

EQUITY RESEARCH • 17 OCTOBER 2026

Spotify Technology

Subscriber growth and pricing support cash generation

Recommendation	FY2027 end target	Model reference price	Potential upside
BUY	\$612	\$529	16%

We initiate coverage with a Buy rating and a FY2027-end price target of \$612.43, preserving the valuation in our financial model. The case rests on recurring Premium revenue, improving monetisation and sustained cash conversion. We forecast revenue of €23.0bn in 2027 and €26.5bn in 2028, with adjusted EBITDA margins close to 15%.

Premium provides the main earnings engine. Subscribers rise from 290.0mn in 2025 to 336.0mn in 2027, while monthly Premium ARPU increases from €4.63 to €5.39. Advertising makes a smaller contribution. The forecast does not require a large step-up in EBITDA margins, but it does require pricing to coexist with continued user growth.

Premium drives the revenue trajectory

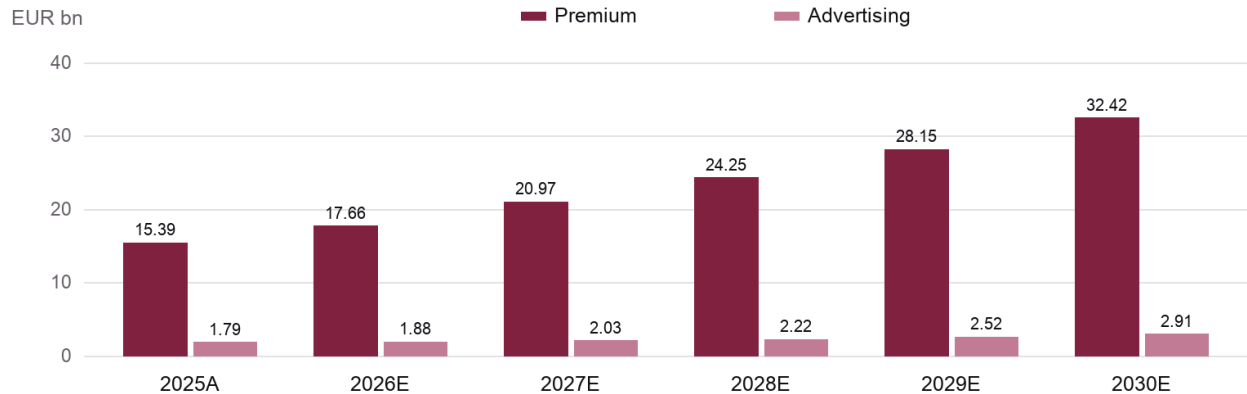


Figure 1. Revenue by segment.

Financial highlights	2025A	2026E	2027E	2028E
Revenue (€mn)	17,186.00	19,531.82	23,002.47	26,469.35
Revenue growth	9.65%	13.65%	17.77%	15.07%
Adjusted EBITDA (€mn)	2,550.00	2,895.52	3,416.22	3,855.87
Adjusted EBITDA margin	14.84%	14.82%	14.85%	14.57%
Free cash flow (€mn)	2,874.00	3,452.88	3,933.16	4,320.34
Diluted EPS (€)	10.38	10.79	12.48	14.11

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Basis: model actuals through Q2 2026; forecasts thereafter. The reference price is the workbook input, not a refreshed market quote; its observation date is not supplied. Target horizon: 31 December 2027. See valuation methodology and disclosures.

Investment thesis and key debates

Premium combines volume and monetisation

Revenue expands at a calculated 15.5% CAGR from 2025 to 2028. Premium revenue accounts for €8.86bn of the €9.28bn increase over that period, or 95.4% of incremental revenue. This concentration makes Premium subscriber retention and ARPU more important to the investment case than a rapid advertising rebound. The model assumes annual net subscriber additions of 22.3mn in 2026, 23.8mn in 2027 and 23.0mn in 2028.

