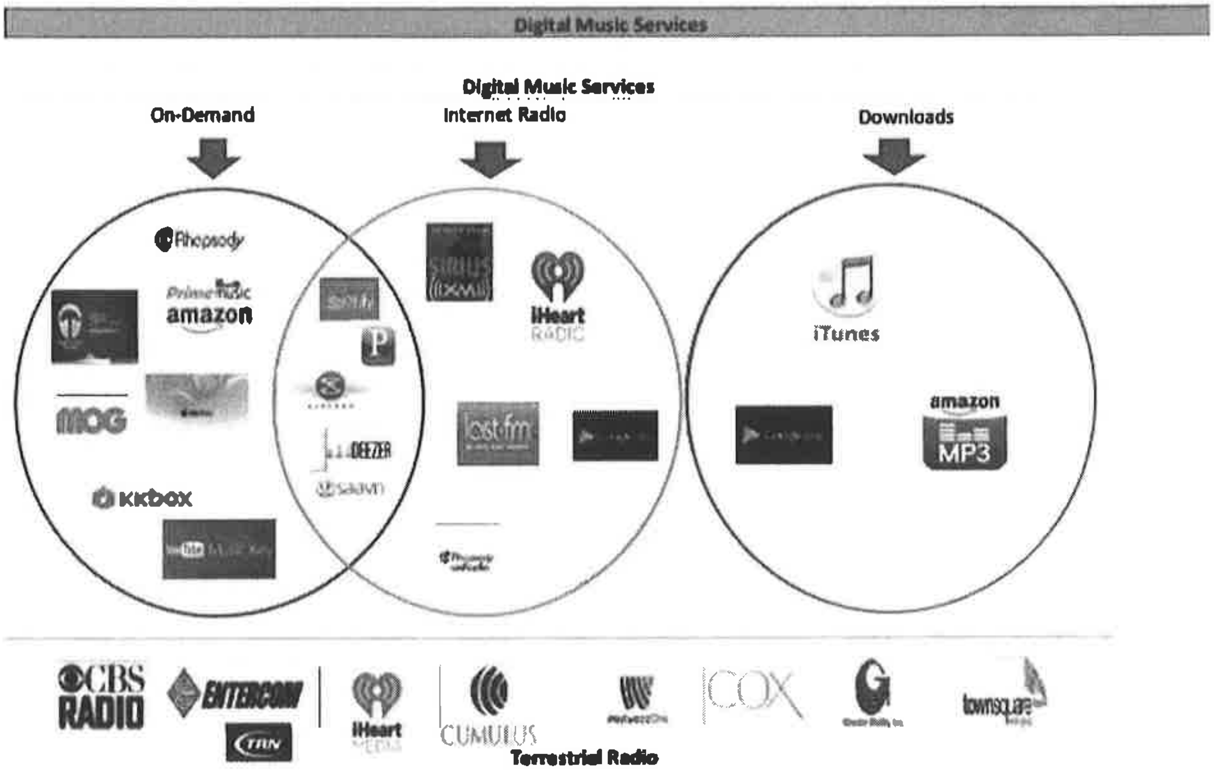
Source: MVR

Spotify competes primarily in two categories of this landscape: on-demand streaming service and non-interactive streaming service – commonly referred to as Internet Radio. Regarding the other two areas, Spotify does not sell music downloads (it offers premium subscribers similar access, without ownership, in its offline functionality), and terrestrial radio, with 84% market share of the radio listening audience, is more a feeder of new listeners for Spotify than a competitor.

The following chart shows Spotify's competitive landscape by category, including the terrestrial broadcast radio companies.

Figure 11: Competitive Landscape by Category

(http://mvp.vc/?attachment_id=1920)



Source: Company websites, MVR

The arrival of Apple Music has validated the space and raised the awareness of streaming music in the mainstream. Spotify continues to grow rapidly and has introduced innovations such as its much praised Discover Weekly feature promoting new music. Rhapsody/Napster hit the 3.5 million subscriber mark in 2015. The service, a pioneer of digital music, is currently in 34 countries worldwide. It is available by paid subscription only and is highly focused on extending integration with social media platforms, having been integrated with Twitter in 2015. Alongside new launches, existing players in the streaming space are pushing the market forward with a combination of new product offers and services. YouTube launched its YouTube Red $9.99 subscription service in the US that covers access to both YouTube and Google Play Music.

Looking deeper, Google Play Music, having doubled user numbers internationally in 2014, launched new features in 2015 and extended to 62 countries including Japan. It offers a $9.99/ month subscription and a $14.99/month family plan for six members. It has made curation a big focus, extending its concierge song-recommendation service to 15 countries after the acquisition of Songza in 2014. Google has also launched an advertising-supported radio tier to its service in the US and Canada;

Since launching in June '15, Apple Music has risen to a global On Demand streaming leader, reaching 15MM paid subs just a year after its launch, due in part to its huge iPhone install base (estimated at ~580MM) and 3 months free trial;

Amazon Prime Music is part of the Prime bundle and has gained traction on the back of its captive Prime subscribers. Recent press reports suggest Amazon is finalizing deals with record labels to offer a standalone On Demand streaming music service for $9.99/month launching in Fall '16 vs only being available to Prime members currently.

YouTube has proved to be highly popular with millennials. The service has more than 800MM monthly music video viewers globally, per MIDiA and also offers a paid On Demand service as part of YouTube Red as well as Google Play Music.

Financial Outlook

Developing forward revenue estimates for Spotify is particularly challenging given the company's geographic diversity and pricing plans. The company charges 9.99 per month for premium services in the local currency, whatever that may be. Therefore, when converting to a single currency, such as the euro, which is the company's functional currency, an incremental subscriber in a particular region may not have the same economic value as one in a different geography.

