

The background features a blurred financial chart with a red semi-transparent overlay. The chart shows a line graph with a peak and a subsequent decline, with labels for 'Change on day' and 'Share Price'. The text 'ImgnTech' and 'Based on the contribution of the T15C351 eds' is visible on the chart. The red overlay contains the main title and authors in white text.

# ***Spotify Fundamental Analysis***

## ***Gold Diggers***

***Tristin Foster - Rachel Kloepfer  
Alex Ramsay - Lars Thulin***

***10/28/2024***

# Why SPOT?

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Rapidly Growing Industry

1 Year Momentum

Customer Loyalty

2023 Layoffs



# Company Overview

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Company Name	Spotify Technology S.A.
Ticker	SPOT: <i>Spotify is the leading provider in music streaming</i>
Business Summary	
Current Price	379.16
Current Date	10/25/2024
Target Price	\$351.11
Target Date	10/25/2029
Industry	Tech
Sector	Communication Services
Change in Shares Outstanding (TTM)	6.02%
Market Cap	75.679 billion
Monthly Trading Volume	38.28 million
Beta	1.29
Sharpe Ratio	-0.028
EPS	-2.73
PE Ratio	140.89
52-week Low/High	155.00/389.48

## Investment Thesis Not to buy SPOT

### PROS

High Market Share 36%

Last 5 Years Avg Revenue Growth of 18%

Last Three-Year User Growth 18% - 20% - 23%

### CONS

140.89 PE Ratio

Negative Earnings Per Share



# Business Model

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## Freemium Business Model

Premium Service: Paying customers get unlimited access to the Spotify music and podcast catalog (Student: \$5.99/m Individual: \$11.99/m Duo: \$16.99/m Family: 19.99/m)

Ad Supported Service: Customer receives free limited access to Spotify music catalog and unlimited access to podcast catalog while having periodic advertisements played

## Innovation

- September 2022 Spotify added audiobooks to the platform (\$9.99/m)
- Spotify use of machine learning has aided in customer retention
- Spotify has incorporated AI into platform giving user's personal DJ as well as ability to translate podcasts

## Global Presence

- Spotify currently holds 36% of music streaming market share
- Services are available in 184 different countries
- 626 million subscribers with 246 million premium subscribers



# Historical Analysis

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## Important Events

**APRIL 2018:** IPO at \$165.90, market cap of \$30 billion.

**AUGUST 2018:** First podcast acquisition, The Joe Budden Podcast

**MAY 2020:** IP licensing of The Joe Rogan Podcast for \$100m (retained)

**NOVEMBER 2021:** First audiobook company acquisition, Findaway

**SEPTEMBER 2022:** Audiobooks offered to general users

**DECEMBER 2023:** Spotify lays off 1500 employees

**2024 Q1:** Record earnings reported. 97 cents EPS (euros) and 3.64 billion euros of revenue, both ahead of expectations



## Historical \$

- Currently 1.14% below 52 week high of \$389.48 (USD)
- Increase in 7 million users since end of Q1 2024
- 2023-2024 hike was motivated by podcast surge, economic recovery, cost cutting, and expansion in emerging markets



# Financial Statement Analysis

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## Financial Statement Overview

All numbers in Thousands

Revenue	\$ 15,652,000
Net Income	504,000
Operating Margin	3.05%
Operating Cash Flow	1,418,000
CAPEX	(9,700)
Free Cash Flow	1,408,300
Total Assets	9,234,000
Total Liabilities	6,442,600
Dividends	0
ROA	(6.66%)
ROE	(21.62%)
ROI	(21.00%)
Operating Margin	(3.00%)
Goodwill / Intangibles	\$1,258,000

### MD&A + Footnote

- SBC 2024: €150M / \$157.5M
- Discounted and free trials: user adding, but at an expense
- May 2024 royalties lawsuit (in dispute)

### Unique Assets & Expenses

- Royalty agreements and structure, average liability of \$0.003 and \$0.005 per stream
- Intellectual property exclusive rights vs. Intellectual property ownership