Profit growth comes mainly from scale

Adjusted EBITDA rises from €2.55bn in 2025 to €3.86bn in 2028, a calculated 14.8% CAGR. Gross margin reaches 33.2% in 2027, but higher operating expenses absorb much of the improvement. EBITDA margin is 14.8% in 2025 and 14.6% in 2028. Additional operating leverage could help the outcome, but the target already depends on sustained profitability and revenue growth.

Cash generation provides financial flexibility

The model projects free cash flow of €3.93bn in 2027 and €4.32bn in 2028. Cash and short-term investments reach €19.88bn at 2028 year end, with no financial debt in the forecast. This provides capacity to reinvest or return capital. The accumulation is a model outcome, rather than a forecast of management announcing distributions.

The valuation leaves limited room for slippage

The 15.74% indicated upside only modestly exceeds the workbook's 15% Buy threshold. Terminal value represents 81.9% of DCF enterprise value. A durable long-run earnings base therefore matters more than a single strong quarter. The balance sheet supports the case, but does not eliminate the sensitivity to discount rates, royalties, subscriber growth and monetisation.

Investment debate	Our model-based assessment
Can price increases coexist with growth?	Subscriber growth moderates to 7.7% in 2026 and 7.6% in 2027; ARPU grows 6.0% and 9.8% respectively.
Is further margin expansion essential?	Gross margin remains near 33%; EBITDA margin remains near 15%. Revenue growth does most of the work.
Does advertising drive the target?	Advertising is 8.8% of 2027 revenue. Recovery helps, but Premium determines most of the forecast.
What would weaken the thesis?	Persistent shortfalls in both ARPU and subscriber additions, higher content costs, or weaker cash conversion.

Business model and competitive position

Spotify operates a subscription and advertising platform spanning music, podcasts and audiobooks. Premium monetises paying subscribers; the free service generates advertising revenue and supplies a conversion funnel. The economic challenge is to grow engagement and revenue per user while managing payments to content owners and the cost of product development.

Segment	2025 revenue	2025 gross profit	2027 revenue mix
Premium	€15,391mn	€5,184mn	91.2%
Ad-supported	€1,795mn	€312mn	8.8%

Scale supports distribution and discovery

In our assessment, a large user base can support discovery, personalisation and creator distribution. The investment benefit depends on whether those features improve retention and willingness to pay. Product breadth has value only if incremental engagement translates into revenue or lower churn without an offsetting rise in content and service costs.

Competition constrains pricing freedom

Spotify competes with ecosystem businesses including Apple, Alphabet and Amazon, as well as other destinations for attention and advertising. Larger rivals can bundle music with broader offerings and benefit from device or app-store distribution. This makes standalone subscription value and ease of use critical. The model should therefore be judged on realised ARPU and subscriber additions together.

Product investment is relevant but not separately valued

At its May 2026 Investor Day, management described higher-ARPU products and add-ons, broader creator monetisation and AI-driven personalisation. Co-CEOs Alex Norström and Gustav Söderström presented the strategy. These developments support the direction of the monetisation thesis, but the supplied model does not separately value AI, super-fan products, podcasts or audiobooks. Their effects are embedded in segment revenue and cost assumptions.

Geographic mix remains broadly stable

Europe represents 36.3% of forecast 2027 year-end Premium subscribers, North America 25.2%, Latin America 23.6% and the rest of the world 14.9%. That mix is close to 2025. The model's ARPU improvement consequently cannot be explained simply by a large shift toward higher-priced regions; pricing, package mix and other monetisation effects must carry the forecast.

Premium subscribers and pricing

Subscriber additions moderate as the base grows



Figure 2. Premium subscribers at year end.

We forecast 312.3mn Premium subscribers at the end of 2026 and 336.0mn in 2027. Net additions fall below the 27mn recorded in both 2024 and 2025, allowing for a larger installed base and the risk that repeated price increases slow acquisition or retention. From 2028, the model's rolling assumptions produce roughly 23mn additions each year.

