

June 8, 2022

Spotify Investor Day

On June 8th Spotify held its first investor day since the stock's direct listing in 2018. An Investor Day was long overdue given the magnitude of Spotify's evolution since going public and progress in closing the monetization gap between streaming audio and video.

Summary: Audio is one of the last wide-open oceans of opportunity on the web today. The monetization gap between online audio and video content is enormous because social media platforms are not built exclusively for audio discovery and consumption. As we discussed in past letters, platforms like TikTok, Instagram, YouTube and Snap are designed for visual consumption with audio as a feature to support visual engagement. Beyond building superfan audiences and selling products/services, there is an even great opportunity to become the "Google of audio" for contextual audio search of the spoken word online.

Spotify has many, many ways it can win by building new audio verticals on top of its existing infrastructure, and for the same consumer. Our sense is that Daniel Ek is inspired by Chinese "super apps" and it would not surprise us to see non-audio services added to the platform in the future, such as financial services.

\$20 Billion Operating Earnings Target

Spotify is a core fund holding and we think the stock has multi-bagger upside from today's price of \$98 per share. The business has an enterprise value of roughly \$16 billion compared to \$20 billion in operating earnings that management is targeting by 2032. Although it is very rare for a public company to put out 10-year financial targets, we admire Daniel Ek's willingness to drive a stake in the ground and work towards achieving greatness.

We have not tried to model Spotify over 10 years (or any investment for that matter) but even looking out over the next three or four years, Spotify's earning power is more misunderstood now than it has ever been. The stock now trades for 35% less than on the close of its first trading day in 2018 despite being a much larger and stronger business today.

Price vs Value Disconnect

Part of the disconnect in our view has been management's communication style of shying away from threading the needle for investors between quarterly business progress, the bigger vision, and long-term financial targets. Additionally, key profitability drivers like 2-Sided Marketplace do not show up as revenue but as a reduction in cost of goods sold. This can make financial progress hard to track for traditional investors.

It also took a while for investors to give credit to Amazon for evolving beyond an online book seller. Similar to Amazon in 2001 we think Spotify is grossly undervalued today partly because it is mistaken for a commoditized music streaming and GAAP financials do not yet "prove" otherwise.

Highlights from Investor Day 2022 that we found important

Spotify vs The Labels - [3:10.00 \(click to watch\)](#)



Key Quote: "Our strategy is not predicated on trying to extract better terms from our content partners, our strategy is to build marketplace tools where The Labels become customers."

Why Invest in Spotify? - [2:48.35 \(click to watch\)](#)



Key Quotes: "We are running faster, and we are more focused than anyone else in audio. And as you could hear, audio and long form content is a much bigger business than what many would have thought.."

...So, from everything I see, I believe that over the next decade, we will be a company that can generate \$100 billion in revenue annually, and that we can achieve a 40% gross margin and a 20% operating margin."

Lifetime Value and One Single Customer Experience - [28:50 \(click to watch\)](#)



Key Quotes: "We also quickly recognized that this strategy unlocked significant business value. First, it gives us the ability to leverage our scale and distribution. New creators on our platform are able to access the entire combined user base across all the formats. And this drastically expands the market for these creators. Secondly, it also allows us to use our existing infrastructure when laddering up into new verticals, not just on the back end, like personalization, but also on the front end in the actual application.

And finally, it increases engagement and lifetime value of our existing users as they also adopt these new formats...From day one, this single user experience strategy enabled podcasters on Spotify to tap into the existing music audience, which at that time, was already 200 million listeners - instead of what would have been zero listeners in a stand alone app."

Building on Top of Music and Podcasts - [21:58 \(click to watch\)](#)



Key Quotes: "What our successes in music and podcasting have clearly demonstrated is that we have built a powerful machine and solid infrastructure that enables us to go after new verticals...We see the opportunity to continue to imagine and explore new verticals across our platform—within audio, but also beyond...

...And for each vertical, we will develop a unique set of software, services, and products and business models that's going to be tailored for that specific ecosystem. But again, all of these will live in one consumer experience. And while we aren't ready yet to share the verticals that will come next, I don't think it's hard to imagine how we will deploy this proven playbook against them, ultimately winning market share and innovating to expand the categories we go after."

1 Billion Users and Spotify's Flywheel - [1:59.38 \(click to watch\)](#)



Key Quotes: "Right now, we're on track to more than double our reach to over 1 billion listeners. And with our vertical platform strategy, over time our ambition is to build the business toward an annual ARPU of 100 million Euros. This means, on average, looking at both free and paid, we can significantly increase the total revenue across our entire user base."

