

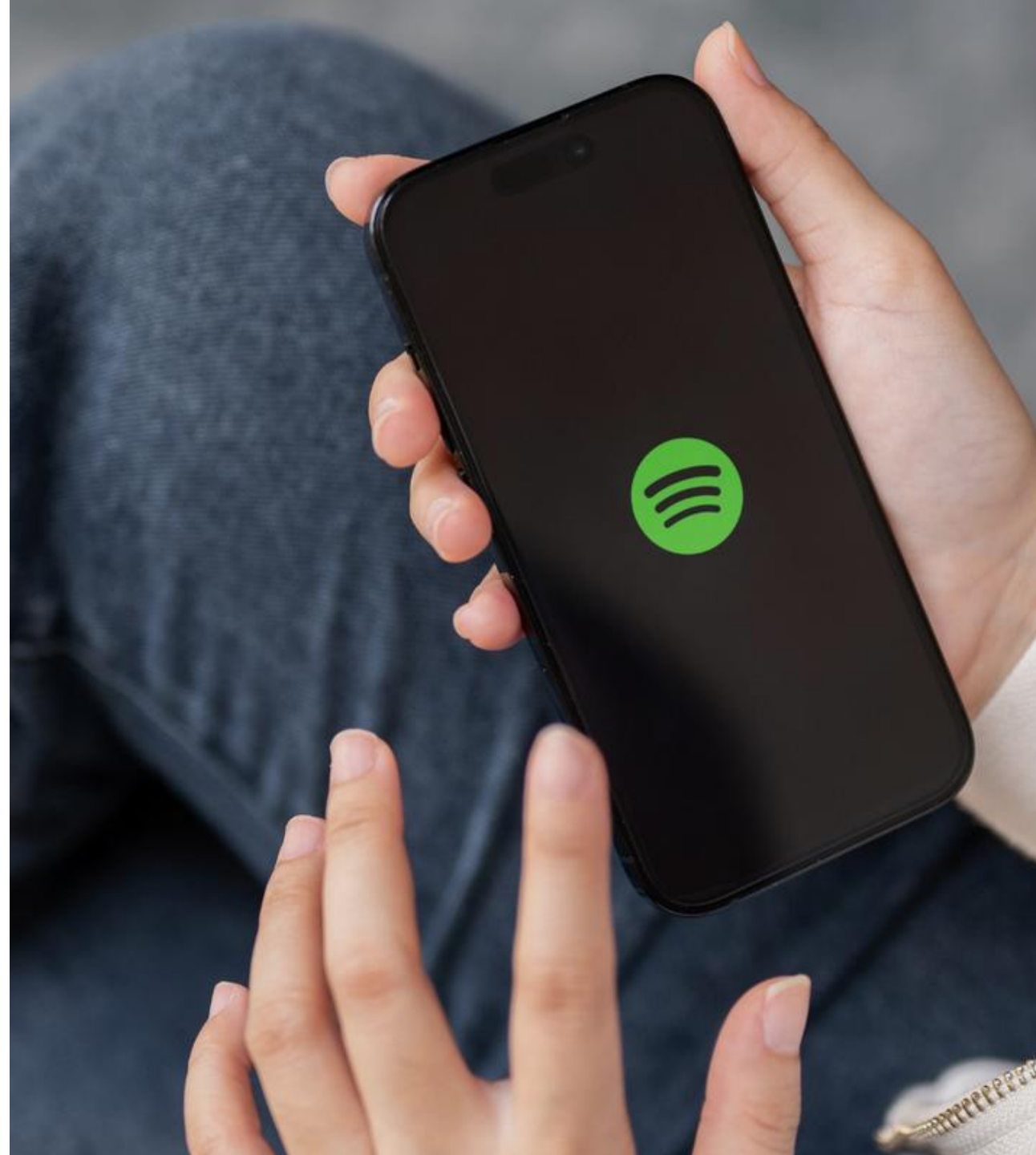
SPOTIFY

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COMPANY REPORT



Less noise, more signal

Spotify's Q3 report was solid. Revenue was in line with our expectations, while EBIT came in slightly ahead on a stronger gross margin and lower-than-expected OpEx growth. Premium subscribers beat, suggesting that the added friction in the free tier passed its first test without hurting subscriber growth, and the ad-supported business returned to double-digit growth. In our view, the most encouraging part of the report was the Q4 guidance, where the EBIT guide was clearly above our estimate and implies a return to year-on-year margin expansion. This supports the view we have held since Q1 that the 2026 OpEx step-up is temporary and non-structural. Following the report, our revenue estimates are broadly unchanged, while we raise our EBIT estimates by 2-4% on lower OpEx. The revisions shift our estimates increasingly toward monetizing an engaged Premium base at expanding margins, which we see as a higher-quality and more defensible basis. We raise our target price to USD 635 (was USD 580) and reiterate our Accumulate recommendation.

Friction passes its first test as subscribers beat

In our view, Q3 confirmed that Spotify's strategy is working as intended. Over recent quarters, the company has deliberately made its free tier somewhat less generous in selected emerging markets, accepting slower growth in total users (MAUs) in exchange for converting more listeners into paying Premium subscribers. The key question going into the report was whether this would hurt subscriber growth, which it did not. Spotify added 6 million subscribers to reach 306 million, slightly above our and the company's own guidance, while total users grew in line with guidance to 788 million. At the same time, Spotify continues to earn more from each subscriber, as recent price increases flow through. Together, this drove revenue growth of 16% to roughly 5.0 BEUR, in line with expectations. The advertising business, long the weak spot in the story, also returned to double-digit growth (+10%, up from just 1% in Q2). Profitability also moved in the right direction. The gross margin continued to improve year-on-year, and operating profit (EBIT) of 672 MEUR was slightly ahead of our estimate.

Q4 guidance confirms cost moderation, estimates edge up

The Q4 EBIT guide of 820 MEUR (~15.8% margin) was clearly above our 785 MEUR estimate and above the 15.5% margin in Q4'25, confirming the moderation in OpEx growth that management outlined at the May Investor Day. In contrast, the Q4 revenue guide of ~5.2 BEUR was slightly below our 5.25 BEUR estimate despite a larger FX tailwind. User guidance was in line with our estimates, and we leave our user base estimates unchanged. However, we lower our advertising revenue estimates, particularly for 2027-2028, as we take a more cautious view on ad monetization given the continued pricing softness. Net-net, our revenue estimates for 2026-2028 are broadly unchanged, as slightly higher Premium revenue partly offsets the lower advertising estimates. Our EBIT estimates increase by 2-4% (2026e: 14.7% margin; 2027e: 16.3%), mainly driven by lower OpEx, especially in R&D. At the same time, we lower our cash conversion assumptions slightly, as rising cash taxes and a smaller working-capital tailwind mean that free cash flow grows more slowly than EBIT. Overall, the revisions tilt our estimates further toward monetization and margins, and we carry slightly higher conviction in the longer-term margin path.

Valuation remains attractive, though upside is more moderate

The share rose ~11% on the back of the report. On our revised estimates, Spotify now trades at EV/EBIT of 26x-20x, EV/FCFF of 26x-21x, and EV/Gross Profit of 12x-10x for 2027-2028. The multiples are around the midpoint of our acceptable ranges for 2027 and below them for 2028. With the OpEx step-up now behind its peak and the friction strategy showing early signs of working as intended, we see Q3 as the quarter that turned most of the near-term noise of 2026 into a clearer signal. Our DCF value increases to USD 635 (was USD 589), mainly driven by our slightly higher long-term margin assumptions, while the lower cash conversion has only a limited impact. We continue to expect double-digit revenue growth, improving Premium monetization, and margin expansion to drive strong earnings growth in the coming years (2026-2028e EBIT CAGR: ~27%).

Recommendation

Accumulate

(prev. Accumulate)

Target price:

USD 635

(prev. USD 580)

Share price:

USD 584

Business risk



Valuation risk



	2025	2026e	2027e	2028e
Revenue (MEUR)	17,186	19,508	22,392	25,376
growth-%	10%	14%	15%	13%
EBIT adj. (MEUR)	2,198	2,864	3,646	4,505
EBIT-% adj.	12.8 %	14.7 %	16.3 %	17.8 %
Net Income (MEUR)	2,212	2,511	3,055	3,733
EPS (adj.) (EUR)	10.8	12.2	14.8	18.0
P/E (adj.)	46.0	42.6	35.2	28.9
P/B	12.2	9.9	7.7	6.1
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	42.8	33.6	25.6	19.9
EV/EBITDA	40.8	32.2	24.8	19.4
EV/S	5.5	4.9	4.2	3.5

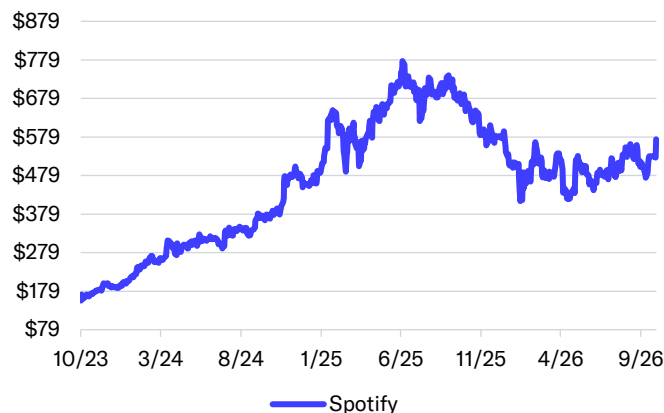
Source: Inderes

Guidance

(New guidance)