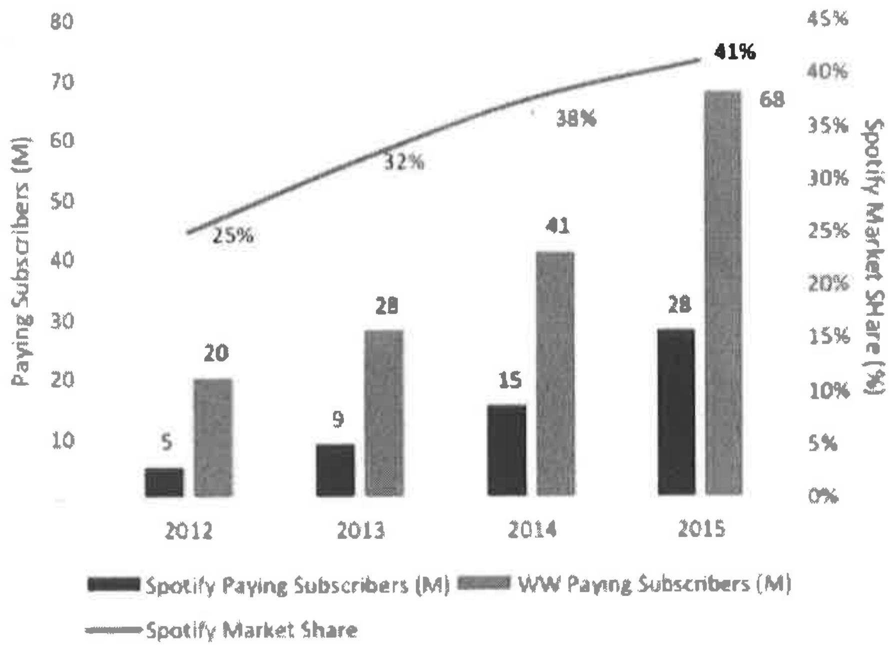
That said, Spotify filed its year end 2015 financials with their regulatory authority in Luxembourg. We used the historical actuals through 2015 as a jumping off point to build our forward estimates.

Leading Market Share of On-Demand Subscribers

The company boasts the highest market share in terms of total paying subscribers. According to the latest market data from IFPA, there was a total of 68 million paying subscribers worldwide. Accordingly, Spotify's market share stands at 41%, up from 38% in 2014.

Figure 12: Spotify Market Share of Paying Subscribers

(http://mvp.vc/?attachment_id=1921)

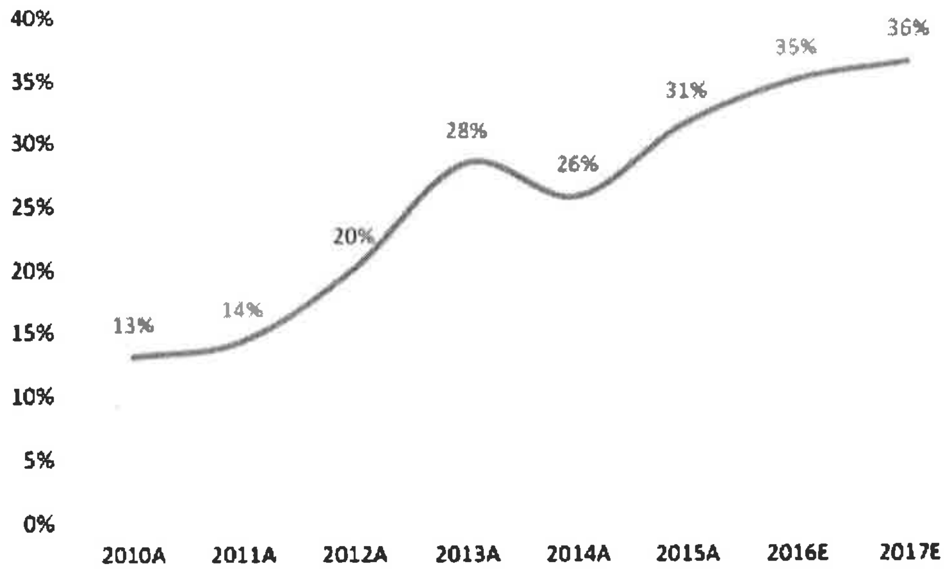


Source: IFPI Global Music Report 2016

Spotify has a growing free listener base. The company exited with 61 million free listeners in 2015. As with all freemium models, the company's goal is to convert the free ad-supported users to paid subs. Paid conversion rates are improving, at 31% in 2015 vs. 25% in 2014, a positive for sub growth and acquisition costs. We expect the conversion rate to improve sequentially, in step with its initiatives to improve the stickiness on the app.

Figure 13: Spotify Active User Base Conversion Rate

(http://mvp.vc/?attachment_id=1922)



Source: Company reports, MVR estimates

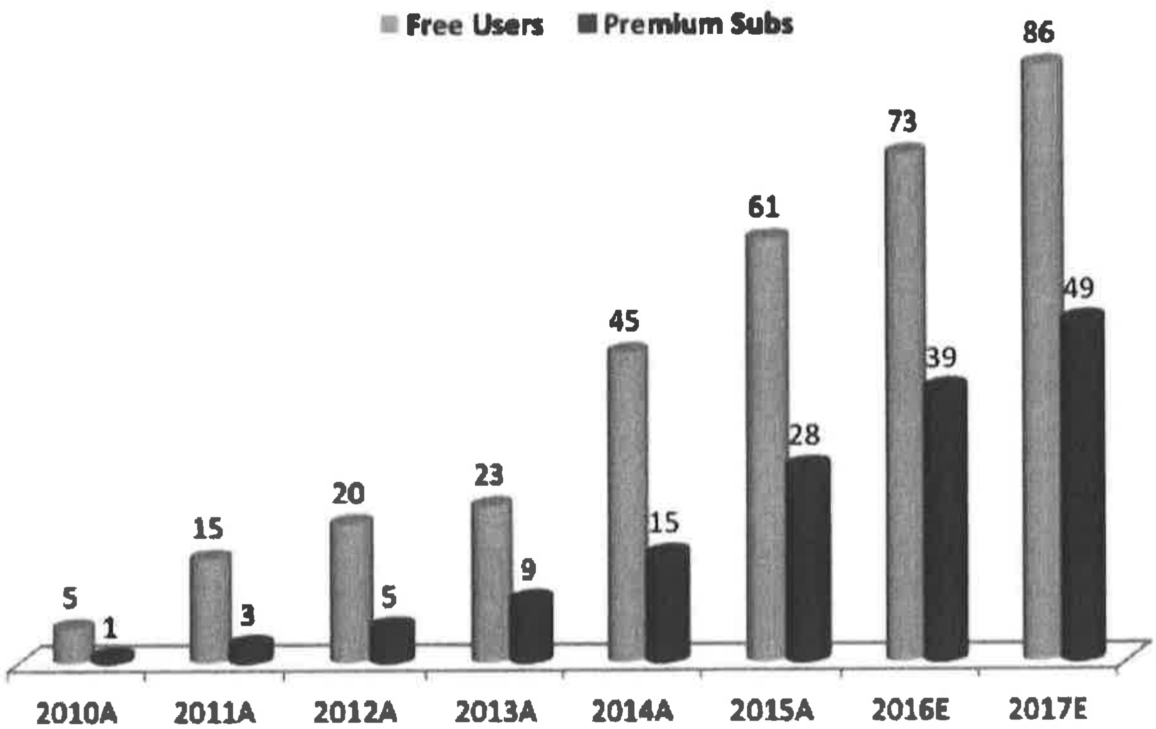
For 2016, we expect the active user base to grow 26% year/year to roughly 112.4 million, including a paying subscriber base of 39.2 million. This implies a 35% conversion rate, which we believe is justifiable given the company's growth initiatives, rising popularity, and a compelling value proposition.