Premium monetisation becomes a larger growth driver

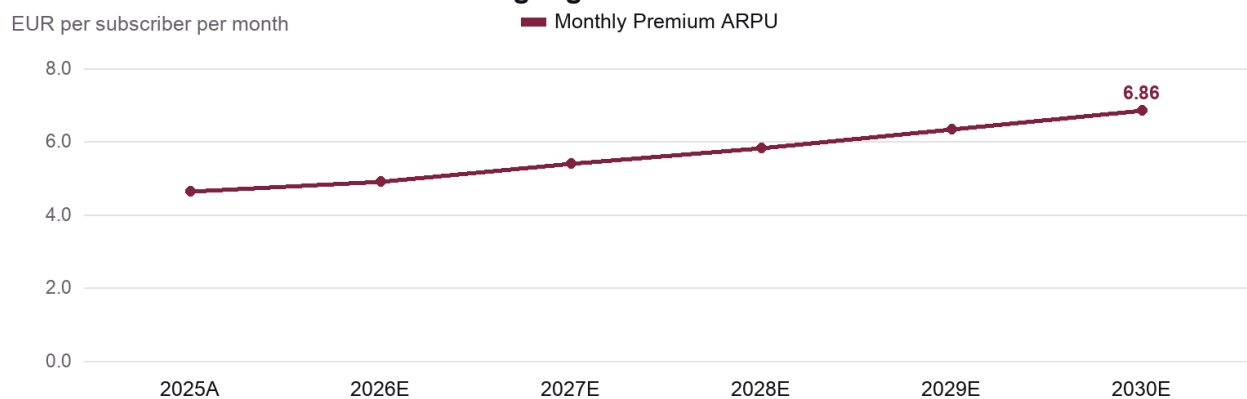


Figure 3. Annual monthly Premium ARPU.

Monthly Premium ARPU increases to €4.91 in 2026, €5.39 in 2027 and €5.81 in 2028. Annual growth is 6.0%, 9.8% and 7.9%, respectively. These are monetisation assumptions, not announced price increases. Reported ARPU also reflects geography, subscription package mix and foreign exchange. Sustained pricing benefits must outweigh adverse mix or currency effects for this trajectory to hold.

Premium revenue is built from average subscribers and monthly ARPU across the quarterly forecast. Annual reported ARPU is not always identical to annual revenue divided by average subscribers and 12, reflecting the model's averaging conventions. The chart retains the reported ARPU row used in the original note.

Advertising and the near term outlook

Advertising grows more slowly than Premium

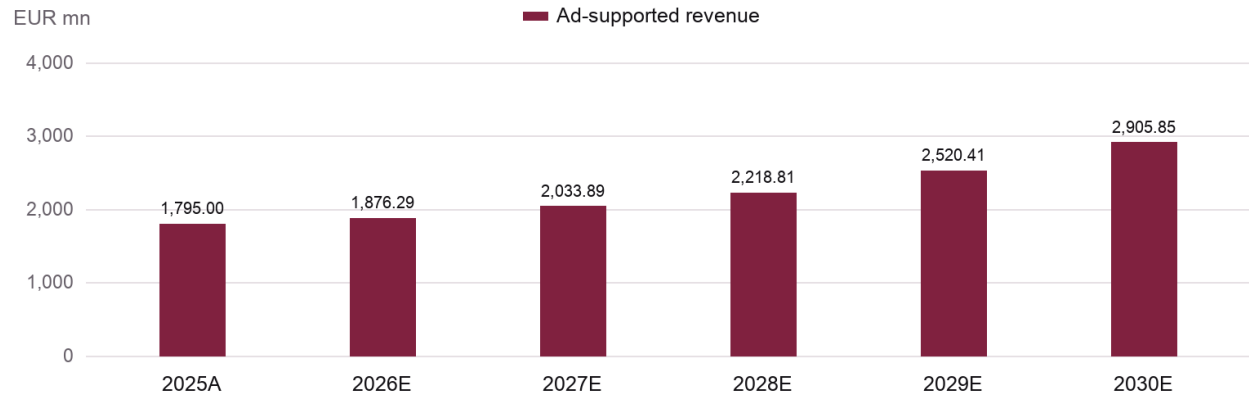


Figure 4. Ad-supported revenue.

