



Spotify Technology S.A.

Sticky, Scalable, and Built to Win

Spotify has sold off approximately 45% from its 52-week high of \$785 on AI disruption fears, yet Q1 2026 delivered record operating margins of 15.8%, 761 million MAUs ahead of guidance, and its highest Q1 free cash flow on record. The market appears to be mispricing Spotify's switching cost moat, dominant global position, and 2.7 billion untapped smartphone users in emerging markets. We initiate coverage with a Buy rating and a 12-month price target of \$582, representing approximately 34% upside from current levels.

Thesis Point 1: Spotify displays strong customer stickiness and high retention through its premium tier segment. They have implemented multiple subscription price increases, all of which have resulted in minimal customer churn, and the majority of churned users historically return to Spotify within weeks of leaving. This demonstrates the platform's exceptional pricing power and user stickiness through its high switching-cost moat, enabled by things like Spotify Wrapped, AI DJ, and Daylist, which use years of listening history. This gives Spotify the ability to increase prices without losing subscribers, further supporting continued margin expansion.

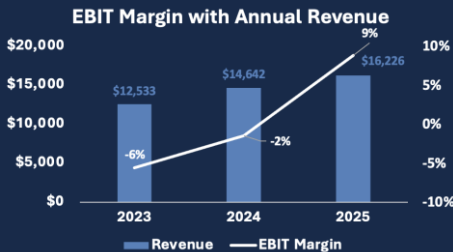
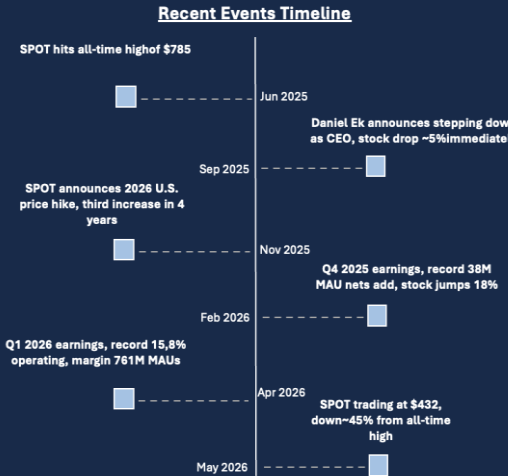
Thesis Point 2: Despite its maturity, Spotify continues to set new growth records, reaching 761 million MAUs across 184 countries as of Q1 2026, with 10 million net new users added in the quarter alone. Spotify management has identified that the Total Addressable Market in its shifting focus on emerging markets represents 2.7 billion smartphone users across Latin America, Asia, and Africa. Users in lower-income emerging markets primarily enter through the ad-supported tier, scaling advertising revenue and creating a strong long-term monetization pathway, positioning Spotify as the only established ad-supported streaming platform at global scale.

Thesis point 3: While the market has treated AI as an existential threat to Spotify and contributing to a ~30% decline in share price from its highs, management has made it clear that the reality is quite the opposite. AI-driven personalization features serve to optimize the user recommendation experience, thereby boosting user engagement, extending listening duration, and ultimately increasing the lifetime value of each user. Furthermore, Spotify's diversification strategy within the content sphere, including its podcast business, which has seen video playback volume surge by over 90%, and its audiobook business, which has already attracted 19 million users and accumulated 4 billion hours of listening time. further strengthens the platform's long-term revenue outlook.

Company Overview: Spotify Technology is the world's largest audio streaming platform, capturing 31% of the global music streaming market. The platform offers music, podcasts, and audiobooks across 184 countries. Spotify generates revenue through two segments. The Premium segment offers paid subscription plans, including Individual, Family, Duo, and Student, accounting for 89% of total revenue in 2025. The Ad-Supported segment provides free access to the platform and is monetized through digital advertising, contributing 11% of total revenue in 2025. As of Q1 2026, Spotify serves 761 million Monthly Active Users (MAUs), representing 12% year-over-year growth, and counts 293 million premium subscribers, up 9% year-over-year.