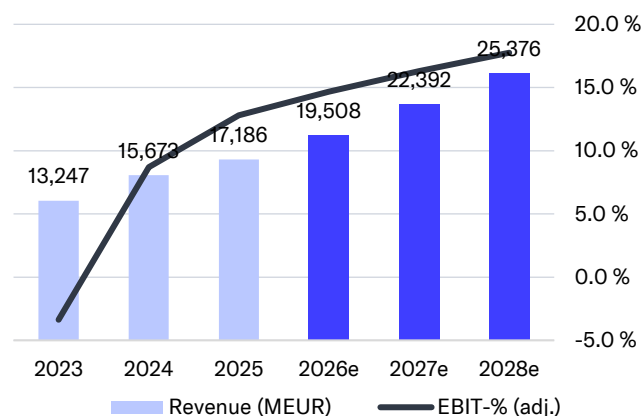
For Q4'26, Spotify expects:
MAU: 818m (+30m q/q)
Premium subscribers: 306m (+10m q/q)
Revenue: 5.2 BEUR (+15% y/y)
Gross margin: 33.8%
Operating income: 820 MEUR (15.8% margin)

Share price



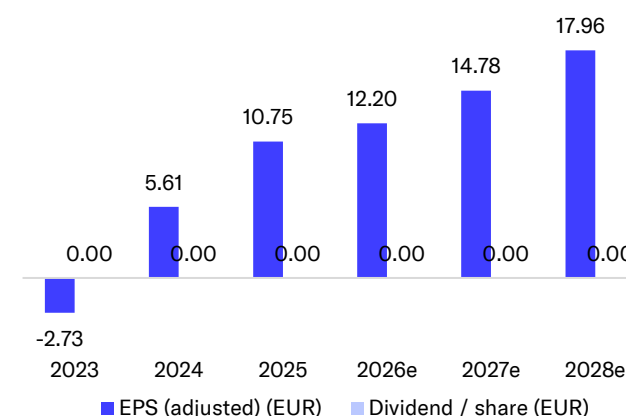
Source: Millistream Market Data AB

Revenue and EBIT-% (adj.)



Source: Inderes

EPS and DPS



Source: Inderes

Value drivers

- Top-of-mind brand in audio with a market-leading position
- On track to reach one billion users by 2030
- With the most loyal and engaged customers in the space, Spotify has an untapped potential in its advertising business
- The shift to podcast profitability and ramping up Marketplace contribution enables incremental leverage and margin expansion
- Potential to grow in emerging markets and increase market share
- Expanding into new emerging verticals while improving monetization enables ARPU and margin expansion

Risk factors

- Worsening relationships with the music industry could pose operational challenges
- The competition in the audio industry is fierce and includes financially stronger companies
- Challenges in executing emerging verticals may put pressure on the balance sheet
- A deceleration in subscriber growth could drive significant volatility in the share price
- While offering opportunities for Spotify, AI advancements could enable competitors to narrow the gap in personalization capabilities

Valuation	2026e	2027e	2028e
Share price (EUR)	519.6	519.6	519.6
Number of shares, millions	205.7	206.7	207.8
Market cap (MEUR)	106,899	107,433	107,970
EV (MEUR)	96,317	93,456	89,845
P/E (adj.)	42.6	35.2	28.9
P/E	42.6	35.2	28.9
P/FCF	36.9	33.7	27.5
P/B	9.9	7.7	6.1
P/S	5.5	4.8	4.3
EV/Sales	4.9	4.2	3.5
EV/EBITDA	32.2	24.8	19.4
EV/EBIT (adj.)	33.6	25.6	19.9
EV/FCFF	31.9	26.3	20.7

Friction passes its first test (1/2)

Subscribers slightly ahead of guidance, MAUs in line

MAUs reached 788m (Q2'26: 777m), in line with the company's guidance and 1m below our 789m estimate, representing q/q net additions of 11m and 11% y/y growth. Growth was broad-based, with Rest of World, Latin America, Europe, and North America all adding users q/q, and Rest of World now accounting for ~38% of the MAU base (Q3'25: 36%). Premium subscribers came in at 306m (Q2'26: 300m), 1m above both our estimate and guidance, implying +6m q/q (+9% y/y). Growth was seen in all regions, supported by intake from a global promotional campaign and partnership strength. Ad-supported MAUs were 499m, slightly below our 501m forecast.

Premium ARPU was EUR 4.95 (Inderes: EUR 4.92), up 9.3% y/y on a reported basis and 7.5% y/y FX-neutral, in line with management's guidance. FX-neutral growth was driven by the flow-through of recent price increases, partially offset by product/market mix. FX movements added ~190 bps to total revenue growth, broadly in line with the ~200 bps guided.

We view Q3 as the first real test of the "strategic friction" argument, and we feel it passed. MAU growth landed in line with the softer guidance, while subscriber growth came in ahead, which supports our view that the softer MAU development reflects a deliberate shift in emphasis from reach to monetization rather than demand weakness. That said, one quarter is not a trend, and we will continue to monitor the development, as the effects of added friction could unfold over time. Q3 revenue grew 16% y/y (14% FX-neutral) to 4.97 BEUR, in line with our 4.95 BEUR estimate and the ~5.0 BEUR guidance. Premium revenue grew 17% y/y (15% FX-neutral) to 4.49 BEUR (Inderes: ~4.47 BEUR), while ad-supported revenue grew 10% y/y (9% FX-neutral) to 482 MEUR, slightly below our 488 MEUR estimate but a clear step-up from Q2's +1%. After a prolonged period of soft growth, we view the return to double-digit growth as an important proof point for the rebuilt ad stack. However, given the continued pricing softness and the segment's track record in recent years, we want to see the acceleration sustained over several quarters before we revisit our longer-term advertising assumptions.

Spotify guided Q4 MAUs to ~818m (+~30m q/q) and Premium subscribers to ~316m (+~10m q/q), both in line with our estimates. Revenue guidance of ~5.2 BEUR (~+15% y/y) was slightly below our 5.25 BEUR estimate, even though it assumes a larger FX tailwind of ~230 bps (Q3: ~190 bps). In our view, this mainly reflects decelerating ARPU growth as prior price increases are lapped.

On the call, management did not quantify the near-term margin impact of the Audiobook expansion, instead pointing to the benefits seen in earlier launches, such as ~40% higher audiobook listenership, more active days, stronger retention and lifetime value, and early traction on add-ons. The initial costs of the rollout to more than 180 markets, as well as the Spotify Partner Program expansion to more than 50 markets, are already embedded in the 33.8% Q4 gross-margin guidance. No launch timeline was given for the AI remix creation tool. We continue to see audiobooks and the broader add-on architecture as key levers for long-term ARPU growth and, at scale, margins. We view the commentary as further evidence of Spotify's deliberate shift from top-of-funnel reach to deeper monetization of an engaged base.

Estimates	Q3'25	Q3'26	Q3'26e	Q3'26e	Consensus		Difference (%)	2026e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	4,272	4,969	4,953	4,983	4,908	- 5,016	0%	19,508
EBITDA	611	705	690	711	645	- 784	2%	2,989
EBIT	582	672	662	671	645	- 700	2%	2,864
PTP	827	705	737	733	664	- 787	-4%	3,259
EPS (adj.)	4.37	2.52	2.90	2.82	2.51	- 3.33	-13%	12.20
Revenue growth-%	7.1 %	16.3 %	15.9 %	16.6 %	14.9 %	- 17.4 %	0.4 pp	13.5 %
EBIT-% (adj.)	13.6 %	13.5 %	13.4 %	13.5 %	12.6 %	- 14.8 %	0.2 pp	14.7 %

Source: Inderes & Bloomberg (consensus)

Friction passes its first test (2/2)

Gross margin and EBIT ahead, with Q4 guide signaling a return to margin expansion

The gross margin came in at 33.1% (Q3'25: 31.6%), above both our estimate and the company's guidance of 32.9%, driven by continued Premium margin expansion as revenue growth outpaced music costs (net of Marketplace programs, audiobooks, and video podcast costs). As expected, the sequential dip from Q2's record 33.4% reflected reinvestment into new products and the recurring third-quarter regulatory fee charge (~40 bps headwind). Thus, we do not believe it signals a change in the underlying trajectory. We note that the ad-supported gross margin also improved y/y, helped by the revenue acceleration and better monetization of elevated engagement.

Operating income (EBIT) was 684 MEUR (Q3'25: 582 MEUR), corresponding to a ~13.7% margin, beating both our 662 MEUR estimate and the company's 670 MEUR guidance. Importantly, the beat was operational, as social charges of 18 MEUR were close to our ~19-20 MEUR estimate (vs. 9 MEUR guided),

reflecting the share price increase during the quarter. Excluding the social charges in excess of guidance, EBIT would have been ~693 MEUR, also clearly ahead of our adjusted estimate of 671 MEUR. Operating expenses (+16% y/y*) grew roughly in line with Q2, as guided, driven by compute costs for the proprietary Large Taste Model, AI-assisted development tools, and marketing for new features.

Q4 EBIT guidance of 830 MEUR implies a ~15.7% margin, clearly above our estimate (785 MEUR, 15.0%) and above the 15.5% margin in Q4'25, alongside a gross-margin guide of 33.5% that already incorporates the slight Audiobook dilution. This shows that the elevated Q2-Q3 operating expenses are now past their peak, and that operating margins are set to expand year-on-year again from Q4 onwards. Including the guidance, full-year 2026 EBIT would land at ~2.88 BEUR, corresponding to a ~14.7% margin (2025: 12.8%). We think this is fully consistent with management's plan to moderate spending in Q4'26 and 2027, as outlined at the May Investor Day.