Audience growth offsets weak monetisation

Ad-supported revenue rises 4.5% in 2026 and 8.4% in 2027, reaching €2.03bn. Average ad-supported users increase from 438.1mn in 2025 to 539.4mn in 2027, while monthly advertising ARPU declines from €0.34 to €0.31. The model therefore relies on more users rather than an immediate improvement in revenue per user.

The recovery is gradual

Forecast quarterly advertising ARPU is 1% below the corresponding prior-year quarter through 2027. Full-year ARPU is approximately flat in 2028, followed by growth of 5.1% in 2029 and 7.1% in 2030. Better advertising tools or demand could improve the outcome, but those benefits should be assessed through actual monetisation and gross profit, not audience growth alone.

Operating checkpoints	3Q26E	4Q26E	FY27E
Revenue (€mn)	4,933.81	5,288.01	23,002.47
Premium subscribers at period end (mn)	306.00	312.25	336.02
Monthly Premium ARPU (€)	4.89	5.10	5.39
Gross margin	32.75%	32.80%	33.15%

The supplied model identifies Q2 2026 as the latest reported quarter. Its Q2 revenue of €4,777mn and 300mn Premium subscribers agree with the company's interim filing. The next test is whether second-half growth meets the model while pricing and subscriber additions remain compatible.

Profitability and earnings quality

The model assumes broadly stable profitability

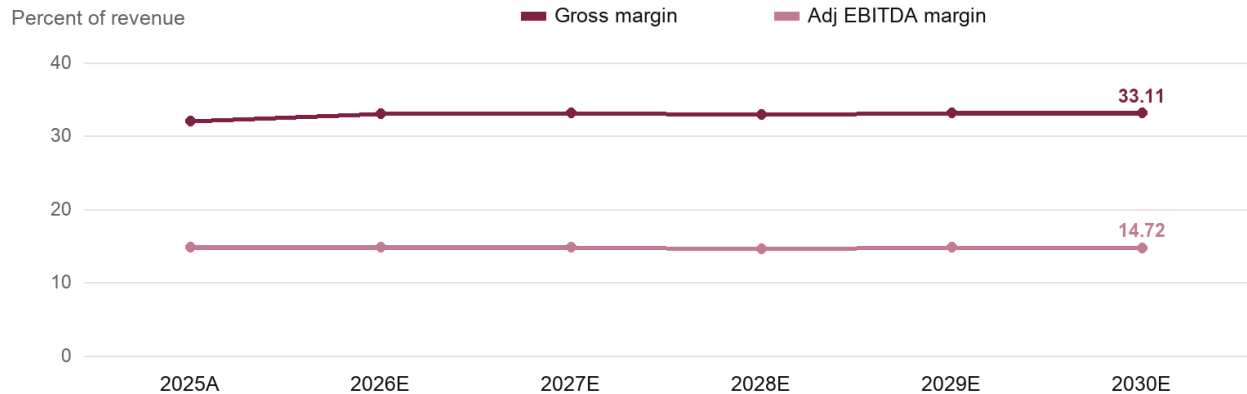


Figure 5. Group gross margin and adjusted EBITDA margin.

Gross margin gains are largely reinvested

Group gross margin increases from 32.0% in 2025 to 33.0% in 2026 and 33.2% in 2027. Premium gross margin is about 34.7% in 2027, compared with 17.3% for advertising. Premium's increasing revenue weight supports group profitability, but operating expenses rise from 19.2% of revenue in 2025 to 20.3% in 2027. EBITDA margin consequently remains near 14.8%.