Figure 14: Subscriber Base (Mil)

	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E
Free Users	5	15	20	23	45	61	73	86
Premium Subs	1	3	5	9	15	28	39	49
Total Listeners	6	18	25	31	60	89	112	135

(http://mvp.vc/?attachment_id=1924)

(http://mvp.vc/?attachment_id=1923)



Source: Company reports, MVR estimates

Revenue

Spotify generates revenues from advertisements and monthly subscriptions. We expect to see advertising revenue grow strongly this year as well. The primary contributor to ad growth will be growing number of users, and, of course, the associated hours of usage. Our channel checks suggest that new users on average spend as much time on the platform as older users.

One limiting factor for ad-based models is that music is fundamentally an audio experience. Listeners are often not looking at the screen while they are consuming the content (i.e., music). To this end, a number of brands we have spoken to have indicated that they are hesitant to spend too much on the music channel because ads that they serve have a tendency to go unseen at a higher rate than traditional display advertising. We believe this is a fundamental problem with the model, but we also believe that Spotify is in a better position than Pandora to be able to monetize advertising over the long-term as: (i) It is more social than Pandora, which we believe will lead to higher levels of engagement from the user base; and (ii) It has a richer suite of apps that are integrated with the service, which, like the social layer, will drive increased engagement, in our view.

On the subscription side, we expect revenues in maintaining its robust run rate on the back of higher conversion rates and a compelling value proposition at $9.99 per month, competition notwithstanding.

Accordingly, we expect total revenues of €2,745 million ($3,047 million) in 2016, an increase of 41.1% over 2015. For 2017, we expect revenue to grow to €3,564 ($3,956 million) million, an increase of 29.9%, on the strength of its rising active listener and paying subscriber base but limited in part by aggressive pricing and promotions by Apple, Amazon, and Google. ($/€ Exchange Rate = 1.11).

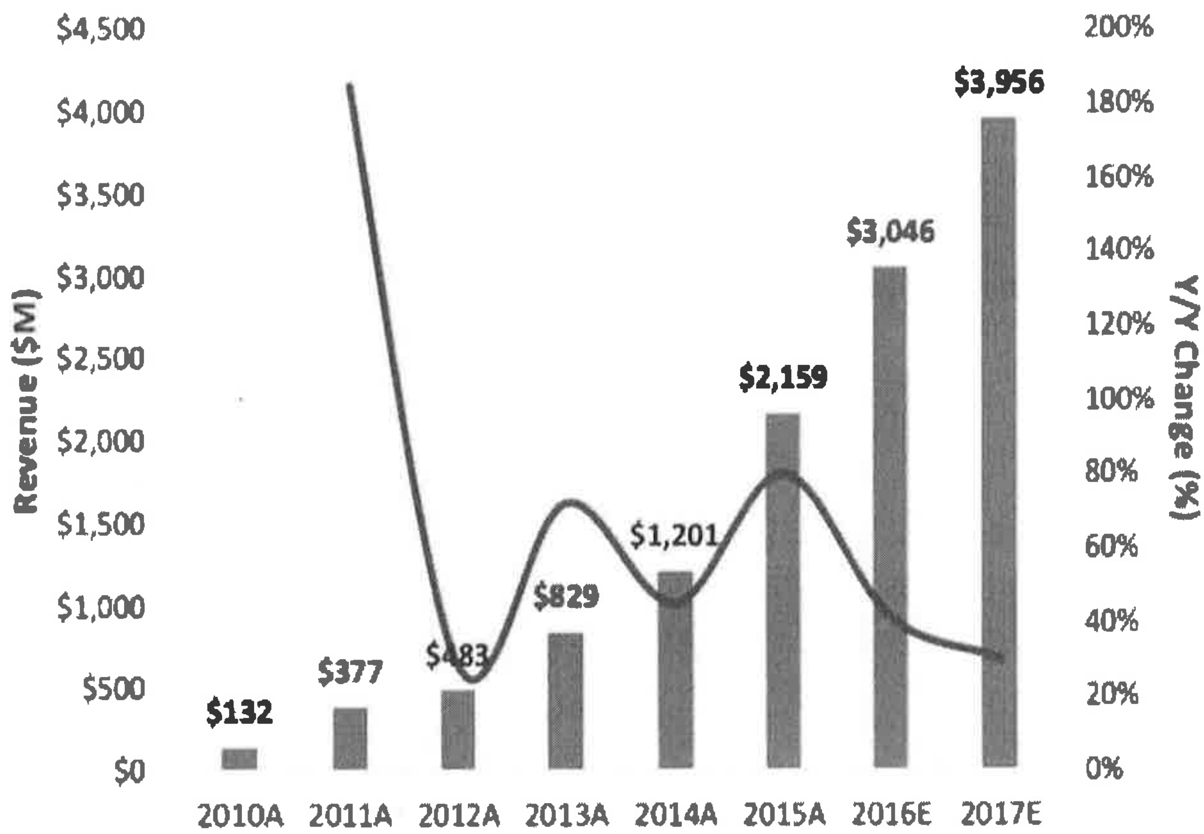
Figure 15: Spotify Revenue Estimates

	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E
Revenue (€M)	€ 19	€ 119	€ 340	€ 435	€ 747	€ 1,082	€ 1,945	€ 2,745	€ 3,564
Y/Y Chg		*540.8%*	*184.7%*	*28.0%*	*71.8%*	*44.8%*	*79.8%*	*41.1%*	*29.9%*

(http://mvp.vc/?attachment_id=1925)

Source: Company filings, MVR estimates

Figure 16: Spotify Revenue Chart ($Mil)



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Source: Company filings, MVR estimates