Cash conversion softer as tax payments and working capital rise

Free cash flow was 735 MEUR (Q3'25: 806 MEUR, -9% y/y), below our 814 MEUR estimate, primarily due to a less favorable change in working capital (especially receivables) and higher income taxes paid (75 MEUR vs. 5 MEUR in Q3'25). LTM free cash flow amounted to ~3.2 BEUR. As discussed in our preview, we expect free cash flow conversion to normalize as the cash tax rate rises and the working-capital tailwind fades, and Q3 provides an early illustration of this, although cash generation remains strong in absolute terms. The balance sheet remains very strong, with 9.9 BEUR in cash, cash equivalents, restricted cash, and short-term investments, and no debt other than lease liabilities. Spotify bought back 313 MEUR of its own shares in Q3 and 1.1 BUSD year-to-date through October 21st, which, according to the company, fully neutralizes dilution from the 2026 employee equity programs and represents additional returns of excess cash. We view the latter as a first sign that repurchases are starting to scale beyond a purely anti-dilutive pace.

Estimates	Q3'25	Q3'26	Q3'26e	Q3'26e	Consensus		2026e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	4,272		4,953	4,983	4,908	- 5,016	19,513
EBITDA	611		690	711	645	- 784	2,932
EBIT	582		662	671	645	- 700	2,816
PTP	827		737	733	664	- 787	3,254
EPS (adj.)	4.37		2.90	2.82	2.51	- 3.33	12.30
Revenue growth-%	7.1 %		15.9 %	16.6 %	14.9 %	- 17.4 %	13.5 %
EBIT-% (adj.)	13.6 %		13.4 %	13.5 %	12.6 %	- 14.8 %	14.4 %

Source: Inderes & Bloomberg
(consensus)

Margins up, cash conversion slightly down

Estimate revisions

- Following the Q3 report, our revenue estimates are broadly unchanged. For Q4'26, we lower our revenue estimate to ~5.23 BEUR (was 5.25 BEUR), close to the company's guidance, as we expect Premium ARPU growth to decelerate to ~4.5-5% y/y when more than 150 markets lap prior price increases. Consequently, our 2026 revenue estimate is unchanged at ~19.5 BEUR, and our 2027 and 2028 revenue estimates remain broadly unchanged. Underneath, the mix shifts further toward Premium. Our user base estimates (MAUs, subscribers, and ad-supported users) are essentially unchanged, as the Q3 figures and Q4 guidance (818m/316m) were in line with our expectations. We view the Q3 subscriber beat as an early sign that the friction in the free tier is working as intended, though we keep the more conservative long-term MAU trajectory introduced in our preview unchanged. In the ad-supported segment, the return to double-digit growth in Q3 is encouraging, but given the slight miss against our estimate and continued pricing softness, we lower our assumptions for ad revenue per user, which reduces our ad-supported revenue estimates by 1%, 4%, and 12% for 2026-2028, respectively. We will look to revise these estimates upward once the acceleration proves sustainable.

- On gross margin, we align our Q4'26 estimate with the 33.8% guidance (was 34.1%), which leaves our full-year 2026 gross margin estimate unchanged at ~33.3% (+130 bps y/y). Our 2027-2028 gross margin estimates are also broadly unchanged at 34.0% and 35.5%, respectively, as a slightly lower Premium gross margin is offset by the mix shift away from the structurally lower-margin ad-supported segment. According to management, the initial costs of the audiobook rollout to more than 180 markets are already embedded in the Q4 gross-margin guidance, and we see the expansion as margin-accretive at scale as part of the add-on architecture.
- We raise our Q4'26 EBIT estimate to 822 MEUR (~15.7% margin) in line with the company's guidance (was 785 MEUR), as it implies OpEx growth moderating faster than we had assumed. As a result, our 2026 EBIT estimate increases by ~2% (14.7% margin). Management confirmed that OpEx growth is coming down meaningfully from Q4 and moderating into 2027, and we have lowered our OpEx estimates accordingly, most notably for R&D (2027-2028e: ~-7%) and to a lesser extent for G&A and sales and marketing. Consequently, we raise our 2027 EBIT estimate by ~4% to (16.3% margin) and our 2028 EBIT estimate by ~3% (17.8% margin).

- Our 2026 EPS estimate is broadly unchanged at EUR 12.20 (-1%), as the Q3 miss below the operating line and a ~26.5% tax rate in Q3 offset the higher EBIT. For 2027-2028, our EPS estimates increase by 4-5% (2027e: EUR 14.78; 2028e: EUR 17.87) on higher EBIT, a ~22% normalized tax rate, and a slightly lower share count, as we have trimmed our share dilution assumptions given the active buyback program and the pace of repurchases year-to-date. At the same time, we lower our cash conversion assumptions due to rising cash taxes and fading working-capital benefits, as illustrated by the Q3 free cash flow miss.
- Overall, our revisions shift our estimates further toward monetizing an engaged Premium base at expanding margins and away from MAU growth and an advertising recovery, which we see as a higher-quality and more defensive basis for our forecasts. We carry slightly higher conviction in the longer-term margin path, supported by OpEx moderation and the Large Taste Model and audiobook add-ons, and we have raised our terminal EBIT margin assumption to 22% (was 21.0%).

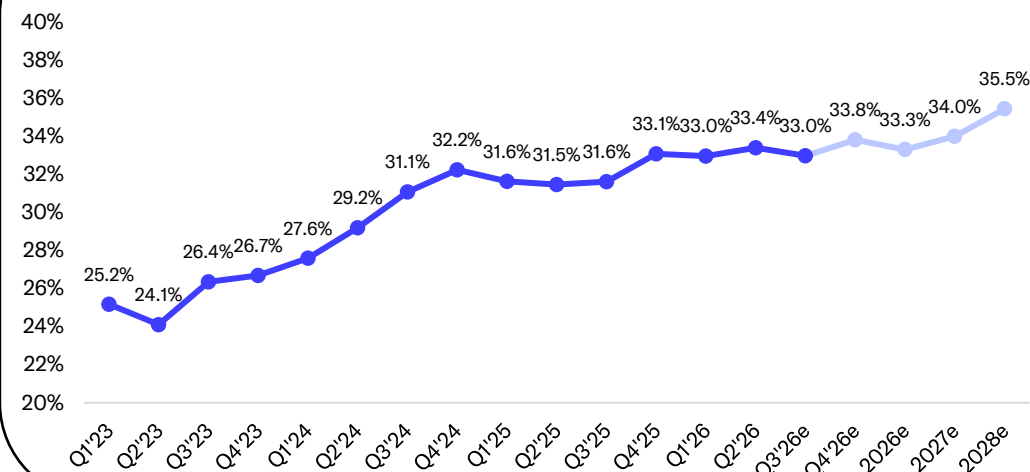
Estimate revisions	2026e	2026e	Change	2027e	2027e	Change	2028e	2028e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	19,513	19,508	0%	22,429	22,392	0%	25,491	25,376	0%
EBITDA	2,932	2,989	2%	3,638	3,774	4%	4,514	4,621	2%
EBIT (exc. NRIs)	2,816	2,864	2%	3,511	3,646	4%	4,386	4,505	3%
EBIT	2,816	2,864	2%	3,511	3,646	4%	4,386	4,505	3%
PTP	3,254	3,259	0%	3,788	3,917	3%	4,672	4,786	2%
EPS (excl. NRIs)	12.30	12.20	-1%	14.21	14.78	4%	17.10	17.96	5%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

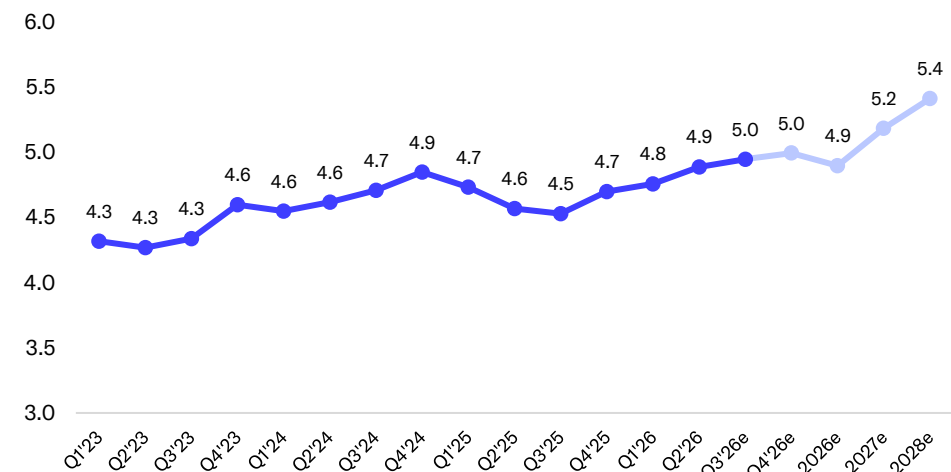
Key KPI's



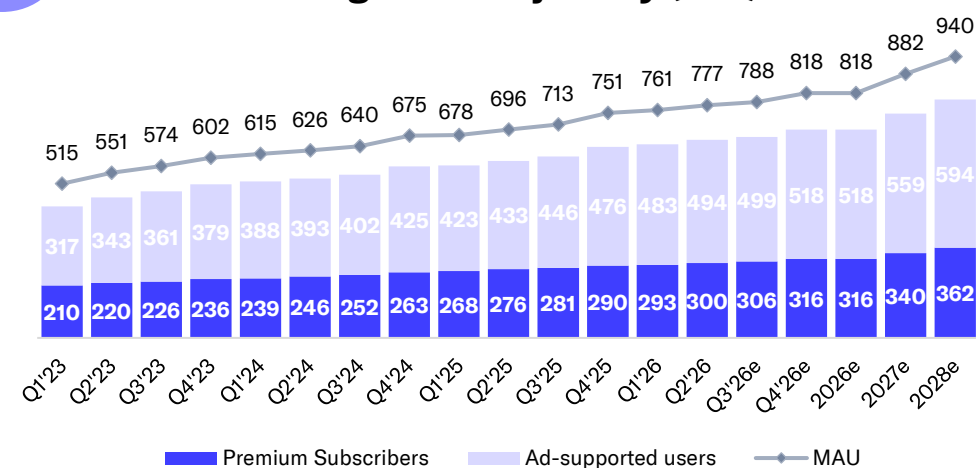
Gross margin trajectory (est.)