# Industry Trends

Investment Thesis

Business Model

Historicals

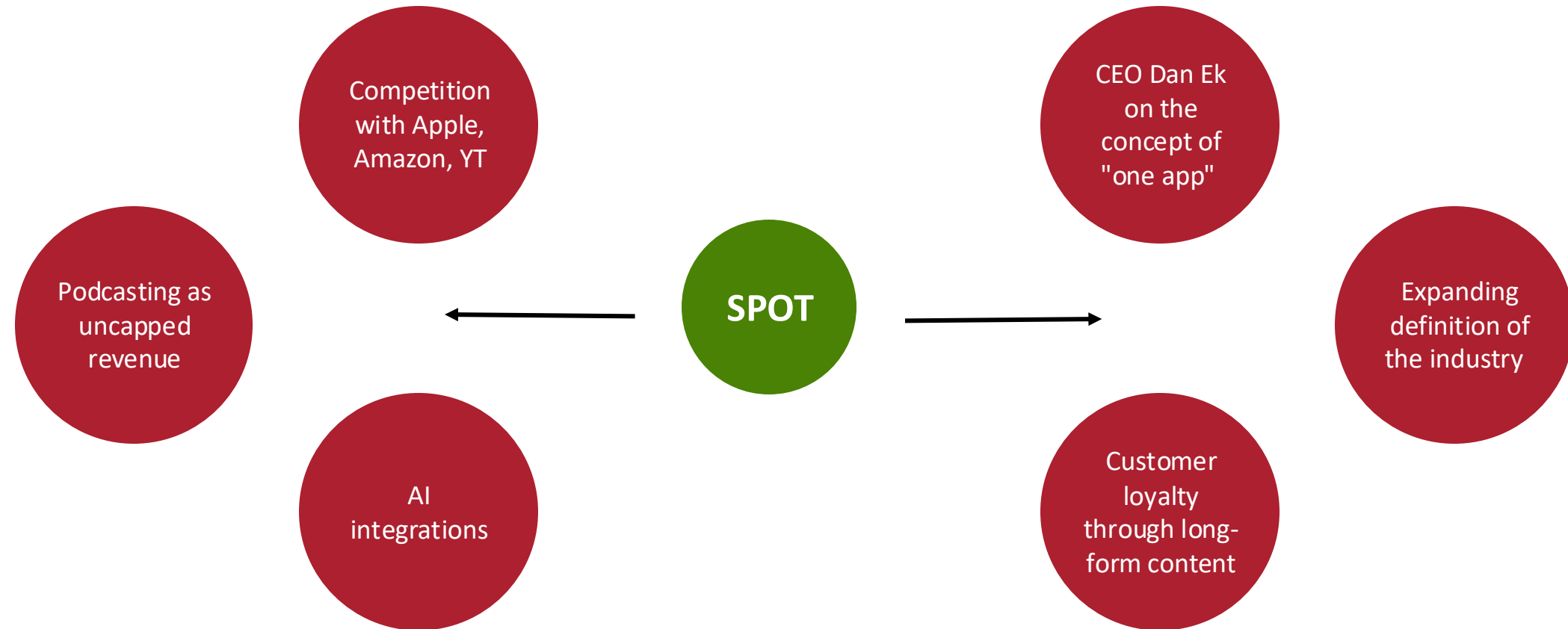
Industry Analysis

Governance

Risk and Growth

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**P**

Political

*International  
IP law  
variance*

*Copyright*

*Data  
protection*

**E**

Economical

*International  
pricing (less  
than a dollar  
in some  
countries)*

*Inflation +  
consumer  
discretionary  
spending*

**S**

Social

*Demand for  
streaming  
  
73% of  
users:18-34*

*Consumer  
behavior:  
wellness  
trends*

**T**

Technological

*AI /  
Automation*

*Adaptability  
to new  
consumer  
tech*

**E**

Environmental

*Sustainability  
initiatives +  
data center  
emission  
reduction*

**L**

Legal

*Copyright*

*Mechanical  
Licensing  
Committee  
Lawsuit*

*Data  
protection*





# Competitive Landscape

Investment Thesis

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## ***Threat of new entrants (Low)***

- Up front licensing agreements and content acquisition
- Large initial investment
- Well established current options

## ***Threat of substitutes (Low)***

- Physical format music (CD's, Vinyl, Cassettes)
- Digital music sales
- Illegally downloaded music

## ***Bargaining power of buyers (Medium)***

- Low switching costs
- Cost conscious consumer
- High platform dependence

## ***Bargaining power of suppliers (High)***

- High reliance on securing licensing agreements
- Artist could demand exclusivity on different platform
- Demand for artist can affect compensation requirements

## ***Rivalry among existing competitors (High)***

- Competing with tech giants
- Aggressive pricing wars
- Fast paced tech advancements