Profitability

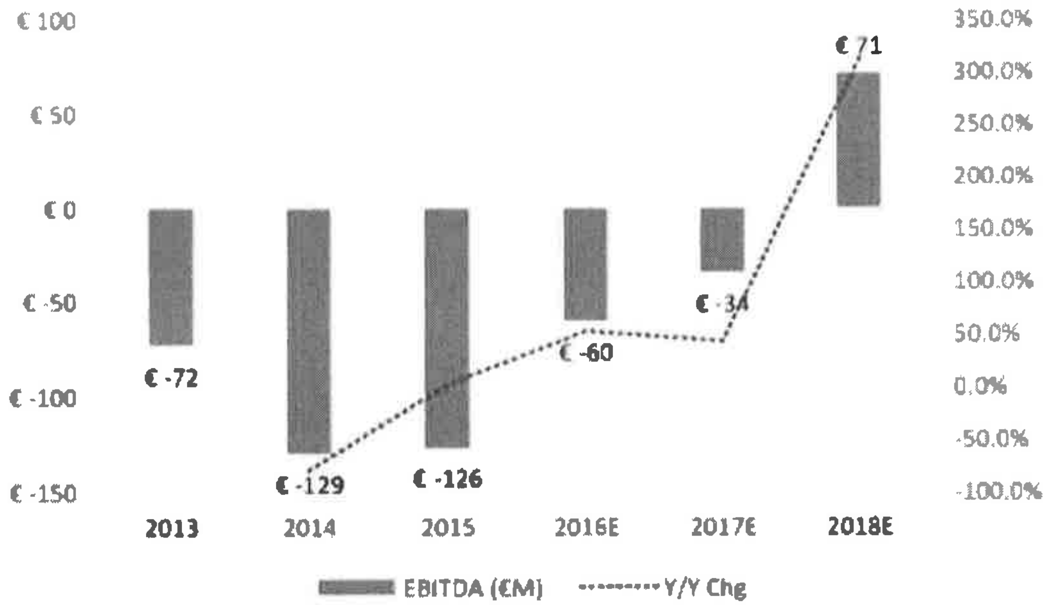
Despite the strong revenue growth, Spotify has had trouble finding its way to profitability. We believe this is partly a function of the industry at large, which has seen multiple players grow revenue at a fast pace but ultimately find it challenging to generate profits because of high royalty levels. Spotify pays out between 70% and 75% of all revenues; the music companies get paid percentages of each subscriber and then get a per-stream rate or a share of the ad revenue, whichever is greater. As such, we believe Spotify may not turn profitable until mid-2018.

That said, Spotify's Internet radio offering (i.e. free service) has better economics. To the extent that the company can grow this offering, Spotify could see some relative margin lift. Additionally, if the company can successfully negotiate lower royalty rates, the profitability timeline could shorten considerably. In 2015, Spotify reported a net loss of €173.1 million ($192.1 million). We expect losses to decline to €121.7 million ($135 million) in 2016, and €100.4 million ($111.5 million) in 2017.

Similarly, on the EBITDA front, we have modeled EBITDA loss of €126.4 million ($140.3 million) in 2015. We expect losses to decline to €59.5 million ($66 million) in 2016, and €33.7 million ($37.4 million) in 2017.

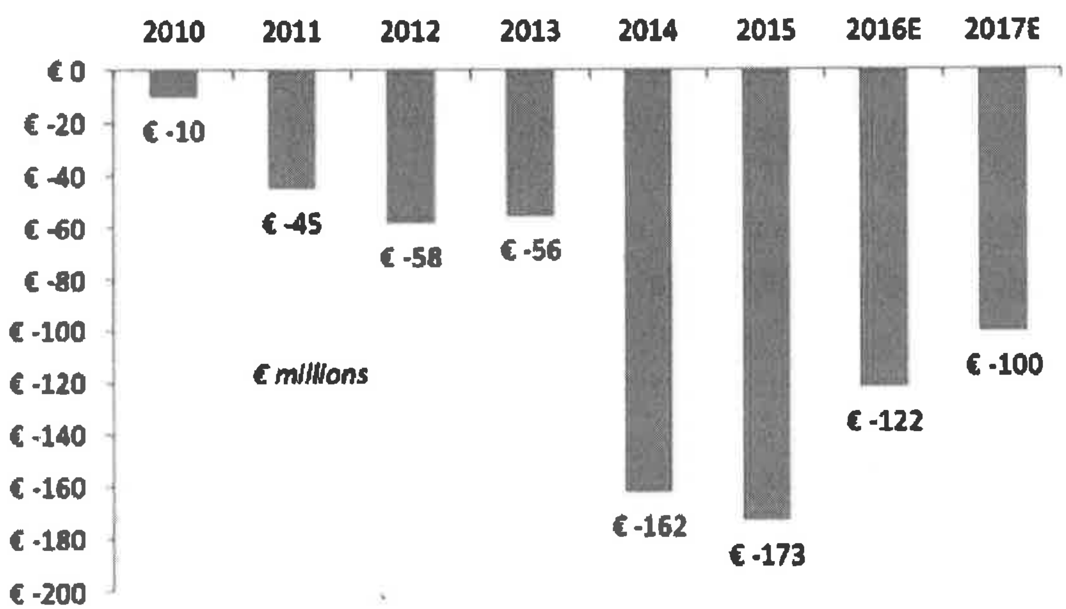
Figure 17: Spotify EBITDA Projection (€Mil)

(http://mvp.vc/?attachment_id=1927)



Source: Company filings, MVR estimates

Figure 18: Spotify Net Loss (€Mil)



(http://mvp.vc/?attachment_id=1928)

Source: Company filings, MVR estimates

Valuation

We approached Spotify's valuation from two angles: comparative valuation based on the mean EV/Revenue multiples of the peer group, and a 10-year DCF analysis.

Accordingly, Spotify's comparative EV/Revenue valuation is $10.91 billion and our 10-year DCF valuation is $8.06 billion. We believe Spotify is fairly valued at $9.48 billion, the mid-point of these two values. We believe the premium valuation is justified given the company's recurring subscription model, high conversion rate, constructive relations with the major record labels, and strong competitive position.

Figure 19: Valuation Summary

(http://mvp.vc/?attachment_id=1929)

Methodology	Implied Valuation	Price/Share
EV/Revenue	$10,799	$2,696
DCF	$8,055	$2,011
Fair Value ($M)	**$9,427**	**$2,353**

Note: Diluted shares outstanding = 4.006 million

Source: MVR

The following section highlights the details of the two methodologies.

Methodology I: Comparative Valuation

Our comparative valuation methodology is based on a mean EV/Revenue multiple of the comparable companies on the Internet, Digital Media, and terrestrial radio groups. The implied valuation based on the revenue multiple is justifiable in our opinion given the company's negative profits and cash flow position for the next two years. Moreover, we believe Spotify is still a revenue story as reflected in the management's strategy to invest aggressively in growth initiatives at the cost of profitability to capture market share in an increasingly crowded space.

That said, we looked at a consolidated basket including pure-play streaming companies comprising Pandora SiriusXM, and Netflix, the three diversified big-cap Internet companies with music offerings – Apple, Google and Amazon; major publicly traded terrestrial radio companies; and finally a whole range of the Internet and Digital media companies.

Accordingly, we value Spotify at $10.91 billion, or $2,723 per fully diluted share, based on a peer group multiple of 3.5 times our 2016 revenue estimate of $3,046 million. This is a considerable premium to Pandora's current valuation of $2.9 billion, and above the company's last private round valuation of $8.5 billion in June 2015. We believe there is room for additional valuation upside if the company can show stronger than expected revenue growth on the back of subscriber growth and increased advertisement sales.