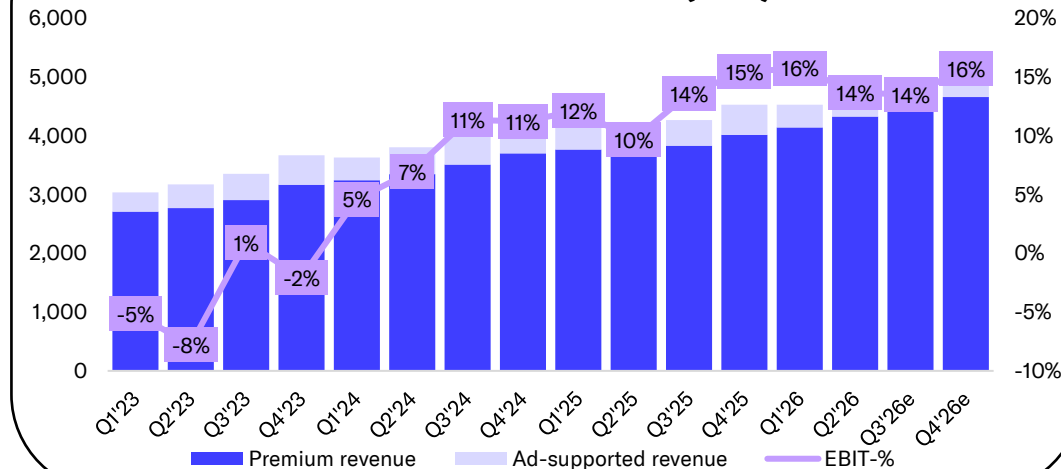
Monthly Premium ARPU trajectory (est.)



User growth trajectory (est.)



Revenue and EBIT-% (est.)



Earned re-rating, moderate upside (1/2)

Valuation summary – Accumulate

We forecast strong earnings growth for Spotify in 2026-2028e (EBIT CAGR: ~27%), supported by improving Premium monetization and disciplined balancing of growth and profitability. Several ARPU levers remain to be fully activated, articulated at the Investor Day as a power-law add-on architecture (e.g. Audiobooks+, the AI remix creation tool) rather than a single "super-premium" tier, alongside continued pricing actions. In our preview, we lowered our MAU and advertising estimates and raised our Premium monetization assumptions slightly, making our estimates less reliant on top-of-funnel user growth and an advertising recovery. The Q3 report supported this approach, with subscriber growth holding up despite the free-tier friction, the ad business re-accelerating, and the Q4 guidance confirming the expected cost moderation. Following the report, our revisions tilt our estimates further toward margins, and we carry slightly higher conviction in the longer-term margin path, which we have also reflected in our DCF model. We therefore raise our target price to USD 635 (was USD 580) and reiterate our Accumulate recommendation.

Absolute multiples in 2026-2028

Our acceptable valuation ranges are unchanged from our [preview report](#) at EV/EBIT 24-29x, EV/FCFF 24-29x, and EV/GP 11-14x. Based on our 2027 estimates, Spotify is trading at 26x EV/EBIT, 26x EV/FCFF, and 12x EV/GP, and thus around the midpoint of these ranges. The combination of revenue growth and improved margins that we project is expected to quickly compress the multiples in 2028, and below our acceptable valuation ranges (20x EV/EBIT, 21x EV/FCFF, and 10x EV/GP). We note that EV/FCFF now exceeds EV/EBIT for 2027 following our lower cash conversion assumptions, reflecting the normalization of Spotify's cash tax rate. In our view, overall business momentum remains strong across subscriber growth, margin development, and cash generation, and the continued FX-neutral ARPU growth in Q3 (+7.5% y/y) provides further evidence that Spotify's underutilized pricing power is

unlocking. Improved monetization remains a critical input to our top- and bottom-line estimates in the coming years, and our thesis continues to rest on the view that recent and upcoming pricing actions, together with the add-on architecture, will progressively lift ARPU. That said, with ARPU growth set to decelerate in Q4 as prior price increases are lapped, Spotify still needs a longer track record to fully prove its pricing power against peers such as Netflix. Softer subscriber growth in mature markets and the price gap to competitors (Apple Music, YouTube Music) also make the timing of our ARPU trajectory forecast somewhat uncertain.

We also continue to see AI as double-edged. It could help competitors narrow Spotify's lead in personalization or draw users toward emerging platforms, but it is also rapidly increasing the supply of music, which should make discovery, a core Spotify strength reinforced by proprietary data assets, increasingly valuable. In our view, the Investor Day addressed concerns over AI-generated music well, framing the reinterpretation of the existing catalog as a revenue opportunity for the rights ecosystem rather than a risk, and the upcoming launch of the AI music creation tool developed with UMG will be an important first test of that framing.

Near-term earnings risks from elevated investments are now largely in the past. Consequently, Spotify's strengthening fundamentals support a valuation toward the upper end of our range, balanced against lingering uncertainty around ARPU growth and AI dynamics.

Valuation compared to the peer group

To provide some flavor on Spotify's valuation, we have compiled several sets of peers in different segments that either share similarities to Spotify's business model, engage large user bases, monetize users through ads, or participate in the broader music/audio industry. See our [Initiation of coverage report](#) for more details on the setup and background to our preferred peer group.

Valuation	2026e	2027e	2028e
Share price (EUR)	519.6	519.6	519.6
Number of shares, millions	205.7	206.7	207.8
Market cap (MEUR)	106,899	107,433	107,970
EV (MEUR)	96,317	93,456	89,845
P/E (adj.)	42.6	35.2	28.9
P/E	42.6	35.2	28.9
P/FCF	36.9	33.7	27.5
P/B	9.9	7.7	6.1
P/S	5.5	4.8	4.3
EV/Sales	4.9	4.2	3.5
EV/EBITDA	32.2	24.8	19.4
EV/EBIT (adj.)	33.6	25.6	19.9
EV/FCFF	31.9	26.3	20.7

Selection of peers in each group

Big tech
(BT)



amazon

Alphabet

Subscription
services (SS)



Roku

Match Group

Media &
Entertainment
(ME)

WARNER BROS.
DISCOVERY

The
WALT DISNEY
Company

Paramount

Digital ad-
supported
(DAS)



Meta



Music/Audio
(MA)

SiriusXM

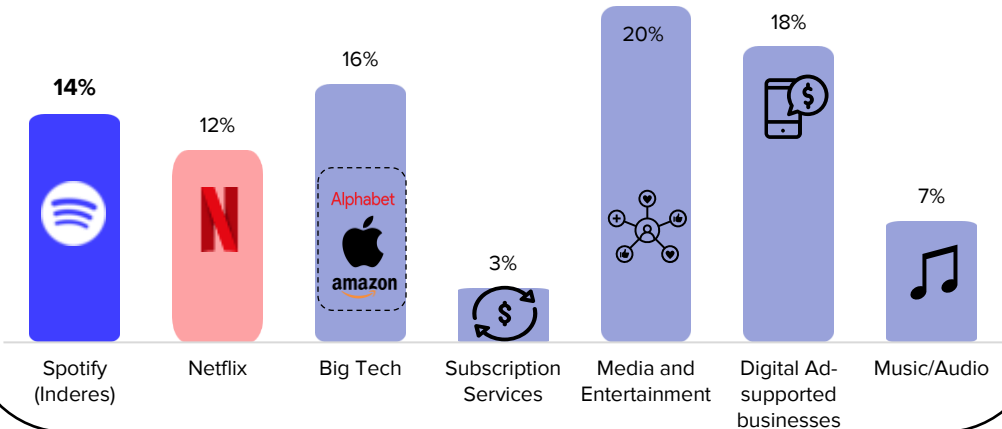
DEEZER

TENCENT MUSIC
ENTERTAINMENT

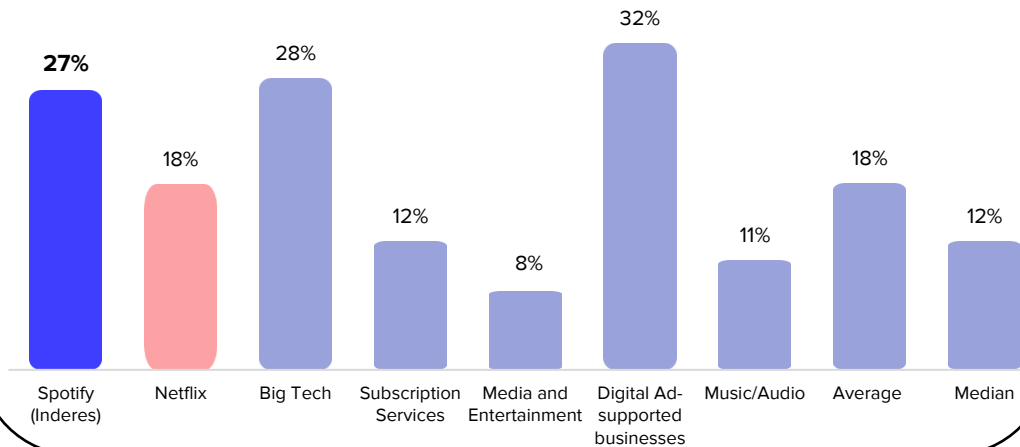
Valuation graphs: Spotify vs. various peer groups