# Competitive Landscape

Investment Thesis

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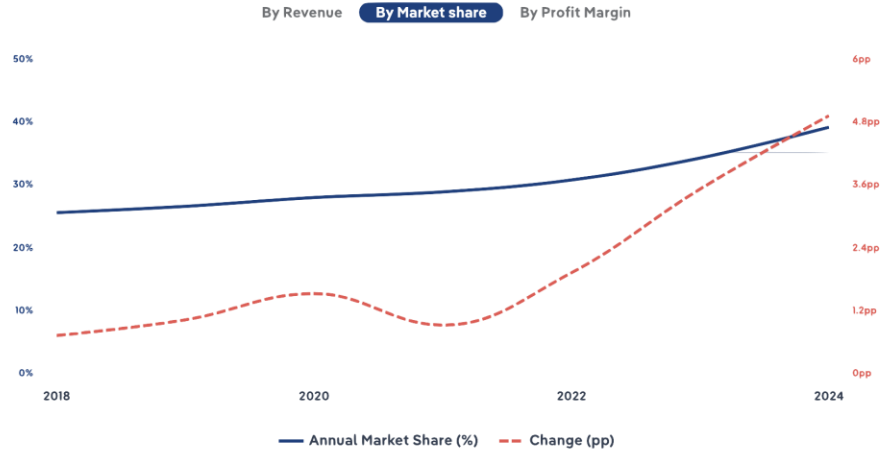
Risk and Growth

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## Spotify Technology S.A.

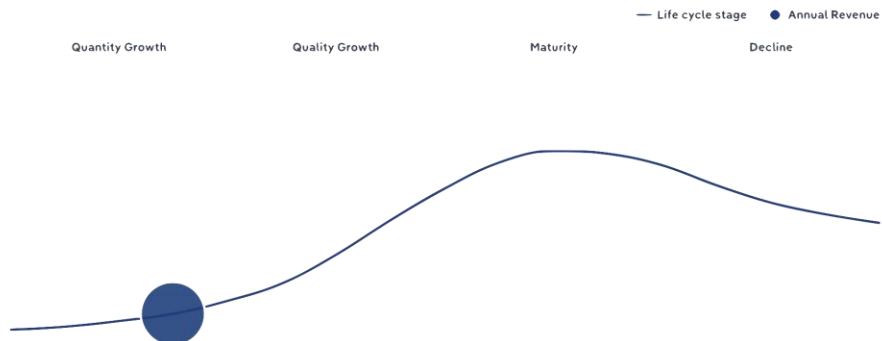
Overview of the company's industry revenue, market share and profit margin over time



Music Streaming Services in the US

## Life Cycle

Indication of the industry's stage in its life cycle compared to similar industries



\*Growth is based on change in share of economy combined with change in establishment numbers

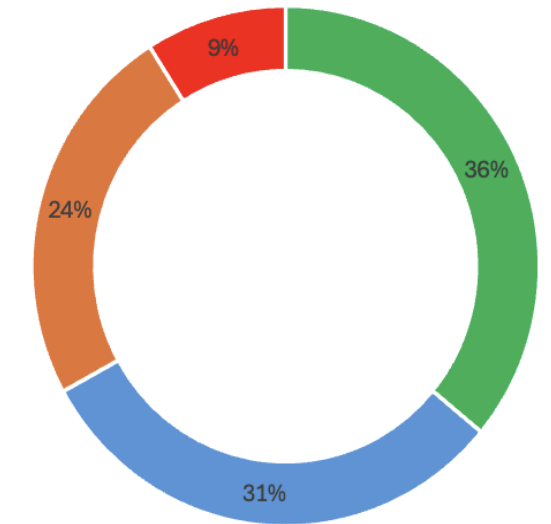
## Market Share

2018: 25.4%  
2020: 27.8%  
2022: 30.6%  
2024: 36%

## Industry Revenue CAGR Projections

Music Streaming 2024-29: 5.02%  
Podcasting 2024-29: 3.35%  
Audio Books 2024-29: 10.44%

## 2024 Music Streaming Market Share



■ Spotify ■ Apple Music ■ Amazon Music ■ Other



# Management and Employees

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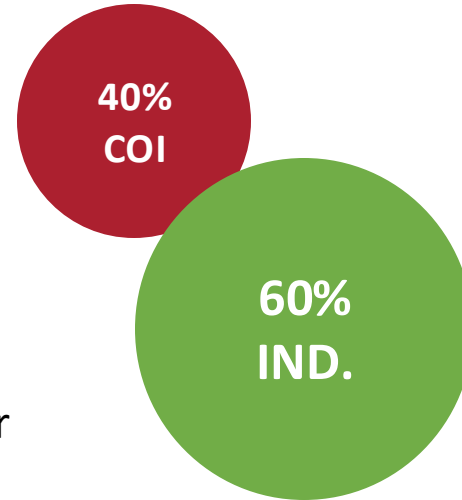
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## Board of Directors

- CEO Daniel Ek, original founder
- Martin Lorenzon, original co-founder
- Christopher Marshall, lead independent director
- Barry McCarthy, previous CFO & private investor
- Ted Sarandos, Co-CEO of Netflix & member of the Academy



**Compensation:** “Daniel Ek has not received a regular salary from Spotify since 2017, according to company documents, and in 2022 was described as one of the ‘lowest paid major tech CEOs’. Despite this, he received \$1.4 million in ‘other compensation’.”