Figure 20: Comparable Public Multiples & Implied Valuation ($Mil)

			Revenue				EV/Revenue			
Company	Ticker	EV	2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
Pure-Play Streaming										
Pandora Media	P	$2,912	1,164	1,425	1,691	1,951	2.5x	2.0x	1.7x	1.5x
Sirius XM Radio	SIRI	25,892	4,570	4,967	5,305	5,656	5.7x	5.2x	4.9x	4.6x
Netflix	NFLX	41,601	6,780	8,715	10,936	13,179	6.1x	4.8x	3.8x	3.2x
Mean: Pure-Play							**4.8x**	**4.0x**	**3.5x**	**3.1x**
Diversified Majors										
Apple (FY Sept)	AAPL	555,187	233,715	215,376	224,614	239,412	2.4x	2.6x	2.5x	2.3x
Google	GOOGL	426,479	74,989	87,094	99,836	115,080	5.7x	4.9x	4.3x	3.7x
Amazon	AMZN	342,754	107,006	133,968	162,163	194,438	3.2x	2.6x	2.1x	1.8x
Mean: Diversified Majors							**3.8x**	**3.3x**	**3.0x**	**2.6x**
Terrestrial Radio										
Cumulus Media	CMLS	2,438	1,169	1,141	1,124	1,049	2.1x	2.1x	2.2x	2.3x
Entercom Comm	ETM	1,016	411	458	465	476	2.5x	2.2x	2.2x	2.1x
Townsquare Medi	TSQ	711	441	532	551	585	1.6x	1.3x	1.3x	1.2x
Mean: Terrestrial Radio							**2.1x**	**1.9x**	**1.9x**	**1.9x**
Internet & Digital Media Companies										
Facebook	FB	313,405	17,928	26,152	35,041	45,004	17.5x	12.0x	8.9x	7.0x
TripAdvisor	TRIP	9,413	1,492	1,572	1,837	2,135	6.3x	6.0x	5.1x	4.4x
Twitter	TWTR	10,478	2,218	2,718	3,266	3,932	4.7x	3.9x	3.2x	2.7x
Yelp	YELP	1,845	550	699	871	1,037	3.4x	2.6x	2.1x	1.8x
Yahoo	YHOO	31,028	4,968	4,512	4,589	4,690	6.2x	6.9x	6.8x	6.6x
LinkedIn	LNKD	23,333	2,991	3,724	4,450	5,248	7.8x	6.3x	5.2x	4.4x
Groupon	GRPN	1,359	3,120	3,020	3,141	3,338	0.4x	0.5x	0.4x	0.4x
Expedia	EXPE	18,118	6,672	8,891	10,190	11,341	2.7x	2.0x	1.8x	1.6x
Priceline	PCLN	69,388	9,224	10,633	12,197	13,968	7.5x	6.5x	5.7x	5.0x
Zynga	ZNGA	1,580	765	746	828	893	2.1x	2.1x	1.9x	1.8x
Mean: Internt & Digital Media Companies							**5.9x**	**4.9x**	**4.1x**	**3.6x**
Mean (Consolidated)							**4.1x**	**3.5x**	**3.1x**	**2.8x**
Median (Consolidated)							3.4x	2.6x	2.5x	2.3x

(http://mvp.vc/?attachment_id=1930)

Source: Thomson Reuters. Yahoo Finance, MVR estimates

Implied Spotify Enterprise Valuation

(http://mvp.vc/?attachment_id=1931)

Implied Valuation from Consolidated Mean Multiple (in Euros)

10.96	2015	2016E	2017E	2018E
Spotify Sales (€Mil)	€ 1,945	€ 2,745	€ 3,564	€ 4,260
Mean Multiples (Consolidated)	*4.1x*	*3.5x*	*3.1x*	*2.8x*
Implied Enterprise Value (€mil)	€ 7,998	€ 9,692	€ 11,070	€ 11,850
Less Debt	€ 912	€ 912	€ 912	€ 912
Plus Cash	€ 1,048	€ 1,048	€ 1,048	€ 1,048
Implied Equity Value (€mil)	**$8,134**	**$9,828**	**$11,206**	**$11,986**
Diluted Share Outstanding	*4.006*	*4.006*	*4.006*	*4.006*
Equity Value/Share	**€ 2,031**	**€ 2,453**	**€ 2,798**	**€ 2,992**

Implied Valuation from Consolidated Mean Multiple (in Dollars)

	2015	2016E	2017E	2018E
Spotify Sales (€Mil)	€ 1,945	€ 2,745	€ 3,564	€ 4,260
FX Euro/Dollar	*1.11*	*1.11*	*1.11*	*1.11*
Spotify Sales ($Mil)	$2,159	$3,046	$3,956	$4,729
Mean Multiples (Consolidated)	*4.1x*	*3.5x*	*3.1x*	*2.8x*
Implied Enterprise Value ($mil)	$8,877	$10,758	$12,287	$13,153
Less Debt	*$1,012*	*$1,012*	*$1,012*	*$1,012*
Plus Cash	*$1,163*	*$1,163*	*$1,163*	*$1,163*
Implied Equiy Value ($mil)	**$9,028**	**$10,909**	**$12,438**	**$13,305**
Diluted Sh. Outstanding (mil)	*4.006*	*4.006*	*4.006*	*4.006*
Equity Value/Share	**$2,254**	**$2,723**	**$3,105**	**$3,321**

Note: Stock prices as of July 11, 2017, close;

Multiples based on consensus estimates

Source: Thomson Reuters. Yahoo Finance, MVR estimates

Methodology II: Discounted Cash Flow Analysis (DCF)

We expect Spotify to turn cash flow positive in 2018. We projected our P&L model out to 2025 and constructed a 10-year DCF model. Using a WACC of 12%, which assumes a risk-free rate of 3.6%, a beta of 2.5, market premium 3.4%, and a terminal growth rate after 10 years of 4%, our discounted cash flow analysis supports a valuation of $8.1 billion, or $2,011 per share.

Below, we show our DCF calculation and the sensitivity analysis using a range of WACC from 10-14% and terminal growth rates between 2% and 6%.