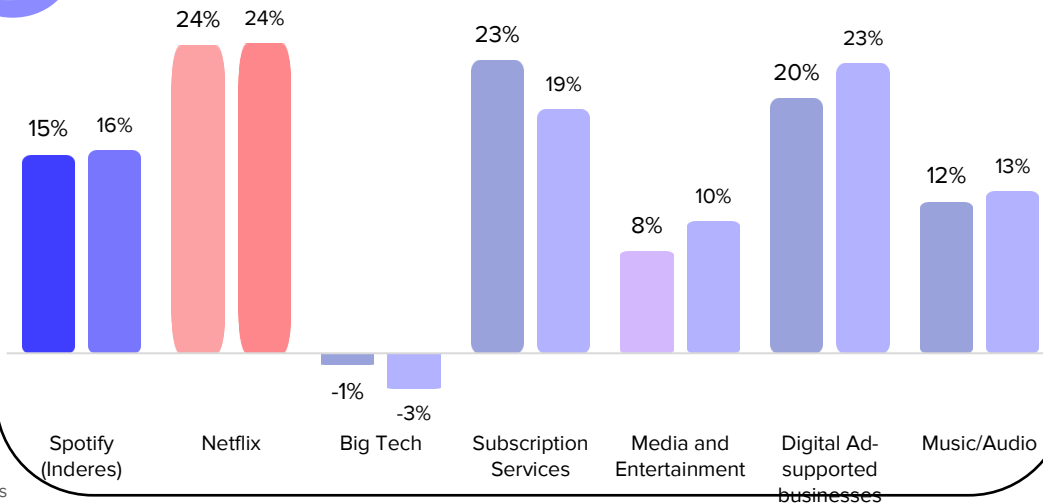
Revenue CAGR (2026-2028e)
(Local currencies, median values)



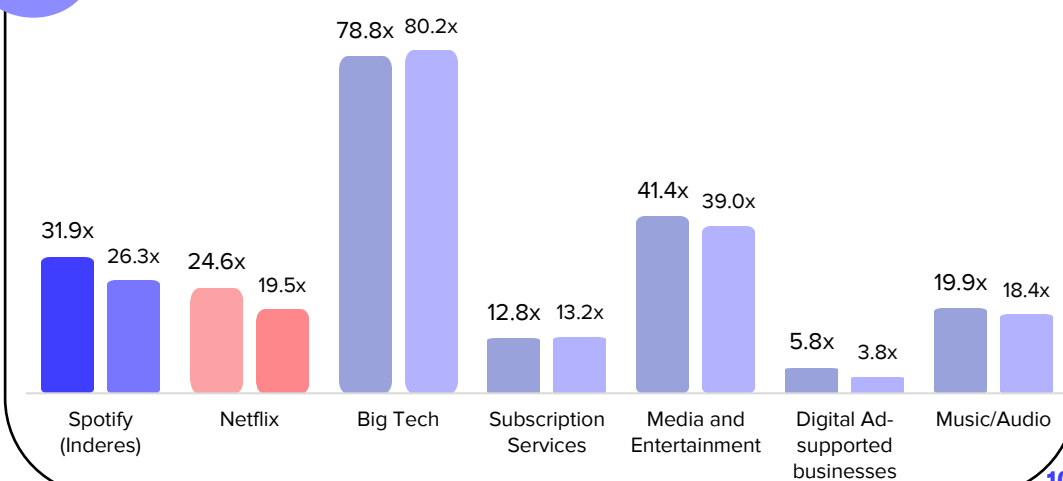
EBIT CAGR (2026-2028e)
(Local currencies, median values)



FCFF margin-% (2026-2027)



EV/FCFF (2026-2027e)



Earned re-rating, moderate upside (2/2)

On a relative basis, Spotify trades at a premium to the Subscription Services ("SS") peer-group median on both EV/FCFF and EV/EBIT for 2027e (SPOT: 26x/26x vs. SS: 13x/12x), which we view as warranted. As the clear leader in music streaming, Spotify enjoys a compounding scale advantage: a larger user base sharpens its data-driven personalization, strengthens its hand in label negotiations, and deepens the network effects that retain both users and rights-holders. Combined with a consistent innovation cadence and exceptional brand and loyalty metrics, this underpins a business we expect to outgrow the sector on earnings, with EBIT compounding at a ~27% CAGR over 2026–2028, well ahead of the SS average.

The more notable shift is against Netflix specifically. Spotify historically traded at a clear discount to Netflix, however, on 2027e that gap has effectively gone. In fact, Spotify is now trading at a clear premium on EV/FCFF (26x vs. 20x) and EV/EBIT (26x vs. 14x). In our view, two forces drove this. Spotify's own profitability inflection, with gross margin up into the low-to-mid 30% and pricing power increasingly proven, and Netflix's sharp de-rating as revenue growth has decelerated and engagement growth struggles. Spotify's asset-light, no-content-capex model still converts operating profit into free cash flow more efficiently than Netflix's owned-content model, although we expect this advantage to narrow somewhat as Spotify's cash tax rate normalizes.

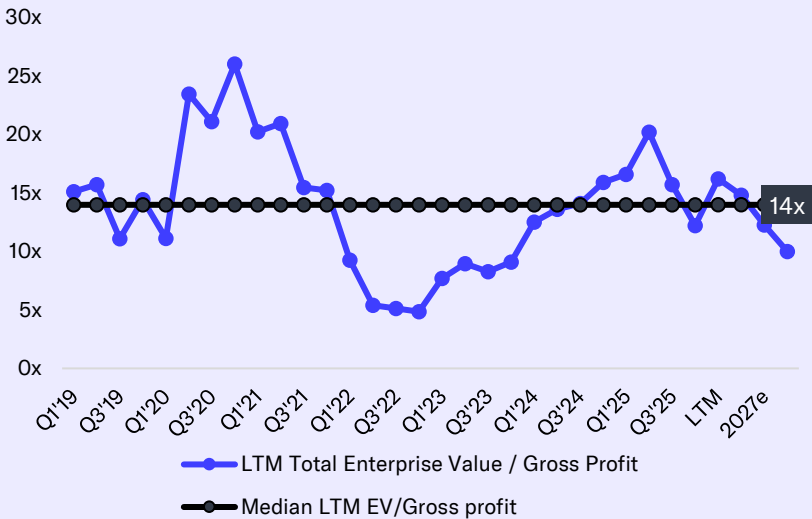
That said, we think one structural factor still argues for Netflix retaining an edge. Its owned-content economics support gross margins in the 40% range, well above Spotify's licensed-content model in the low-to-mid 30% range, capping Spotify's near-term gross-margin ceiling. On that logic, we would expect Spotify to carry a modest discount to Netflix, yet on 2027e it no longer does. We read that either as the market rewarding Spotify's faster earnings growth and superior cash conversion, or as a sign the shares now leave little room for error. Either way, the gap itself is

dynamic rather than fixed, where the partnership-led vertical-expansion model (Audiobooks, Peloton) is gradually lifting the blended cost structure, and Spotify's pricing track record, which has for a long time been its weak point against Netflix's years of steady increases, is catching up quickly, with three rounds of price increases since 2023 and continued ARPU acceleration. Net, we see the historical Spotify-to-Netflix discount as having largely run its course.