## Lawsuits

- Legal action threatened over lyrics being displayed in-app (copyright, via music groups)
- Small artists suing over being underpaid in royalties



# SWOT Analysis

Investment Thesis

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## Strengths

- Personalized platform\*
- Large user base\*
- Extensive content library
- Brand recognition

## Weaknesses

- Dependence on third party\*
- Royalty costs\*
- Profitability struggles
- Difficulty in monetizing from free users

## Opportunities

- Further development of established markets\*
- Live content integration\*
- Social music sharing
- Augmented reality experiences

## Threats

- Competition from tech giants\*
- Privacy concerns and data breaches\*
- Piracy and illegal streaming
- Artist exclusivity



# DCF - WACC

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## WACC Calculations

### Capital Structure

Total Debt	\$1,761.00
Total Equity	\$2,523.00
Debt-to-Total Capitalization	41.1%
Equity-to-Total Capitalization	58.9%

### Cost of Debt

Cost of Debt	2.5%
Tax Rate	25.0%
After-Tax Cost of Debt	1.9%

### Cost of Equity

Risk-free Rate	4.0%
Market Risk Premium	6.0%
Levered Beta	1.29
Cost of Equity	11.7%

<b>WACC</b>	<b>7.7%</b>
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# DCF – Assumptions Base

Investment Thesis

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## Select Operating Data

Period				Projected Annual Forecast				
	2021	2022	2023	2024	2025	2026	2027	2028
				1	2	3	4	5
Revenue	\$11,435.0	\$12,351.8	\$14,327.0	\$17,765.5	\$20,323.7	\$22,665.0	\$24,753.8	\$26,807.0
Growth Rate (%)	27.10%	8.0%	16.0%	24.0%	14.4%	11.5%	9.2%	8.3%
EBITDA	\$261.4	(\$514.0)	(\$178.5)	\$1,154.8	\$1,321.0	\$1,586.6	\$1,980.3	\$2,412.6
EBITDA Margin (%)	2.3%	(4.2%)	(1.2%)	6.5%	6.5%	7.0%	8.0%	9.0%
EBIT	111.2	(694.1)	(349.3)	\$923.8	\$1,056.8	\$1,291.9	\$1,658.5	\$2,064.1
EBIT Margin (%)	1.0%	(5.6%)	(2.4%)	5.2%	5.2%	5.7%	6.7%	7.7%
Depreciation & Amortization	\$150.2	\$180.1	\$170.9	\$231.0	\$264.2	\$294.6	\$321.8	\$348.5
D&A as a % of revenue	1.3%	1.5%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%
Cash Growth (%)				6.5%	6.5%	7.0%	8.0%	9.0%
Accounts Receivable Growth (%)				23.5%	14.1%	11.3%	9.0%	8.1%
Inventories Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid Expenses Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Payable Growth (%)				13.0%	7.8%	6.2%	5.0%	4.5%
Accrued Expenses Growth (%)				(8.0%)	(8.0%)	(8.0%)	(8.0%)	(8.0%)
Capital Expenditures Growth (%)				1.0%	1.0%	1.0%	1.0%	1.0%



# DCF - Calculations

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Sum of present values of FCFs **\$5,847.9**

## Terminal Value

### *Growth in perpetuity method:*

Long term growth rate	2.3%
WACC	7.7%
Free cash flow (t+1)	2,035.8
Terminal Value	37,781.1
<b>Present Value of Terminal Value</b>	<b>\$26,087.3</b>

## Enterprise Value to Equity Value

Enterprise Value	\$31,935.2
Less: Net debt	(2,901.4)
<b>Equity Value</b>	<b>\$34,836.6</b>
Diluted Shares Outstanding	206.1
<b>Equity Value Per Share</b>	<b>\$169.03</b>

DCF Approach	Implied Share Price		
	Base	Downside	Upside
Perpetuity	\$169.03	\$103.84	\$377.32