Figure 21: Spotify Discounted Cash Flow Model (DCF)

Spotify Discounted Cash Flow Model - 10 Year

FYE December (MM Except Share Price)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Terminal Year Growth
EBITDA	(€ 60)	(€ 34)	€ 71	€ 187	€ 330	€ 367	€ 550	€ 632	€ 800	€ 988			
Capex	(38)	(54)	(65)	(76)	(84)	(92)	(99)	(105)	(111)	(117)			
Change WC	88	75	90	106	117	127	137	146	155	163			
FCF	(€ 10)	(€ 13)	€ 97	€ 218	€ 362	€ 402	€ 588	€ 673	€ 844	€ 1,034	€ 1,137	€ 1,183	€ 1,183
Y/Y Chg		33.0%	-846.9%	124.1%	67.5%	11.0%	46.2%	14.3%	25.5%	22.5%	10.0%	4.0%	4.0%
PV of Cash Flows		(€ 11)	€ 77	€ 154	€ 230	€ 228	€ 298	€ 304	€ 341	€ 373	€ 366	€ 340	€ 4,760

Risk-free rate	3.6%	3.6%	3.6%
LT Market Rate	6.6%	7.0%	7.4%
Beta	2.5	2.5	2.5
WACC	11.0%	12.0%	13.0%
Terminal Year Growth		4.0%	

DCF Valuation - 10 Year
in millions

	In Euros			In Dollars		
Risk-free rate	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Expected Mkt Premium	3.0%	3.4%	3.8%	3.0%	3.4%	3.8%
Beta	2.5	2.5	2.5	2.5	2.5	2.5
WACC	11.0%	12.0%	13.0%	11.0%	12.0%	13.0%
Terminal Growth Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Sh. Outstanding 2016 (mil)	4.006	4.006	4.006	4.006	4.006	4.006
Sum of DCF	€ 2,512	€ 2,360	€ 2,220	$2,788	$2,620	$2,464
Terminal Value	€ 5,951	€ 4,760	€ 3,872	$6,606	$5,284	$4,297
Enterprise Value (MM)	€ 8,463	€ 7,121	€ 6,092	$9,394	$7,904	$6,762
Less: Debt	€ 912	€ 912	€ 912	$1,012	$1,012	$1,012
Plus Cash	€ 1,048	€ 1,048	€ 1,048	$1,163	$1,163	$1,163
Equity Value (MM)	€ 8,599	€ 7,257	€ 6,228	$9,545	$8,055	$6,913
Diluted Shares Out (mil)	4.006	4.006	4.006	4.006	4.006	4.006
Equity Value/Share	€ 2,147	€ 1,812	€ 1,555	$2,383	$2,011	$1,726

Note: FX $/€ - 1.11

Sensitivity Analysis (In Euros)

Equity Value (€M)

Terminal Growth Rate	Discount Rate 10%	11%	12%	13%	14%
2%	€ 8,403	€ 7,108	€ 6,232	€ 5,463	€ 4,834
3%	€ 9,264	€ 7,805	€ 6,687	€ 5,807	€ 5,099
4%	€ 10,413	€ 8,590	€ 7,257	€ 6,228	€ 5,417
5%	€ 12,020	€ 9,658	€ 7,989	€ 6,754	€ 5,806
6%	€ 14,432	€ 11,140	€ 8,966	€ 7,430	€ 6,291

Equity Value/Share

Terminal Growth Rate	Discount Rate 10%	11%	12%	13%	14%
2%	€ 2,098	€ 1,794	€ 1,558	€ 1,364	€ 1,207
3%	€ 2,313	€ 1,949	€ 1,670	€ 1,450	€ 1,273
4%	€ 2,600	€ 2,147	€ 1,812	€ 1,555	€ 1,352
5%	€ 3,001	€ 2,411	€ 1,995	€ 1,686	€ 1,449

Sensitivity Analysis (In Dollars)

Equity Value ($M)

Terminal Growth Rate	Discount Rate 10%	11%	12%	13%	14%
2%	$9,327	$7,978	$6,917	$6,064	$5,368
3%	$10,283	$8,664	$7,423	$6,446	$5,660
4%	$11,558	$9,545	$8,055	$6,913	$6,013
5%	$13,343	$10,720	$8,868	$7,497	$6,444
6%	$16,020	$12,365	$9,952	$8,247	$6,983

Equity Value/Share

Terminal Growth Rate	Discount Rate 10%	11%	12%	13%	14%
2%	$2,329	$1,992	$1,727	$1,514	$1,340
3%	$2,567	$2,163	$1,853	$1,609	$1,413
4%	$2,885	$2,383	$2,011	$1,726	$1,501
5%	$3,331	$2,676	$2,214	$1,872	$1,609

	6%	€ 3 603	€ 2 781	€ 2 238	€ 1,855	€ 1 571

Terminal Multiple						
		Discount Rate				
		10%	11%	12%	13%	14%
	2%	12.5x	11.1x	10.0x	9.1x	8.3x
Terminal	3%	14.3x	12.5x	11.1x	10.0x	9.1x
Growth	4%	16.7x	14.3x	12.5x	11.1x	10.0x
Rate	5%	20.0x	16.7x	14.3x	12.5x	11.1x
	6%	25.0x	20.0x	16.7x	14.3x	12.5x

6%	$3,999	$3,087	$2,485	$2,059	$1,743

Terminal Multiple						
		Discount Rate				
		10%	11%	12%	13%	14%
	2%	12.5x	11.1x	10.0x	9.1x	8.3x
Terminal	3%	14.3x	12.5x	11.1x	10.0x	9.1x
Growth	4%	16.7x	14.3x	12.5x	11.1x	10.0x
Rate	5%	20.0x	16.7x	14.3x	12.5x	11.1x
	6%	25.0x	20.0x	16.7x	14.3x	12.5x

(http://mvp.vc/?attachment_id=1932)*Source: MVR estimates*

Model

Figure 22: Spotify Model (€Mil)