"With our Freemium model we have created a value proposition for different stages of the user lifecycle, introducing users with Free and then layering the different subscriber offerings on top of it. Secondly, we work on maximizing user intake. Once you're onboard, our personalization kicks in. Importantly, we make sure you can use our service on the devices you use throughout the day. This deepens engagement and retention.

...And as we scale reach and engagement, we unlock growth for our advertising business. This drives ARPU. As engagement grows, we're able to improve subscription growth, whether a free user moves to Premium or a Premium user upgrades to a multi-account plan. This is what expands our 43 monetization and subscriber base. And, yet again, it further improves engagement as users move up the ladder. This is a fantastic flywheel. The fifth step is that we open up for "a la carte purchases", which means that you can subscribe to specific creators, or buy things one-off."

The Podcast Opportunity - [1:27.02 \(click to watch\)](#)



Key Quotes: "In 2021, we generated close to 200 million euros in podcast revenue. We expect this to increase materially in 2022. But while we're still in investment mode, our bets in this space are already starting to pay off beginning with improvements in ad products and in turn monetization. And going forward, we believe podcasting in itself will be a \$20 billion opportunity..."

...We also know that bringing podcasts and music together are especially powerful when it comes to audiences...In the US, when we bundle music and podcast advertising, the average size of the spend on a campaign is 4 times that of a music-only campaign, so we're driving bigger spends from advertisers and growing our revenue significantly. And this upside is expanding as we continue to transform podcasting into a more mainstream entertainment medium."

iPhone Users Spend 50%+ More Time on Spotify Than Apple Music - [47:15 \(click to watch\)](#)



Key Quotes: "According to a recent report from Apple, in the US, iPhone users spend over 50% more time on Spotify than our next closest music streaming competitor, and more than double the time on Spotify than the rest of our competition. And in markets like the UK, Germany, Australia, the gap between Spotify and other streaming services is even larger. More time spent on Spotify, means greater customer retention. Driving more subscriptions around the world, and expanding our advertising inventory..."

...So, our personalized playlisting experience drives an incredible amount of listening time spent on Spotify. And this, in turn, presents enormous opportunities for more artists around the world to find a fanbase."

Spotify's Audiobooks Opportunity - [1:37.36 \(click to watch\)](#)



Key Quotes: "Audiobooks are a massive opportunity for Spotify, because while they represent just a 6-7% share of that larger industry [\$140 billion], the category is growing by 20% year over year. We believe this presents a really unique opportunity to introduce music and podcast listeners around the world to audiobooks and drastically expand that market..."

...Our platform will soon be a place where consumers can purchase and listen to their favorite audiobooks right in Spotify... Just as we've done with podcasting, this will introduce a new format to an audience that has never before consumed it, unlocking a whole new segment of potential listeners."

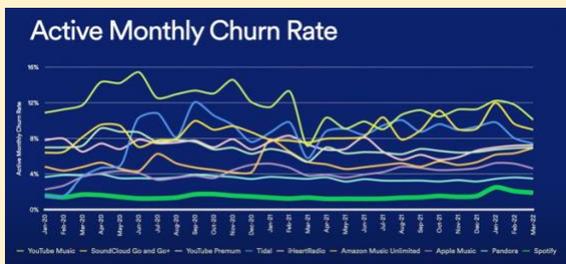
Measuring Lifetime Value (LTV) and Return on Investment Per Subscriber - [1:49.18 \(click to watch\)](#)



Key Quotes: "We think about Lifetime Value as the value of a consumer over their entire lifetime on the service...And we've spent years building advanced machine learning models that estimate the predicted lifetime value of every combination of a piece of content and a user on the platform, across all the verticals every single day..."

...So, in summary, LTV is a powerful instrument that, number one, allows us to forecast the profitability of experiments and other initiatives and understand their potential impact on our bottom line. Number two, it promotes a thoughtful approach to investment in innovation and content, and number three, it predicts which content and experiences yield longer-term retention, engagement and happiness."

Lowest Subscriber Churn vs All Music Streaming Services - [1:48.20 \(click to watch\)](#)



Key Quote: "Here's rankings from the third-party measurement company Antenna, which uses anonymized transaction data to track subscription services. You can see Spotify has the absolute lowest churn of any music streaming service"