Earnings bridge (€mn)	2025A	2026E	2027E	2028E
Gross profit	5,496.00	6,442.38	7,626.43	8,710.18
Operating expenses	3,298.00	3,946.31	4,663.01	5,356.91
Reported operating income	2,198.00	2,496.06	2,963.42	3,353.27
Stock-based compensation add-back	247.00	293.37	349.57	399.91
Adjusted operating income	2,445.00	2,789.43	3,312.99	3,753.18
Depreciation	79.00	85.08	83.05	81.81
Amortisation	26.00	21.01	20.19	20.88
Adjusted EBITDA	2,550.00	2,895.52	3,416.22	3,855.87

Adjusted profit requires an economic interpretation

The workbook adds back stock-based compensation to operating income, then adds depreciation and amortisation to derive adjusted EBITDA. Stock compensation is €350mn in 2027. It is non-cash in the period but remains an economic cost through dilution or offsetting repurchases. Forecast diluted shares stay at 208.77mn from 2026 onward; this assumption matters for per-share value.

Diluted EPS rises from €10.38 in 2025 to €10.79 in 2026, a 3.9% increase despite 13.6% revenue growth. The model's effective tax rate rises from 0.5% to 22.1%, limiting earnings growth. EPS then reaches €12.48 in 2027 and €14.11 in 2028. Adjusted EPS is a separate measure and is not substituted for diluted EPS in this report.

Cash flow and capital allocation

Free cash flow remains above adjusted EBITDA

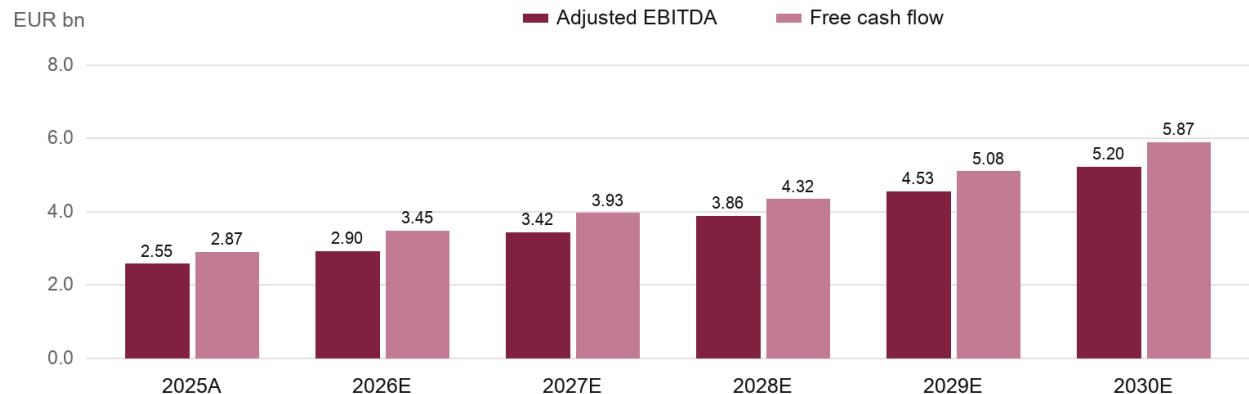


Figure 6. Operating free cash flow versus adjusted EBITDA.

Free cash flow reaches €3.45bn in 2026, €3.93bn in 2027 and €4.32bn in 2028. Conversion exceeds adjusted EBITDA because cash taxes and working-capital movements differ from accrued earnings, while property and equipment spending remains low. In 2027, working capital contributes €641mn and cash tax is €340mn, versus income-statement tax expense of €651mn. These timing benefits should be monitored as the business matures.

The forecast builds a substantial net cash position



Figure 7. Cash and short-term investments.

The model assumes no equity repurchases from 2027 onward and €256mn of annual option-exercise proceeds. Cash therefore accumulates to €31.15bn by 2030. This is not an assumption that all cash will be distributed. Acquisition spending, buybacks or greater investment would change the cash balance and need separate modelling.

Operating FCF equals cash from operations plus signed capex and the change in restricted cash. DCF FCFF uses adjusted operating income, cash taxes, depreciation, working capital, and capex plus investment. These two measures have different definitions and are deliberately presented separately.

