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**From:** jeffrey E. <jeevacation@gmail.com>  
**Sent:** Wednesday, March 7, 2018 11:27 PM  
**To:** David Fiszel  
**Subject:** Fwd: BAML Spotify Cheat Sheet - UPDATE

what does this mean to us

jeevacation@gmail.com>

Richard Kahn  
HBRK Associates Inc.  
[REDACTED]

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Begin forwarded message:

From: "Ens, Amanda" &l=;amanda.ens@baml.=om <mailto:amanda.ens@baml.com> >

Subject= BAML Spotify Cheat Sheet - UPDATE

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Date: March=7, 2018 at 2:09:53 PM EST

To: "rkahn" [REDACTED] <mailto:r[REDACTED]> &g=;

Reply-To: </=pan>"Ens, Amanda" <[REDACTED] <mailto:[REDACTED]> >

=u>  
Trading Commentary (Not a product of BAML Research and=should not viewed as a research report) <=span>  
S=otify: Stockholm-based music streaming service

## Timeline

- </=pan>March 15: Analyst Day (conf=rmed – Livestream) - Offi=ial Listing/Trading Date likely given
- \* <=pan style="font-size:10.5pt">Week of March 19 (): Company sponsored “Investor Education” =eetings & potential Research coverage launches by Sell Side<=u>
- \* =C2\* Week of March 26 =Tentative): Trading Begins - Advisors wor= with Spotify to set initial trade price
- <=pan>\* April 2 (Tenta=tive): Options Trade

## Financials - F1 filing

<[https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294\\_18](https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294_18)> now publicly ava=able

2017 Revs: \$=B & Positive FCF \$133M – 5-6x trailing revs certainly possible= implying \$25B+ valuation (In our SOTP for Vivendi we ha=e music at 4x sales or €24bn) Ordinary Shares Outstanding:=/b> 176,976,280 reported as of 2/22/18 Valuation: At high end of rece=t trading, implies mkt cap \$26B+ (very rough estimate). However, using cur=ent secondary market prices (~\$125) implies a market cap of ~\$22B (very ro=gh estimate) o =C2 =A0Client conv=rations point to a \$20-22B valuation as being a level they might add</=>

[https://www.sec.gov/Archives=edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294\\_1](https://www.sec.gov/Archives=edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294_1)=

Ind=stry Model: =A0Record Labels own New=Music & Back Catalog – Distribute thru Spotify & Apple Mus=c to Consumers – key question is how does Spotify gain control ove= supply?

## <=pan style="font-size:10.5pt">Bull/Bear Views

- </=pan>Bull
  - =span style="font-size:10.5pt;font-family:'Courier New'">o<=pan style="font-style:normal;font-variant-caps:normal;font-weight:normal;font-size:7pt;line-height:normal;font-family:'Times New Roman'">=C2 Spotify becomes the Netflix of music by becoming a record label owning exclusive=content – not the case today and likely cash intensive</=>
  - o Spotify is an aggregator (not Netflix)= it's taking a commission on providing all music any time you want=– pushback likely would be then should be valued on gross profit m=ltiple
  - =A0 Bear =A0=&/div>
  - o Cash burn / Potential dilution rises higher tha= expected as company pivots to become Netflix of music - paying up for per=ormer exclusivity (good) but likely results in higher than expected cash b=rn (bad)
  - o =C2 Typical consumer =odel is advertising – give service away for free and get 3rd<=sup> party advertisers to pay for access to users. Typical business mod=l is SaaS – subscription fee. Key for both is marginal cost =o add users is minimal. Due to royalty agreements, marginal costs fo= Spotify grow with user growth limiting operating leverage from network ef=ect (similar to Lyft/Uber/Airbnb)
- =C2\* =span style="font-size:10.5pt">Competition=C2 – Apple Music – Record labels

=A0

## Index Implications

In order to be included in the S&P 5=0, a company must have been trading for at least 12 months following an IP= as well have positive earnings. As a result, we don’t expect any =ndex implications for SPOT in the S&P 500 until these requirements are=met. However, it should be eligible for the S&P TMI and Completion ind=ces. We are still looking at implications for FTSE and MSCI based on domicile.

<=pan style="font-size:10.5pt">Stock Loan Implications Given the=structure of the IPO, there may be a delay in shares settling INTO stock l=ending programs due to the DWAC process. (Delivery Withdrawal at Custodian)= This potential delay will more than likely affect the initial Locate Liqu=dity for a few days.

Happy to coordinate calls with John Egan, BAML=E2 s Short Analytics Specialist

## Expe=ted Trading Dynamics

\* =C2 Our understanding is that on the morning of trading, the=Floor Specialist will act like a stabilizing agent normally would (with ba=ks advising) to help match supply and demand

- The opening is likely to be very d=layed as we will not know amount of shares to be bought/sold=/span>
- =A0 The stock has a dece=t probability of trading up significantly on day 1 due to lack of pressure=from selling shareholders & inability to source a locate=/span>

<=u>

Historical Private Share Trading</=iv>

- <span>2017: \$37.50 to \$125
- \* \* =A0 =/span>1/1/18 to 2/22=18: \$90 to \$132.50 (excl Tencent transaction)

Some confusion on s=are prices as secondary market prices are currently ~\$5000/share. </=pan>Everything in prospectus reflects a 40-to-one share split (this in=ludes the beneficiary certificates that the founders own) <=u> Source:=span class="m\_-2047515031755508950Apple-converted-space"> SEC.=ov <<http://sec.gov/>> , F-1 filing - [https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294\\_18](https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294_18)</=pan> <[https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294\\_18](https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294_18)> <=div>

<=pan style="font-size:10.5pt;font-family:Symbol">· =C2 No deal roadshow, No underwriters

- No fixed # of securities for sale<=>
- \* =C2 No lo=k-ups except Tencent Music Entertainment & Tencent (holding for at lea=t 3 yrs from 12/15/17), who own ~7.5%
- \* <pan style="font-size:10.5pt">Majority Ownership by Founders - Daniel Elk=controls 37.3% of shares and Martin Lorentzon controls 43.1% of the vote. =oth founders control 21% of the ordinary shares outstanding<=span>
- \* \* =A0 There is language ab=ut beneficiary shares that may be issued to founders on top of shares, but=would be dilutive and likely to maintain control if/when company does futu=e capital-raising

Source: SEC.gov <<http://sec.gov/>> , F-1 filing -

[https://w=w.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294=f1.htm#rom494294\\_18](https://w=w.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294=f1.htm#rom494294_18)

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Have received a lot o= requests for conference calls & happy to organize calls for those int=ested.

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Thanks,

Alli, Alkesh & Mike

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