

Spotify's Valuation Skyrockets as Investor's Smell the 'Next Netflix'

by Dawn Chmielewski

Spotify's valuation continues to rise in private trades, a signal of strong demand for a stake in the world's largest streaming music company ahead of it going public.

The Swedish company's reported \$16 billion valuation has risen \$3 billion since May, when private trades pegged its value at around \$13 billion. Industry insiders and bankers say Spotify's appreciating value in these private trades is a sign of investor confidence that the service will eventually turn a profit, while some say the intensifying investor interest in Spotify is part of a growing recognition that music streaming has "crossed the chasm," in the words of one source, and become mainstream. They see enormous opportunity for growth in the coming years.

But investment banker Lloyd Greif said that because of Spotify's 40 percent year-over-year



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growth in active users, its 50 percent revenue growth from 2015 to 2016 and its rapidly expanding subscriber base -- similar traits to Netflix -- some investors are betting that its stock will rally as has that of the video streaming service, which has seen shares double in value over the past two years.

"This is kind of like trend spotting," Greif said. "Investors may be jumping on the bandwagon of the next Netflix."

The subscription companies aren't quite analogous, though, music industry and streaming executives such as Jimmy Iovine point out, since the music on Spotify's paid tier is readily available on-demand for free on sites like YouTube. The feature-length films and series on Netflix are much harder to find for free on the internet. Spotify's licensing agreements with the major record labels also prohibit it from making

its own original music content, while Netflix relies heavily on original films and shows to lure subscribers and control costs.

Spotify's \$16 billion valuation is still modest compared to Netflix \$87 billion enterprise value, roughly 10 times last year's revenues of \$8.8 billion, says Needham & Co. media analyst Laura Martin. Applying that same formula to Spotify's \$3.4 billion in revenue would yield a value of over \$30 billion -- nearly double its current estimated market value.

But bankers and industry observers say it's difficult to value a company -- especially one like Spotify, which has seen its losses deepen even as it gains subscribers.

Spotify reports 140 million regular users around the world, 60 million of whom pay monthly subscriptions. But the combination of royalties, distribution costs, salaries and other business expenses dragged the company into the red in 2016, according to public filings.

"It is in many ways a success story," said technology analyst Jan Dawson of Jackdaw Research. "But the reality is streaming is challenging for the distributor."

Spotify is planning to make its shares public via a direct listing,

versus the more conventional initial public offering, according to sources. Instead of hiring investment bankers to hype the offering and set the price, the stock simply becomes available on the public market -- with the price is set by demand.

Spotify stock could begin trading later this year or early next year.

Spotify declined comment.