TICKER:	\$SPOT
RATING:	BUY
PRICE:	\$430.90
PRICE TARGET:	\$582.55
MARKET CAP:	\$85,910/m
52-W RANGE:	\$405 - \$785
NTM P/E:	28.17x
IMPLIED UPSIDE:	34%



Risk 1: Spotify relies entirely on licensing agreements to stream content, with Universal Music Group, Sony Music Entertainment, Warner Music Group, and Merlin accounting for approximately 72% of all audio streams in 2025. This concentration makes Spotify vulnerable, as any single label could demand higher royalty rates, remove content, or refuse to renew agreements. With approximately \$3.2 billion already committed in future licensing fees, any breakdown in label relationships could seriously threaten margin expansion.

Risk 2: Spotify has made AI central to its growth story, but the rules are still being written. The EU AI Act becomes fully enforceable on August 2, 2026, and could limit how Spotify collects personal data to power features like AI DJ and AI Playlist. Given that Europe is one of Spotify's biggest markets, any restrictions on personalization could directly hurt engagement and retention. With Spotify operating across 184 countries where regulations are moving at different speeds, navigating this landscape could entail significant costs, and if regulators ultimately restrict its use of AI, the personalization benefits at the heart of our buy thesis may not fully materialize.

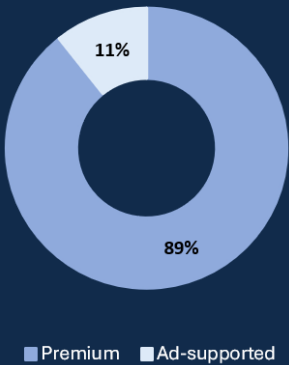
Catalysts: During the Q4 2025 earnings call, management outlined plans to collaborate with major record labels on an AI music framework targeting new AI-generated content and remixes. As the world's largest audio streaming platform with the deepest artist relationships, Spotify is well positioned to lead in this space. On the product side, AI DJ usage approached 94 million subscribers in Q1 2026, SongDNA attracted 52 million users within four weeks of launch, and new ad formats including Sponsored Playlists and Carousel Ads are giving advertisers more ways to engage Spotify's growing user base, keeping users on the platform longer and creating additional monetization opportunities over time.

Valuation:

DCF Analysis (\$mm)						
	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/30/2030	12/31/2031
Revenue	22,600	25,504	28,369	31,091	33,557	35,656
Revenue Growth	12%	13%	11%	10%	8%	6%
Premium	20,200	22,624	25,000	27,249	29,293	31,051
Ad-supported	2,400	2,880	3,370	3,841	4,264	4,605
N/A	0	0	0	0	0	0
EBIT	2,600	3,826	4,752	5,752	6,795	7,844
EBIT Margin	12%	15%	17%	19%	20%	22%
Tax Expense	250	383	535	719	934	1,177
Effective Tax Rate	10%	10%	11%	13%	14%	15%
NOPAT	2,350.00	3,443.04	4,217.25	5,032.83	5,860.95	6,667.63
D&A	130	128	163	202	243	285
Capex	80	77	135	202	277	357
Changes in NWC	1,200	1,275	1,418	1,555	1,678	1,783
UFCF	1,200	2,219	2,827	3,478	4,150	4,814
PV of FCF	1,166	2,005	2,335	2,627	2,865	3,039

Conclusion: The fundamentals are clear. Spotify's switching cost moat continues to drive pricing power and margin expansion, while 2.7 billion untapped smartphone users across emerging markets represent a growth runway the market is not fully pricing in. Risks around licensing concentration and AI regulation are real but manageable given €8.8 billion in cash and margins consistently moving higher. We rate Spotify Technology S.A. a BUY with a 12-month price target of \$582, representing approximately 34% upside from current levels.

Revenue Segments



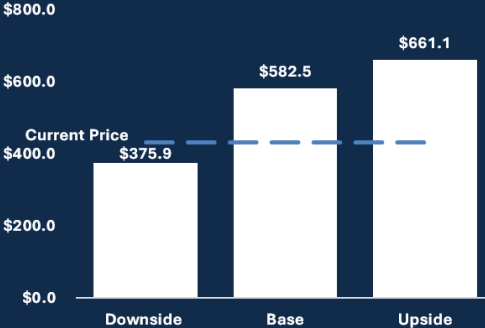
Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$8,130
EV/EBITDA Exit Multiple	20.0x
Terminal Value	\$162,590
PV of Terminal Value	\$102,638
PV of Projection Period	\$14,037
PV of Terminal Value	\$102,638
Implied TEV	\$116,675
(-) Debt	\$549
(+) Cash	\$6,059
Implied Equity Value	\$122,185
Diluted Shares Outstanding	210
Implied Share Price	\$582.55
Upside/Downside	34.7%

