
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:[REDACTED]> &g=;

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

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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

- March 15: Analyst Day (confirmed – Livestream) - Official Listing/Trading Date likely given
- * Week of March 19 (): Company sponsored “Investor Education” meetings & potential Research coverage launches by Sell Side
- * Week of March 26 (Tentative): Trading Begins - Advisors work with Spotify to set initial trade price
- * April 2 (Tentative): Options Trade

Financials - F1 filing

https://www.sec.gov/Archives/edgar/data/1639920/000119312518063434/d494294df1.htm#rom494294_18 now publicly available

2017 Revs: \$B & Positive FCF \$133M – 5-6x trailing revs certainly possible implying \$25B+ valuation (In our SOTP for Vivendi we have music at 4x sales or €24bn) Ordinary Shares Outstanding: 176,976,280 reported as of 2/22/18
Valuation: At high end of recent trading, implies mkt cap \$26B+ (very rough estimate). However, using current secondary market prices (~\$125) implies a market cap of ~\$22B (very rough estimate) o Client conversions 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_18

Industry Model: Record Labels own New Music & Back Catalog – Distribute thru Spotify & Apple Music to Consumers – key question is how does Spotify gain control over supply?

Bull/Bear Views

- Bull
 - 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 multiple
 - o Cash burn / Potential dilution rises higher than expected as company pivots to become Netflix of music - paying up for former exclusivity (good) but likely results in higher than expected cash burn (bad)
 - o Typical consumer model is advertising – give service away for free and get 3rd party advertisers to pay for access to users. Typical business model is SaaS – subscription fee. Key for both is marginal cost to add users is minimal. Due to royalty agreements, marginal costs for Spotify grow with user growth limiting operating leverage from network effect (similar to Lyft/Uber/Airbnb)
- Bear
 - o Competition – Apple Music – Record labels

Index Implications

In order to be included in the S&P 500, a company must have been trading for at least 12 months following an IPO as well have positive earnings. As a result, we don’t expect any index 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 indices. We are still looking at implications for FTSE and MSCI based on domicile.

Stock Loan Implications Given the structure of the IPO, there may be a delay in shares settling INTO stock lending programs due to the DWAC process. (Delivery Withdrawal at Custodian) This potential delay will more than likely affect the initial Locate Liquidity for a few days.

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

Expected Trading Dynamics

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

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

<=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 share prices as secondary market prices are currently ~\$5000=share. </=pan>Everything in prospectus reflects a 40-to-one share split (this includes 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</=pan>
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<=pan style="font-size:10.5pt;font-family:Symbol"> · =C2 No deal roadshow, No underwriters

- No fixed # of securities for sale<=;>
- * =C2 No lock-ups except Tencent Music Entertainment & Tencent (holding for at least 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 about 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 future capital-raising

Source: SEC.gov <http://sec.gov/> , F-1 filing -
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 Have received a lot of requests for conference calls & happy to organize calls for those interested.
 =A0
 Thanks,

Alli, Alkesh & Mike

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Allison Wile Director | US Cash
Equities Trading | New York, NY 10036 Merrill Lynch, Pierce, Fenner & Smith Incorporated
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