

This project consists on an Equity Research of Spotify Technology S.A. for the year end of 2020, according to ISEG's Master Final Work in Finance. This report follows the format suggested by the CFA Institute (Pinto, Henry, Robison, and Stowe, 2010), and it reflects the public information of the company published until 24th of May of 2019. Consequently, any event following this date was not considered in this analysis.

The motivation to evaluate a company like Spotify Technology S.A. came from personal interest, reflecting my fascination for this recent digital industry, which in my opinion is the future of music industry. Additionally, due to the use I give to Spotify's services and due to the challenge of analyzing such a company for a project of this kind.

The project starts with a description of the company, containing a brief introduction to its history, an analysis of its operating business segments, it also indicates the strategies for the next years and it is analyzed the organization of the company.

Following these, we conduct an analysis of the macroeconomic factors and industry developments. Additionally, an analysis of Spotify Technology S.A. competitive position within the media industry is provided.

Then, to obtain the price target, assumptions were studied and tested for the financial model. We used the Free Cash Flow to the Firm method, part of the Discounted Cash Flow model, as our valuation method. As we consider it the most appropriate method of valuation for Spotify Technology S.A. Additionally, further valuation methods were used to support our recommendation, although with some inconclusive results from these complementary methods, and several variables were stressed to analyze the impact on the price target.

Our target price for the year end of 2020 is of \$145.21 per share and when compared to the closing price of \$121.58/share at 23rd of May of 2019 represents an upside potential of 19.44%. Our recommendation stands for a HOLD recommendation with a high risk associated.

The main risks for this recommendation are growth rate of premium users, perpetual growth rate, unlevered beta, market risk premium, the risk-free rates and the overall WACC rate. Additionally, these variables are tested under sensitivity and Monte Carlo analysis to evaluate how changes in certain variables and assumptions would impact our final recommendation.