Implied PGR	4.5%
-------------	------

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	20,179	22,600	26,004	29,738	33,784	13.8%
EBITDA	2,696	2,730	4,291	5,301	6,470	24.5%
EBIT	2,581	2,600	4,161	5,130	6,250	24.7%
NOPAT	2,567	2,350	3,745	4,553	5,469	20.8%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	13.4%	12.1%	16.5%	17.8%	19.2%	15.8%
EBIT Margin	12.8%	11.5%	16.0%	17.3%	18.5%	15.2%
Revenue Growth	24.4%	12.0%	15.1%	14.4%	13.6%	15.9%
EBIT Growth	80.8%	0.7%	60.0%	23.3%	21.8%	37.3%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	61.3x	75.3x	36.2x	29.2x	23.9x	45.2x
EV/Sales	4.2x	3.8x	3.3x	2.9x	2.5x	3.3x
EV/EBITDA	31.5x	31.1x	19.8x	16.0x	13.1x	22.3x
FCF Yield	1.6%	1.3%	2.8%	3.4%	4.2%	2.7%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
TEM	\$14,790	\$11,780	8.8x	\$4,519	\$2,030
SIRI	\$9,120	\$18,790	11.5x	\$8,581	\$2,162
LYV	\$38,000	\$39,500	117.5x	\$25,612	\$1,537
NFLX	\$368,400	\$370,470	28.2x	\$46,890	\$34,079
spot	\$85,910	\$76,210	27.6x	\$17,529	\$2,964

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth	Rate Lf
TEM	5.8x	44.2%	44.9%	40.7%	7.3%	
SIRI	8.7x	47.2%	18.3%	18.3%	1.0%	
LYV	25.7x	25.9%	3.4%	3.4%	12.0%	
NFLX	10.9x	49.0%	36.1%	36.1%	16.0%	
spot	25.7x	32.3%	16.3%	16.3%	8.0%	

High	25.71x	49.0%	44.9%	40.7%	16.0%
75th Percentile	25.70x	47.2%	36.1%	36.1%	12.0%
Average	15.36x	39.7%	23.8%	23.0%	8.9%
Median	10.87x	44.2%	0.0%	18.3%	8.0%
25th Percentile	8.69x	32.3%	16.3%	16.3%	7.3%
Low	5.80x	25.9%	3.4%	3.4%	1.0%

spot

Implied Enterprise Value (25th Percentile)	\$	25,760
Implied Enterprise Value (Median)	\$	32,221
Implied Enterprise Value (75th Percentile)	\$	76,173

Implied Share Price (25th Percentile)	\$	149.09
Implied Share Price (Median)	\$	179.90

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.54
Risk Free Rate	4.48%
Cost of Equity	9.42%
Weighted Average Cost of Debt	0%
Tax Rate	10.00%
Cost of Debt	0.00%
Total Equity	\$90,378
Total Debt	\$(5,510)
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	9.42%

Downside Case: In the downside scenario, we assume Premium revenue growth of 8% in 2026, decelerating to 5% by 2031, and Ad-Supported growth of 14% in 2026, slowing to 7% by 2031, reflecting a challenging advertising environment and slower emerging market monetization. EBIT margin is assumed to reach 13% by 2026 and expand conservatively to 20% by 2031, as licensing cost pressures and regulatory headwinds limit margin expansion. We apply a TGR of 2% and an exit multiple of 15x EV/EBITDA, yielding an implied share price of \$375.94.

Upside Case: In the upside scenario, we assume Premium revenue growth of 14% in 2026, sustaining at 8% through 2031, driven by continued price increases and strong subscriber growth in emerging markets. Ad-Supported revenue grows at 24% in 2026 and 10% by 2031, reflecting the accelerating monetization of the ad-supported tier. EBIT margin expands from 16% in 2026 to 25% by 2031, supported by operating leverage and AI-driven personalization, reducing churn. We apply a TGR of 4% and an exit multiple of 22x EV/EBITDA, yielding an implied share price of \$661.07.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.