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Advertising	€ 68,157	€ 98,823	€ 195,843	€ 282,014	€ 381,071	€ 461,096	€ 527,725	€ 595,669	€ 669,234
Subscriptions	678,701	978,565	1,744,393	2,457,422	3,178,012	3,794,205	4,483,669	4,945,205	5,366,588
Other	-	4,331	5,096	5,096	5,096	5,096	5,096	5,096	5,096
Revenue	**746,858**	**1,081,720**	**1,945,332**	**2,744,532**	**3,564,180**	**4,260,398**	**5,016,490**	**5,545,970**	**6,040,918**
Royalty payments	522,801	799,983	1,497,904	2,099,567	2,708,777	3,152,694	3,611,873	3,882,179	4,228,643
Distribution and other costs	91,722	76,106	125,720	178,395	231,672	255,624	300,989	332,758	362,455
Cost of revenue	**614,523**	**876,089**	**1,623,624**	**2,277,962**	**2,940,448**	**3,408,318**	**3,912,862**	**4,214,937**	**4,591,098**
Gross profit/loss	**132,335**	**205,631**	**321,708**	**466,570**	**623,731**	**852,080**	**1,103,628**	**1,331,033**	**1,449,820**
Gross margin	*17.7%*	*19.0%*	*16.5%*	*17.0%*	*17.5%*	*20.0%*	*22.0%*	*24.0%*	*24.0%*
Sales and marketing	110,825	173,013	246,486	296,409	374,239	447,342	526,731	576,781	628,255
Research & development	72,728	121,030	143,307	159,163	187,119	213,020	243,801	263,434	280,903
General and administrative	39,965	76,678	116,405	139,971	171,081	200,239	230,759	249,569	265,800
Total operating expenses	**223,513**	**370,721**	**506,198**	**595,564**	**732,439**	**860,600**	**1,001,291**	**1,089,783**	**1,174,959**
Stock-based comp	9,194	16,781	27,269	35,879	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Depreciation of equipment	8,557	15,730	25,973	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amortization of intangibles	1,325	3,483	4,859	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other non-cash	-	-	-	-	-	-	-	-	-
EBITDA	**(72,102)**	**(129,156)**	**(126,389)**	**(59,510)**	**(33,724)**	**71,462**	**188,620**	**320,733**	**346,845**
EBITDA margin	*-9.7%*	*-11.9%*	*-6.5%*	*-2.2%*	*-0.9%*	*1.7%*	*3.7%*	*5.9%*	*6.1%*
Operating income(loss)	**(91,178)**	**(165,090)**	**(184,490)**	**(128,993)**	**(108,707)**	**(8,521)**	**102,336**	**241,258**	**274,862**
Operating margin	*-12.2%*	*-15.3%*	*-9.5%*	*-4.7%*	*-3.1%*	*-0.2%*	*2.0%*	*4.4%*	*4.6%*
Finance income	39,355	25,512	28,172	26,842	26,842	26,842	26,842	26,842	26,842
Finance expense	(2,138)	(18,563)	(11,086)	(14,825)	(14,825)	(14,825)	(14,825)	(14,825)	(14,825)
Shares in earnings of JVs and Associates	166	(438)	2,640	1,101	1,101	1,101	1,101	1,101	1,101
Finance income/costs - net	**37,361**	**6,511**	**19,726**	**13,119**	**13,119**	**13,119**	**13,119**	**13,119**	**13,119**
Net income (loss) before taxes	**(53,817)**	**(158,579)**	**(164,764)**	**(115,875)**	**(95,588)**	**4,598**	**115,455**	**254,368**	**287,980**
Income tax expense	(2,078)	(3,678)	(8,333)	(5,860)	(4,834)	(233)	(5,839)	(12,865)	(14,565)
Tax rate	*3.9%*	*2.3%*	*5.1%*	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Net income (loss)	(€ 55,895)	(€ 162,257)	(€ 173,097)	(€ 121,735)	(€ 100,423)	€ 4,366	€ 109,016	€ 241,503	€ 273,416
Net margin	-7.5%	-15.8%	-4.9%	-4.4%	-2.8%	0.1%	2.2%	4.4%	4.5%
EPS - basic	(€ 17.26)	(€ 47.80)	(€ 47.39)	(€ 33.33)	(€ 27.40)	€ 1.20	€ 30.01	€ 66.12	€ 74.86
Shares outstanding	3,239	3,395	3,653	3,653	3,653	3,653	3,653	3,653	3,653
EPS - fully diluted *	(€ 16.40)	(€ 46.40)	(€ 43.21)	(€ 30.39)	(€ 25.07)	€ 1.09	€ 27.37	€ 60.29	€ 68.26
Fully diluted shares	3,408	3,497	4,006	4,006	4,006	4,006	4,006	4,006	4,006
Y/Y Change									
Revenue	71.8%	44.8%	79.8%	41.1%	29.9%	19.5%	17.7%	10.6%	8.9%
Royalty payments	60.4%	53.0%	87.2%	40.2%	29.0%	16.4%	14.6%	7.5%	8.9%
Distribution and other costs	56.0%	-17.0%	65.2%	41.9%	29.9%	10.3%	17.7%	10.6%	8.9%
Cost of revenue	59.7%	42.6%	85.3%	40.3%	29.1%	15.9%	14.8%	7.7%	8.9%
Gross profit/loss	165.3%	55.4%	56.4%	45.0%	33.7%	36.6%	29.5%	20.6%	8.9%
Sales and marketing	80.1%	66.1%	42.5%	20.3%	26.3%	19.5%	17.7%	9.5%	8.9%
Research & development	384.8%	66.4%	18.4%	11.1%	17.5%	13.6%	14.5%	8.1%	6.6%
General and administrative	122.0%	91.9%	81.8%	20.2%	22.2%	17.0%	15.2%	8.2%	6.5%
Total operating expenses	112.1%	65.9%	36.5%	17.7%	23.0%	17.5%	16.3%	8.8%	7.6%
Operating income(loss)	64.2%	81.1%	11.0%	-30.1%	-15.7%	-92.2%	-1301.0%	135.7%	13.9%
Net income (loss) before taxes	-4.2%	194.7%	3.9%	-29.7%	-17.5%	-104.8%	2411.1%	120.3%	13.2%
Income tax expense	0.0%	77.0%	126.6%	-29.7%	-17.5%	-85.2%	2411.1%	120.3%	13.2%
Net income (loss)	-4.1%	190.3%	6.7%	-29.7%	-17.5%	-104.3%	2411.1%	120.3%	13.2%
% of Revenue									
Advertising	9.1%	9.1%	10.1%	10.3%	10.7%	10.8%	10.5%	10.7%	11.1%
Subscriptions	90.9%	90.5%	89.7%	89.5%	89.2%	89.1%	89.4%	89.2%	88.8%
Royalty payments	70.0%	74.0%	77.0%	76.5%	76.0%	74.0%	72.0%	70.0%	70.0%
Distribution and other costs	12.9%	7.0%	6.5%	6.5%	6.5%	6.0%	6.0%	6.0%	6.0%
Gross margin	17.7%	19.0%	16.5%	17.0%	17.5%	20.0%	22.0%	24.0%	24.0%
Sales and marketing	14.8%	16.0%	12.7%	10.8%	10.5%	10.5%	10.5%	10.4%	10.4%
Research & development	9.7%	11.2%	7.4%	5.6%	5.3%	5.0%	4.9%	4.8%	4.7%
General and administrative	5.4%	7.1%	6.0%	5.1%	4.8%	4.7%	4.6%	4.5%	4.4%
Operating income(loss)	-12.2%	-15.3%	-4.5%	-4.7%	-3.1%	-0.2%	2.0%	4.4%	4.6%
Net income (loss) before taxes	-7.2%	-14.7%	-4.5%	-4.2%	-2.7%	0.1%	2.3%	4.6%	4.8%
Income tax expense	-0.3%	-0.3%	-0.4%	-0.2%	-0.1%	0.0%	-0.1%	-0.2%	-0.2%
Net income (loss)	-7.5%	-16.0%	-4.9%	-4.4%	-2.8%	0.1%	2.2%	4.4%	4.5%