DCF valuation and target price

Our FY2027-end target is \$612.43 per share, compared with the model reference price of \$529.14. The resulting 15.74% upside is retained. The DCF first values the business at 31 December 2026, then rolls the per-share value forward by one year at the 8.7% WACC.

Valuation assumptions	Model input
Risk-free rate / beta / equity risk premium	4.50% / 1.40 / 3.00%
WACC and cost of equity	8.70%
Perpetual FCFF growth	3.75%
USD per EUR	1.12
Diluted shares outstanding	208.77mn
Target horizon	31 December 2027

DCF bridge	Model value
PV of 2026–2030 explicit cash flows (€mn)	17,019.84
PV of terminal value (€mn)	77,075.83
Enterprise value at FY2026 end (€mn)	94,095.67
Add net cash at FY2026 end (€mn)	11,295.66
Less lease liabilities (€mn)	372.00
Equity value at FY2026 end (€mn)	105,019.33
FY2026-end value per share (USD)	563.41
FY2027-end target per share (USD)	612.43

Terminal value dominates the DCF

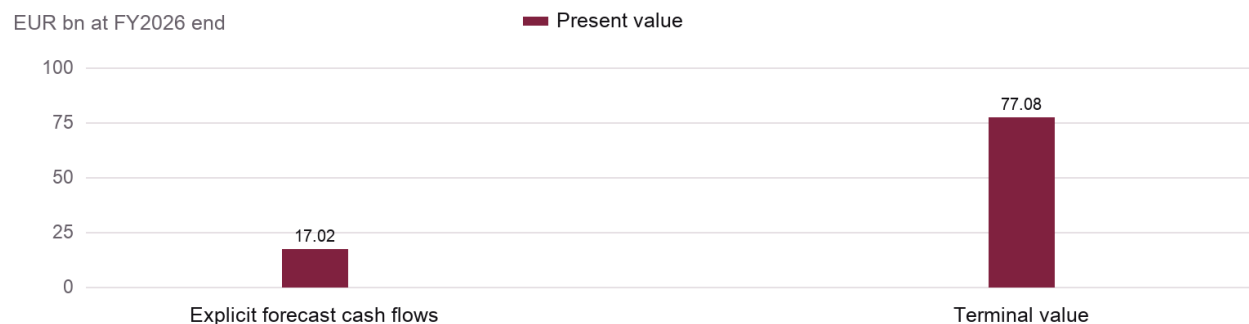


Figure 8. Terminal value is 81.9% of enterprise value.

The workbook includes 2026 FCFF at time zero and discounts later cash flows using its dated exponents. It uses adjusted operating income and cash tax, adds depreciation only in the D&A line, and includes business combinations in capex and investment. These conventions are retained exactly. WACC equals cost of equity because the model uses zero debt weight.

Valuation interpretation and investment risks

The multiple is a model output with a definition caveat

The workbook reports 33.42× as FY2027 EV/EBITDA. Its numerator is target price multiplied by diluted shares, which is target equity value, while its denominator is FY2027 EBITDA converted to USD. The displayed 33.42× is therefore retained as a workbook-labelled multiple, not presented as an independently validated enterprise-value multiple. It does not set the price target; the target links directly to the DCF.

The trading-multiple block also subtracts euro-denominated net debt from a dollar-denominated numerator in its equity-value row. That row does not feed the target price. The report uses the DCF bridge, whose EUR-to-USD conversion is explicit, and preserves all source outputs without repairing the workbook.

