SPOTIFY TECHNOLOGY S.A.

Business model, revenue quality and competitive durability | FY2025 | EUR unless stated otherwise

A. EXECUTIVE OVERVIEW

Spotify is a global audio-streaming platform offering music, podcasts and, in selected markets, audiobooks. It serves listeners through a freemium model: Premium subscribers pay recurring fees for an enhanced, largely ad-free experience, while free users generate advertising revenue and provide a conversion funnel into Premium. In FY2025, Spotify generated €17.19bn of revenue, of which 89.3% came from Premium. Its scale (751m monthly active users and 290m Premium subscribers at year-end) supports discovery, personalisation and creator/advertiser reach. Its strongest moat is a potentially reinforcing two-sided network effect, but the moat is best rated **NARROW**: users can switch services, competitors have powerful ecosystems, and Spotify depends heavily on licensed content.

B. REVENUE DECOMPOSITION

Business segment	Revenue (€m)	Share	Gross profit (€m)	Gross margin
Premium	15,350	89.3%	5,166	34%
Ad-Supported	1,836	10.7%	330	18%
Total	**17,186**	**100.0%**	**5,496**	**32%**

Geography: United States €6,470m (37.7%); Luxembourg €13m (0.1%); other countries €10,703m (62.3%). No other individual country represented 10% or more of revenue. Premium is the dominant profit pool: it generated €5,166m of gross profit versus €330m for Ad-Supported. Spotify reports gross margins, not segment operating margins; segment operating margins are therefore **not disclosed**.

C. COMPETITIVE MOAT ASSESSMENT

Moat source	Assessment and evidence	Status
Network effects	Large listener base attracts creators, podcast publishers and advertisers; more listening data can improve personalisation and ad targeting. The effect is real but not exclusive: music rights are broadly available to rival platforms.	Present – moderate
Switching costs	Playlists, listening history, recommendations and social habits create some friction. However, subscriptions are cancellable and users can use multiple services; switching is not prohibitively costly.	Narrow
Cost advantages	Scale can spread technology, product development and marketing costs across a large base. But royalty payments are a major variable cost and scale does not remove the need to license music.	Limited / unclear
Intangible assets	Strong global brand, recommendation algorithms, user data and creator tools differentiate the experience. Spotify does not own most music rights, limiting the defensibility of its catalogue.	Present – moderate
Efficient scale	The global market supports several large competitors (Apple, Amazon, Google/YouTube and others); the market is not naturally served by only one or two providers.	Absent / weak

Overall durability: NARROW. Spotify's scale, brand, personalisation and creator/advertiser marketplace provide meaningful advantages. However, a well-funded rival can offer a comparable catalogue, bundle streaming with hardware or other services, and compete aggressively on price. The moat protects customer engagement better than it protects pricing power.

D. INDUSTRY DYNAMICS – PORTER'S FIVE FORCES

Force	Level	Reason
Supplier power	**HIGH**	Major record labels, publishers and rights holders control essential content; royalty rates and licensing terms materially affect margins.
Buyer power	**HIGH**	Consumers can cancel monthly subscriptions or use several platforms; advertisers can shift budgets to other digital channels.
Threat of substitutes	**HIGH**	YouTube, radio, social video, gaming, podcasts and other entertainment compete for users' time and attention.
Threat of new entrants	**MEDIUM**	Technology barriers are manageable, but global licensing, brand-building, scale, recommendation systems and customer acquisition are difficult.
Competitive rivalry	**HIGH**	Apple Music, YouTube Music, Amazon Music and other services compete on price, bundles, catalogue, devices and product features.

Headwinds: (1) rising royalty/licensing costs or tougher label negotiations; (2) intense competition and low consumer switching barriers; (3) advertising cyclicality and weaker monetisation in lower-ARPU emerging markets. **Tailwinds:** (1) continued conversion of free users into Premium; (2) growth in podcasts, audiobooks, video and creator monetisation; (3) improving ad-tech and marketplace tools that can raise advertising yield.

Sources: Spotify Technology S.A., Form 20-F FY2025 (business model, segment results, geography, licensing and competition disclosures); Spotify Q4 2025 earnings release. Segment revenue shares and geographic shares calculated from reported figures. Moat and Five Forces ratings are analytical judgements based on these disclosures, not company-reported ratings.