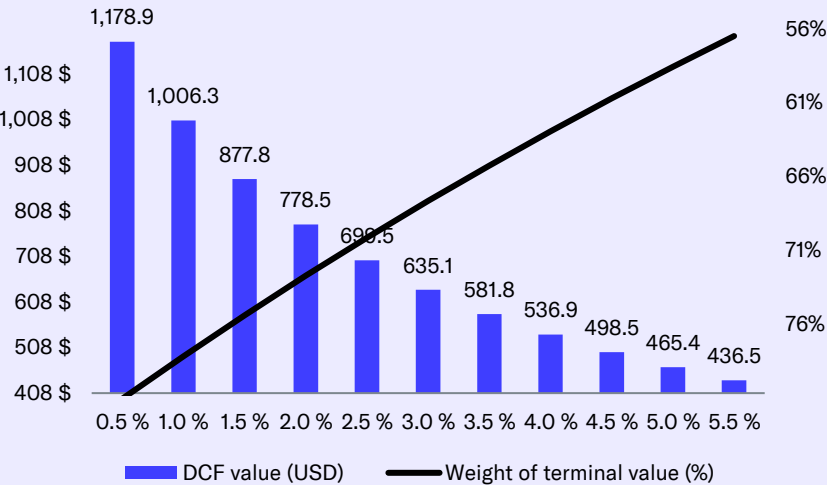
DCF still suggests upside in the share price

We expect solid double-digit growth (CAGR: ~13%) and continued margin expansion in 2026-2030, after which top-line growth gradually tapers towards 3%, which we use as the terminal growth rate. Reflecting our slightly higher conviction in the longer-term margin path, supported by the confirmed OpEx moderation and the add-on architecture, we now expect the EBIT margin to stabilize at around 22% in the terminal period (was ~21%). We estimate Spotify's cost of equity and WACC (due to no traditional financial debt) at 8.4%, which is fairly low, but supported by the strong and wide market presence, the majority of revenue streams being generated through subscriptions, a superior global brand, a robust balance sheet, and an improved profitability profile. With these assumptions, our DCF model gives a share price of USD 635 (was USD 589). The increase in the DCF value primarily reflects our higher long-term margin assumptions, as the terminal period accounts for around two-thirds of the DCF value. Our lower cash conversion assumptions have a limited impact, as higher cash taxes and a smaller working-capital tailwind mainly offset our higher EBIT estimates, leaving our free cash flow estimates broadly unchanged. In addition, the lower share count following continued share buybacks supports the value per share. In summary, while the continued share price appreciation has limited the risk-adjusted upside, we still view the current valuation as attractive across all our preferred valuation lenses.

EV/Gross profit development

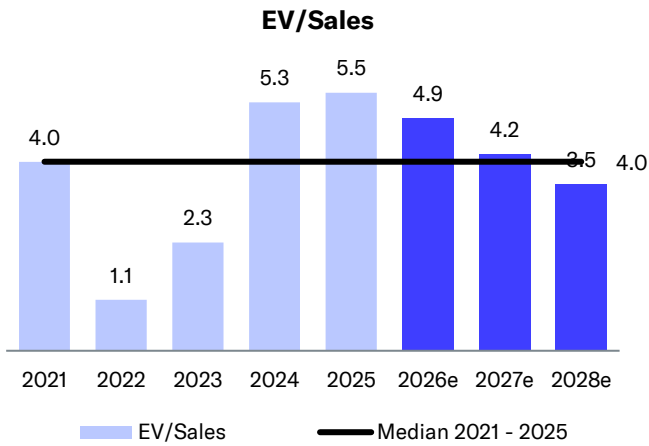
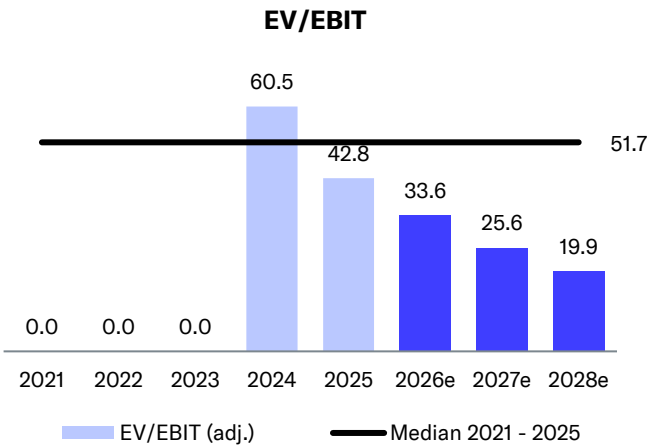
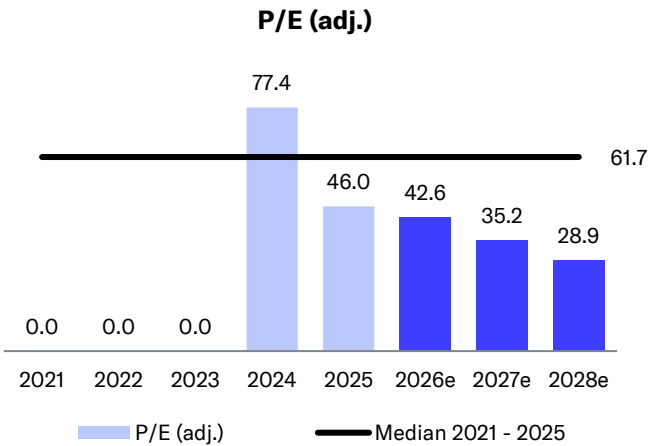


Sensitivity of DCF to changes in the risk-free rate



Valuation table

Valuation	2021	2022	2023	2024	2025	2026e	2027e	2028e	2029e
Share price (EUR)	211.7	74.2	169.1	434.0	494.4	519.6	519.6	519.6	519.6
Number of shares, millions	191.3	192.9	194.7	202.9	205.7	205.7	206.7	207.8	209.2
Market cap (MEUR)	40,507	14,318	32,933	88,062	101,707	106,899	107,433	107,970	108,726
EV (MEUR)	38,788	12,650	30,415	82,615	94,131	96,317	93,456	89,845	86,054
P/E (adj.)	neg.	neg.	neg.	77.4	46.0	42.6	35.2	28.9	25.4
P/E	neg.	neg.	neg.	77.4	46.0	42.6	35.2	28.9	25.4
P/FCF	37.6	neg.	>100	43.6	54.0	36.9	33.7	27.5	25.0
P/B	19.1	6.0	13.1	15.9	12.2	9.9	7.7	6.1	5.0
P/S	4.2	1.2	2.5	5.6	5.9	5.5	4.8	4.3	3.8
EV/Sales	4.0	1.1	2.3	5.3	5.5	4.9	4.2	3.5	3.0
EV/EBITDA	>100	neg.	neg.	54.0	40.8	32.2	24.8	19.4	16.1
EV/EBIT (adj.)	>100	neg.	neg.	60.5	42.8	33.6	25.6	19.9	16.4
EV/FCFF	212.0	40.5	475.2	111.0	40.0	31.9	26.3	20.7	17.9



The market cap and enterprise value in the table consider the expected change in the number of shares and net debt for the forecast years.

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2026e	2027e	2026e	2027e	2026e	2027e	2026e	2027e	2026e	2027e	2026e
Big Tech													
Apple	4,472,853	4,492,405	32.2	30.3	29.6	27.9	10.6	9.6	38.8	35.7	0.3	0.3	45.6
Amazon.com	2,521,428	2,549,978	25.9	20.3	13.2	10.1	3.5	3.0	20.5	24.7			5.2
Alphabet	3,629,170	3,504,685	22.9	18.0	16.8	12.9	7.9	6.3	16.1	21.8	0.3	0.3	5.7
Subscription businesses													
Netflix	237,954	242,567	16.5	14.4	15.9	13.8	5.3	4.8	18.1	17.2			9.1
Match Group	9,469	12,114	13.3	12.1	10.2	9.6	3.9	3.8	16.7	14.8	1.7	1.8	
Bumble	812	1,172	9.7	7.3	5.0	5.6	1.6	1.7		7.5			1.0
Chegg	66	32			1.2	1.4	0.2	0.3					0.4
Roku	20,877	18,634	57.8	38.4	28.0	22.5	3.7	3.3	56.4	41.3			7.7
Media/Entertainment													
Skydance Corporation	7,664	20,735	6.3	3.4	1.9	1.7	0.4	0.3		27.1	2.8	2.5	0.7
The Walt Disney Company	172,041	208,437	12.4	11.8	10.0	9.6	2.3	2.2	16.1	14.9	1.4	1.5	1.7
Digital Ad-supported businesses													
Snap	9,568	10,348	140.1	30.0	8.9	7.2	1.7	1.5	10.4	8.1			4.8
Meta Platforms	1,582,946	1,576,444	20.4	16.8	12.8	10.2	7.0	5.8	22.8	20.6	0.3	0.3	5.6
Reddit	26,300	23,823	25.9	17.5	17.6	12.7	7.9	6.0	28.3	21.5			7.3
Pinterest	11,593	11,332	49.3	24.9	8.6	7.5	2.6	2.3	11.2	9.5			3.9
iHeartMedia	211	4,553	12.5	11.7	6.6	6.7	1.2	1.2		30.6			
Music/Audio													
Sirius XM Holdings	8,096	16,365	9.9	9.8	7.0	7.0	2.1	2.1	9.1	8.3	4.0	4.2	1.0
Deezer	157	81	9.4	5.8	5.0	3.6	0.2	0.1	43.7	16.4			
Tencent Music Entertainment Group	12,024	10,551	7.2	6.7	6.7	6.3	2.3	2.1	9.0	8.5	2.0	2.2	1.0
Warner Music Group Corp.	14,653	18,299	17.5	14.6	12.0	10.8	2.8	2.6	22.4	17.7	2.5	2.6	16.4
Universal Music Group	29,793	34,824	15.9	14.4	12.6	11.6	2.6	2.4	17.2	15.3	3.4	3.5	6.6
Live Nation Entertainment	36,186	37,530	35.1	23.3	15.8	14.0	1.5	1.4		82.9			93.6
Spotify (Inderes)	106,899	96,317	33.6	25.6	32.2	24.8	4.9	4.2	42.6	35.2	0.0	0.0	9.9
Average			27.0	16.6	11.7	10.1	3.4	3.0	22.3	22.2	1.9	1.9	12.1
Median			17.0	14.5	10.2	9.6	2.6	2.3	17.7	17.5	1.9	2.0	5.4
Diff-% to median			98%	77%	216%	157%	91%	82%	141%	102%	-100%	-100%	82%