Risk	Transmission to the thesis	Evidence to monitor
Pricing and retention	ARPU gains may be offset by weaker acquisition, downgrades or churn.	Premium ARPU and net additions together.
Content economics	Higher royalty, audiobook or podcast costs could limit gross margins.	Premium and ad-supported gross profit.
Competitive distribution	Bundled services and platform advantages could reduce engagement or willingness to pay.	Retention, conversion and acquisition efficiency.
Advertising execution	A larger audience may fail to translate into higher revenue per user.	Ad ARPU, revenue growth and gross margin.
Cash conversion	Lower working-capital inflows or higher cash taxes could reduce FCF.	Cash tax, payables, accruals and capex.
Dilution and allocation	SBC, acquisitions or repurchases could alter cash and per-share outcomes.	Diluted shares, SBC and cash deployment.
Discount rate and FX	Terminal-value dependence and EUR/USD translation amplify valuation risk.	WACC assumptions, long-run growth and currency exposure.

What would change our view

Confidence would rise if pricing improves ARPU while subscriber additions remain close to the forecast and gross margin holds around 33%. Persistent weakness in both monetisation and subscriber growth would undermine the revenue path. A deterioration in cash conversion would weaken the valuation even if adjusted EBITDA meets forecasts. The model contains one valuation case; no new bull, bear or sensitivity targets are assumed here.

Financial forecasts and monitoring framework

EUR mn except per-share data	2025A	2026E	2027E	2028E	2030E
Premium revenue	15,391.00	17,655.53	20,968.57	24,250.54	32,421.23
Ad-supported revenue	1,795.00	1,876.29	2,033.89	2,218.81	2,905.85
Total revenue	17,186.00	19,531.82	23,002.47	26,469.35	35,327.07
Gross profit	5,496.00	6,442.38	7,626.43	8,710.18	11,697.09
Operating income	2,198.00	2,496.06	2,963.42	3,353.27	4,544.57
Adjusted EBITDA	2,550.00	2,895.52	3,416.22	3,855.87	5,198.77
Net income	2,212.00	2,251.92	2,605.47	2,946.61	4,131.29
Diluted EPS (€)	10.38	10.79	12.48	14.11	19.79
Cash from operations	2,933.00	3,511.54	4,010.86	4,406.83	5,984.93
Free cash flow	2,874.00	3,452.88	3,933.16	4,320.34	5,868.52
Cash and short-term investments	9,467.00	11,295.66	15,397.81	19,883.22	31,151.21
Financial debt	1,458.00	0.00	0.00	0.00	0.00
Lease liabilities	433.00	372.00	308.00	244.00	116.00
Total assets	15,015.00	15,764.88	19,896.19	24,634.21	36,360.64
Total liabilities	6,686.00	6,115.58	7,035.86	8,171.36	10,701.76
Shareholders' equity	8,329.00	9,649.30	12,860.34	16,462.86	25,658.88

Catalysts and checkpoints

Checkpoint	Model requirement	Investment relevance
Quarterly subscriber results	312.3mn at 2026 end; 336.0mn at 2027 end.	Tests whether monetisation is compatible with acquisition and retention.
Pricing and product uptake	2027 monthly Premium ARPU of €5.39.	Tests the largest monetisation assumption.
Margin delivery	2027 gross margin of 33.2%; adjusted EBITDA margin of 14.9%.	Tests content costs and expense discipline.
Annual cash generation	2027 FCF of €3.93bn.	Tests cash earnings quality and balance-sheet accumulation.

Important disclosures and disclaimer

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Rating and valuation basis

The model defines Buy at potential upside of at least 15%, Hold between -10% and +15%, and Sell at downside of at least 10%. Its boundary wording overlaps at the thresholds; this does not affect the current Buy rating. The target horizon is 31 December 2027. The reference price of \$529.14 is the model input and has not been refreshed. The target price of \$612.43 and potential upside of 15.74% are unchanged. The recommendation table alone displays whole numbers; other figures use up to two decimal places. Display rounding does not change calculations and may cause totals to differ from the sum of their components.

Report conventions

Prepared on 17 October 2026. Historical periods extend through Q2 2026; subsequent periods are estimates. A denotes actual and E denotes estimate. Financial values are in EUR millions unless otherwise stated; share prices and targets are in USD. Subscriber counts are in millions. Subscriber balances are period-end figures, while ARPU follows the model averaging convention.

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