(http://mvp.vc/?attachment_id=1933)

Source: Manhattan Venture Research

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Our Research Methodology

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About the Analysts

Santosh Rao

Santosh Rao has over 18 years of experience in equity research, primarily within the technology and telecommunications space. He started his equity research career as an Associate at Prudential Securities and later moved to Broadpoint Capital (Formerly First Albany Capital), where he was the Senior Equity Analyst, and later to Evercore Partners, where he worked with the Telecom and Data Services Group. Prior to joining Manhattan Venture Partners, he was the Managing Director and Head of Research at Greencrest Capital, focusing on private market TMT research. Mr. Rao started his career as a Financial Analyst in the Operations Groups at PaineWebber (UBS) and Prudential Securities. Santosh has an undergraduate degree in Accounting and Economics, and an MBA in Finance from Rutgers Graduate Business School.

Max Wolff

Max Wolff is an economist specializing in international finance and macroeconomics. Before joining Manhattan Venture Partners, he was Chief Economist at Greencrest Capital, and prior to that spent four years as the senior hedge fund analyst at the Beryl Consulting Group LLC. Mr. Wolff teaches finance and statistical research methods in the New School University's Graduate Program in International Affairs. Max's financial markets and Macro-Economics work appears regularly in Seeking Alpha, The WSJ, Reuters, Bloomberg, The BBC, Russia Today TV, and Al Jazeera English.

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5

TuneCore Blog

MUSIC PUBLISHING, PUBLISHING NEWS

How We're Getting Your Mechanicals From Streams

11/08/2012 |

By Jamie Purpora
President TuneCore Music Publishing Administration

What is a mechanical from a stream?

Mechanicals from streams aka *streaming mechanicals*: A mechanical royalty is a royalty paid to a songwriter whenever a copy of his or her song is streamed via an interactive service.

What's an Interactive Service vs. Non-Interactive Service?

Interactive Service: The user selects the specific song so a mechanical royalty is due (e.g. Spotify, Rhapsody)

Non-Interactive: The user does not select a specific song so only a performance royalty is due (e.g. Pandora, Rdio)

(We'll cover performance royalties from streams in a future article.)

Whenever a song is streamed via any interactive service (e.g. on Spotify, Rhapsody, Zune), a mechanical royalty is owed to the Songwriter/Publisher. The royalty owed varies by digital service and is based on subscriptions and ad revenue. On average, a mechanical stream pays around $.0008 per stream.

What happens when a song is streamed in the U.S.?

In the United States, the mechanical royalties are deducted by the digital store and held until they are notified by the Songwriter/Publisher of where to send the royalties. These royalties are NOT paid through with your distribution royalties! If you are represented by TuneCore Music Publishing Administration, we register your compositions directly with the digital stores in the United States so you get paid. Remember, being affiliated with ASCAP, BMI or

SESAC will not get you your streaming mechanical royalties. They are performance societies and do not collect or license mechanicals.

What happens when a song is streamed outside of the U.S.?

For any stream outside of the U.S. (e.g .on Spotify, Deezer, Simfy), a mechanical royalty is deducted and paid to the local collection society (e.g. JASRAC in Japan, MCPS in the UK, GEMA in Germany etc.).

In order to receive this royalty you need to be affiliated with each one of these entities and also individually register each one of your compositions separately with each society. If these societies are not notified properly that your compositions exist, you do not get paid. Period!

Another interesting point that most songwriters are not aware of is that not all of the societies will let you affiliate with them directly. Yup, you read that right.

Two prime examples of this are Japan and Australia. If you are already affiliated as a songwriter with any other society in the world (like ASCAP, BMI, PRS/MCPS, GEMA, SACEM, etc.) you cannot become a member of JASRAC in Japan or APRA/ AMCOS in Australia.

In both cases you must also be a resident of that country. So without a publishing administrator like TuneCore, you cannot receive your mechanical royalties in those territories.

So how do I become affiliated with each collection society?

This whole process of affiliating with each entity will cost you upwards of $7,000, plus countless hours of your time—time you can better use to create, perform and promote. Language barriers can also make this a painful process. Every time you release new songs, you would need to submit new registration forms for each territory.

5_reasons

By opting into TuneCore's Music Publishing Administration service, we handle all of this for you. We will register your compositions as your administrator, and you are still listed as the publisher if you have previously affiliated as one. We do the registrations electronically, within one week of receiving your information.

If you release songs through TuneCore, you should send us the new titles to be registered by submitting the % you control through your TuneCore Composition Manager (click here to learn more about how that works in your account).

If the compositions have been released by another artist, label or distributor outside of TuneCore, you can fill out the registration form here.

When will I get paid?

One of the most common questions we're asked is**when will I get paid?** Well, that depends on the collecting society, but this process usually takes between twelve and eighteen months. Why? Some of the societies account quarterly and some every six months.

Also, if your mechanical royalties have been sitting unclaimed, the society will have to sort through their back log of data to locate your mechanicals due for the streams from previous quarters.

Unprecedented power to get you more money.

One of the big advantages of hiring TuneCore to collect your streaming mechanicals is the built-in audit trail. If you distribute songs through TuneCore we have your sales data.

We use this data to notify each digital store in the U.S. and each society Worldwide of the streams that occurred, so the society or digital store can then release any funds being held for your previously unclaimed compositions. This is a key point that should not be overlooked: never in the history of publishing administration has any entity had the ability to do this, and it results in more accurate and complete accounting.

What countries are covered by TuneCore Music Publishing Administration?

The major territories currently covered by our service:

- Argentina
- Japan

- Australia
- Austria
- Belgium
- Brazil
- Canada
- Denmark
- Finland
- France
- Germany
- Ireland
- Italy
- Netherlands
- New Zealand
- Norway
- Portugal
- South Africa
- Spain
- Sweden
- Switzerland
- United Kingdom
- United States

Now go and write that next hit song and let *us* make sure you receive your mechanicals!

Jamie Purpora
President TuneCore Music Publishing Administration

(If you missed our article about how we're collecting your mechanicals from DOWNLOADS, check it out here!)

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The undersigned hereby certifies that on November 13, 2017, all counsel of record who are deemed to have consented to electronic service are being served with a copy of this document via the Court's SDNY Procedures for Electronic Filing.

/s/ Steven G. Sklaver
Steven G. Sklaver