Income statement

Income statement (MEUR)	2024	Q1'25	Q2'25	Q3'25	Q4'25	2025	Q1'26	Q2'26	Q3'26	Q4'26e	2026e	2027e	2028e	2029e
Revenue	15673	4190	4193	4272	4531	17,186	4,533	4,777	4,969	5,229	19,508	22,392	25,376	28,542
Premium revenue	13819	3771	3740	3826	4013	15,350	4,148	4,331	4,487	4,664	17,630	20,276	22,817	25,664
Ad-supported revenue	1854	419	453	446	518	1,836	385	446	482	565	1,878	2,116	2,559	2,878
EBITDA	1529	538	432	611	727	2,308	745	684	705	855	2,989	3,774	4,621	5,356
Depreciation	-164.0	-29.0	-26.0	-29.0	-26.0	-110	-30	-29	-33	-33	-125	-127	-117	-117
EBIT (excl. NRI)	1365	509	406	582	701	2,198	715	655	672	822	2,864	3,646	4,505	5,239
EBIT	1365	509	406	582	701	2,198	715	655	672	822	2,864	3,646	4,505	5,239
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0
Net financial items	-24.0	-181.0	-358.0	245	320	26	222	65	33	75	395	270	281	257
PTP	1341	328	48.1	827	1021	2,224	937	720	705	898	3,259	3,917	4,786	5,495
Taxes	-203.0	-103.0	-134.0	72.0	153	-12	-216	-175	-187	-171	-749	-862	-1,053	-1,209
Minority interest	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0
Net earnings	1138	225	-85.9	899	1174	2,212	721	545	518	727	2,511	3,055	3,733	4,286
Net earnings	1138	225	-85.9	899	1174	2,212	721	545	518	727	2,511	3,055	3,733	4,286
EPS (adj.) (EUR)	5.61	1.09	-0.42	4.37	5.71	10.75	3.50	2.65	2.52	3.53	12.20	14.78	17.96	20.49
EPS (rep.) (EUR)	5.61	1.09	-0.42	4.37	5.71	10.75	3.50	2.65	2.52	3.53	12.20	14.78	17.96	20.49

Key figures	2024	Q1'25	Q2'25	Q3'25	Q4'25	2025	Q1'26	Q2'26	Q3'26	Q4'26e	2026e	2027e	2028e	2029e
Revenue growth-%	18.3 %	15.2 %	10.1 %	7.1 %	6.8 %	9.7 %	8.2 %	13.9 %	16.3 %	15.4 %	13.5 %	14.8 %	13.3 %	12.5 %
Adjusted EBIT growth-%	406.0 %	202.9 %	52.7 %	28.3 %	46.9 %	61.0 %	40.5 %	61.3 %	15.3 %	17.4 %	30.3 %	27.3 %	23.5 %	16.3 %
EBITDA-%	9.8 %	12.8 %	10.3 %	14.3 %	16.0 %	13.4 %	16.4 %	14.3 %	14.2 %	16.4 %	15.3 %	16.9 %	18.2 %	18.8 %
Adjusted EBIT-%	8.7 %	12.1 %	9.7 %	13.6 %	15.5 %	12.8 %	15.8 %	13.7 %	13.5 %	15.7 %	14.7 %	16.3 %	17.8 %	18.4 %
Net earnings-%	7.3 %	5.4 %	-2.0 %	21.1 %	25.9 %	12.9 %	15.9 %	11.4 %	10.4 %	13.9 %	12.9 %	13.6 %	14.7 %	15.0 %

Source: Inderes

Monthly active user (MAU)	675	678	696	713	751	751	761	777	788	818	818	882	940	997
Premium subscribers	263	268	276	281	290	290	293	300	306	316	316	340	362	384
Ad-supported users	425	423	433	446	476	476	483	494	499	518	518	559	594	629
Premium ARPU	4.7	4.7	4.6	4.5	4.7	4.6	4.8	4.9	5.0	5.0	4.9	5.2	5.4	5.6

Balance sheet

Assets (MEUR)	2024	2025	2026e	2027e	2028e
Non-current assets	3,626	4,519	4,214	4,134	4,067
Goodwill	1,201	1,083	1,079	1,079	1,079
Intangible assets	48	41	18	8	3
Tangible assets	414	422	444	449	462
Associated companies	0	0	0	0	0
Other investments	1,635	2,181	2,181	2,181	2,181
Other non-current assets	142	130	130	130	130
Deferred tax assets	186	662	362	287	212
Current assets	8,379	10,496	12,282	15,928	20,312
Inventories	0	0	0	0	0
Other current assets	160	227	227	227	227
Receivables	771	802	1,073	1,344	1,599
Cash and equivalents	7,448	9,467	10,982	14,357	18,486
Balance sheet total	12,005	15,015	16,496	20,062	24,379

Source: Inderes

Liabilities & equity (MEUR)	2024	2025	2026e	2027e	2028e
Equity	5,525	8,329	10,840	13,895	17,627
Share capital	0	0	0	0	0
Retained earnings	-3,044	-832	1,679	4,734	8,466
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	8,569	9,161	9,161	9,161	9,161
Minorities	0	0	0	0	0
Non-current liabilities	2,055	652	619	599	579
Deferred tax liabilities	21	163	163	163	163
Provisions	28	54	54	54	54
Interest bearing debt	2,001	433	400	380	360
Convertibles	0	0	0	0	0
Other long term liabilities	5	2	2	2	2
Current liabilities	4,425	6,034	5,037	5,568	6,172
Interest bearing debt	0	1,458	0	0	0
Payables	4,372	4,494	4,955	5,486	6,090
Other current liabilities	53	82	82	82	82
Balance sheet total	12,005	15,015	16,496	20,062	24,379

DCF-calculation

DCF model (MEUR)	2025	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	TERM
Revenue growth-%	9.7 %	13.5 %	14.8 %	13.3 %	11.9 %	9.9 %	10.4 %	10.0 %	9.0 %	7.0 %	3.0 %	3.0 %
EBIT-%	12.8 %	14.7 %	16.3 %	17.8 %	18.4 %	19.4 %	20.0 %	20.5 %	21.0 %	22.0 %	22.0 %	22.0 %
EBIT (operating profit)	2,198	2,864	3,646	4,505	5,239	6,069	6,893	7,771	8,678	9,727	10,019	
+ Depreciation	110	125	127	117	117	119	122	124	132	128	130	
- Paid taxes	-346	-449	-787	-978	-1,189	-1,381	-1,515	-1,715	-1,923	-2,164	-2,104	
- Tax, financial expenses	0	13	-8	-8	-9	-9	-8	-8	-8	-8	0	
+ Tax, financial income	1	78	68	70	65	65	76	92	109	130	0	
- Change in working capital	53	190	260	349	250	253	175	214	278	175	221	
Operating cash flow	2,015	2,821	3,307	4,054	4,474	5,116	5,742	6,477	7,265	7,987	8,265	
+ Change in other long-term liabilities	23	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-527	-120	-122	-125	-127	-130	-132	-135	-135	-135	-130	
Free operating cash flow	1,511	2,701	3,185	3,930	4,346	4,986	5,609	6,342	7,130	7,852	8,136	
+/- Other	372	196	0	0	0	0	0	0	0	0	0	
FCFF	1,883	2,897	3,185	3,930	4,346	4,986	5,609	6,342	7,130	7,852	8,136	154,343
Discounted FCFF		2,853	2,893	3,292	3,358	3,553	3,686	3,844	3,985	4,048	3,868	73,375
Sum of FCFF present value		108,753	105,900	103,007	99,716	96,358	92,805	89,119	85,275	81,290	77,243	73,375
Enterprise value DCF		108,753										
- Interest bearing debt		-1,891										
+ Cash and cash equivalents		9,467										
+ Associated companies		0										
-Minorities		0										
-Dividend/capital return		0										
Equity value DCF (MEUR)		116,329										
Equity value DCF per share (EUR)		565										
Equity value DCF per share (USD)		635										
WACC												
Tax-% (WACC)		21.0 %										
Target debt ratio (D/(D+E))		0.0 %										
Cost of debt		0.0 %										
Equity Beta		1.14										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		3.0 %										
Cost of equity		8.4 %										
Weighted average cost of capital (WACC)		8.4 %										

Cash flow distribution

2026e-2030e		15%
2031e-2035e		18%
TERM		67%

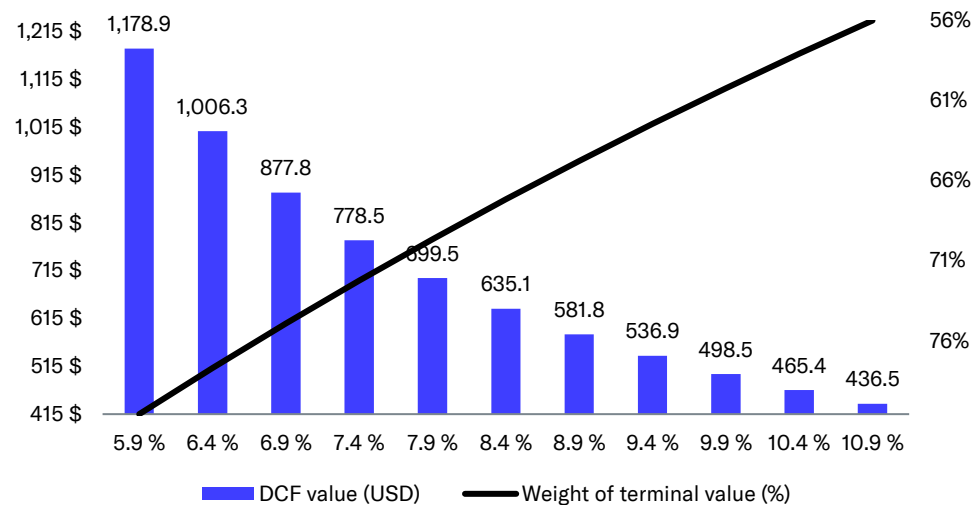
2026e-2030e

2031e-2035e

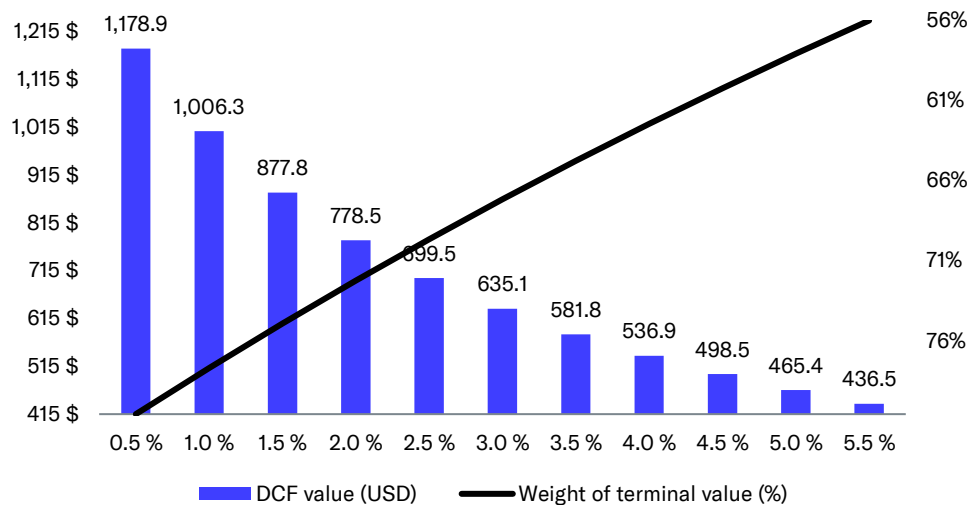
TERM

DCF sensitivity calculations and key assumptions in graphs

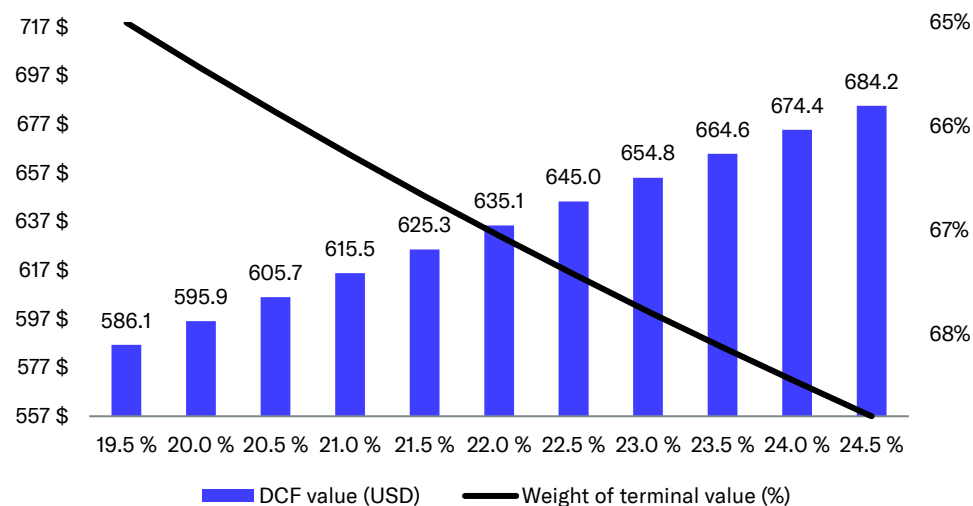
Sensitivity of DCF to changes in the WACC-%



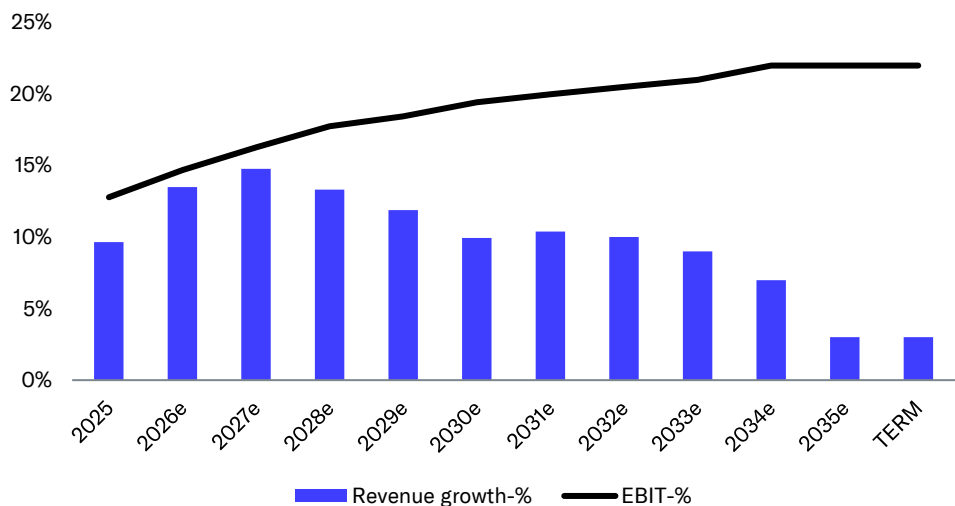
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement (MEUR)	2023	2024	2025	2026e	2027e	Per share data (EUR)	2023	2024	2025	2026e	2027e
Revenue	13,247	15,673	17,186	19,508	22,392	EPS (reported)	-2.73	5.61	10.75	12.20	14.78
EBITDA	-165	1,529	2,308	2,989	3,774	EPS (adj.)	-2.73	5.61	10.75	12.20	14.78
EBIT	-446	1,365	2,198	2,864	3,646	OCF / share	1.70	8.12	9.80	13.71	16.00
PTP	-505	1,341	2,224	3,259	3,917	OFCF / share	1.34	9.95	9.16	14.08	15.40
Net Income	-532	1,138	2,212	2,511	3,055	Book value / share	12.96	27.23	40.49	52.69	67.21
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet (MEUR)	2023	2024	2025	2026e	2027e	Growth and profitability	2023	2024	2025	2026e	2027e
Balance sheet total	8,346	12,005	15,015	16,496	20,062	Revenue growth-%	13%	18%	10%	14%	15%
Equity capital	2,523	5,525	8,329	10,840	13,895	EBITDA growth-%	66%	1027%	51%	29%	26%
Goodwill	1,137	1,201	1,083	1,079	1,079	EBIT (adj.) growth-%	32%	406%	61%	30%	27%
Net debt	-2,518	-5,447	-7,576	-10,582	-13,977	EPS (adj.) growth-%	-23%	305%	92%	13%	21%
Cash flow (MEUR)	2023	2024	2025	2026e	2027e	EBITDA-%	-1.2 %	9.8 %	13.4 %	15.3 %	16.9 %
EBITDA	-165	1,529	2,308	2,989	3,774	EBIT (adj.)-%	-3.4 %	8.7 %	12.8 %	14.7 %	16.3 %
Change in working capital	535	471	53	190	260	EBIT-%	-3.4 %	8.7 %	12.8 %	14.7 %	16.3 %
Operating cash flow	330	1,648	2,015	2,821	3,307	ROE-%	-21.6 %	28.3 %	31.9 %	26.2 %	24.7 %
CAPEX	-63	-546	-527	-120	-122	ROI-%	-6.9 %	28.8 %	26.0 %	29.8 %	31.0 %
Free cash flow	260	2,018	1,883	2,897	3,185	Equity ratio	30.2 %	46.0 %	55.5 %	65.7 %	69.3 %
Valuation multiples	2023	2024	2025	2026e	2027e	Gearing	-99.8 %	-98.6 %	-91.0 %	-97.6 %	-100.6 %
EV/S	2.3	5.3	5.5	4.9	4.2	Net debt/EBITDA	15.3	-3.6	-3.3	-3.5	-3.7
EV/EBITDA	neg.	54.0	40.8	32.2	24.8	EBITDA/net financials	-2.8	63.7	-88.8	-7.6	-14.0
EV/EBIT (adj.)	neg.	60.5	42.8	33.6	25.6						
P/E (adj.)	neg.	77.4	46.0	42.6	35.2						
P/B	13.1	15.9	12.2	9.9	7.7						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2024-12-13	Reduce	\$ 470	\$ 480
2025-02-05	Reduce	\$ 535	\$ 622
2025-04-30	Reduce	\$ 570	\$ 582
2025-07-22	Reduce	\$ 650	\$ 707
2025-07-30	Reduce	\$ 625	\$ 620
2025-10-31	Reduce	\$ 645	\$ 657
2025-11-05	Reduce	\$ 655	\$ 630
2025-01-22	Accumulate	\$ 590	\$ 511
2026-02-11	Buy	\$ 595	\$ 476
2026-04-21	Accumulate	\$ 595	\$ 537
2026-04-29	Buy	\$ 570	\$ 434
2026-08-05	Buy	\$ 570	\$ 478
2026-10-15	Accumulate	\$ 580	\$ 524
2026-10-23	Accumulate	\$ 635	\$ 584



CONNECTING INVESTORS AND COMPANIES.

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