# Multiples Chart

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(\$ in Millions except price)										
Market and Financial Data								Valuation		
Company Name	Ticker	Price	Market Cap	EV	LTM Rev	LTM EBITDA	Earnings	EV/REV	EV/EBITDA	P/E
Spotify	NYSE: SPOT	\$376.87	\$75,679	\$66,392	\$15,652	-\$288	-\$110	4.2x	-262.8x	140.86
Music Platforms - 50%										
SiriusXM	NasdaqGS: SIRI	\$26.53	\$9,092	\$18,382	\$8,899	\$2,603	\$1,297	2.1x	3.5x	7.94
iHeartMedia	NasdaqGS: IHRT	\$1.91	\$270	\$5,939	\$3,748	\$554	-\$996	1.6x	0.5x	-0.20
Warner Music Group	NasdaqGS: WMG	\$31.95	\$16,548	\$20,232	\$6,382	\$1,331	\$546	3.2x	12.4x	30.65
Q1		\$14.22	\$4,681	\$12,161	\$5,065	\$942	-\$225	1.8x	2.0x	3.87
Q3		\$29.24	\$12,820	\$19,307	\$7,641	\$1,967	\$922	2.6x	8.0x	19.30
Average		\$20.13	\$8,636	\$14,851	\$6,343	\$1,496	\$282	2.3x	5.5x	12.80
Median		\$26.53	\$9,092	\$18,382	\$6,382	\$1,331	\$546	2.1x	3.5x	7.94

(\$ in Millions except price)										
Market and Financial Data								Valuation		
Company Name	Ticker	Price	Market Cap	EV	LTM Rev	LTM EBITDA	Earnings	EV/REV	EV/EBITDA	P/E
Spotify	NYSE: SPOT	\$387.63	\$76,700	\$72,790	\$13,841	\$680	-\$110	5.3x	112.8x	154.99
Entertainment & Streaming Services - 10%										
Netflix	NasdaqGS: NFLX	\$754.55	\$322,539	\$329,575	\$37,587	\$9,977	\$7,781	8.8x	32.3x	42.74
Disney	NYSE: DIS	\$95.40	\$173,246	\$221,083	\$90,028	\$16,751	\$4,776	2.5x	10.3x	36.54
Comcast	NasdaqGS: CMCSA	\$41.65	\$161,290	\$253,686	\$121,113	\$37,514	\$15,091	2.1x	4.3x	11.09
Warner Bros	NasdaqGS: WBD	\$7.52	\$18,438	\$56,324	\$39,934	\$7,410	-\$11,769	1.4x	2.5x	-2.76
Q1		\$33.12	\$125,577	\$179,893	\$39,347	\$9,335	\$640	1.9x	3.8x	7.63
Q3		\$260.19	\$210,569	\$272,658	\$97,799	\$21,942	\$9,608	4.0x	15.8x	38.09
Average		\$224.78	\$168,878	\$215,167	\$72,166	\$17,913	\$3,970	3.7x	12.4x	21.90
Median		\$68.53	\$167,268	\$237,384	\$64,981	\$13,364	\$6,278	2.3x	7.3x	23.82





# Multiples Chart

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Company Name		Ticker	Price	Market Cap	EV	LTM Rev	LTM EBITDA	Earnings	EV/REV	EV/EBITDA	P/E
Spotify		NYSE: SPOT	\$387.63	\$76,700	\$72,790	\$13,841	\$680	-\$110	5.3x	112.8x	154.99
Massive companies - 40%											
Apple	NasdaqGS: AAPL		\$230.57	\$3,509	\$3,457	\$386	\$132	\$102	9.0x	26.6x	35.11
Google	NasdaqGS: GOOG		\$166.83	\$2,013	\$1,941	\$328	\$116	\$88	5.9x	17.4x	23.35
Amazon	NasdaqGS: AMZN		\$186.38	\$1,939	\$2,007	\$604	\$104	\$44	3.3x	18.6x	43.72
Q1			\$176.61	\$1,976	\$1,974	\$357	\$110	\$66	4.6x	18.0x	29.23
Q3			\$208.48	\$2,761	\$2,732	\$495	\$124	\$95	7.4x	22.6x	39.42
Average			\$194.59	\$2,487	\$2,468	\$439	\$117	\$78	6.1x	20.9x	34.06
Median			\$186.38	\$2,013	\$2,007	\$386	\$116	\$88	5.9x	18.6x	35.11

## Public Comp Multiple Summary

Weighted Valuation Range	
Comp Buckets	Weight
Music Platforms	50%
Entertainment/ Streaming	10%
Massive Companies	40%

EV/Rev	
Q1	3.0x
Q3	4.7x
Average	3.9x
Median	3.6x

EV/EBITDA	
Q1	8.6x
Q3	14.6x
Average	12.3x
Median	9.9x

P/E	
Q1	14.39
Q3	29.22
Average	22.21
Median	20.40



# Precedent Transactions

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(\$) in Millions

Music Platforms - 50%					
Target	Acquirer/Event	Date	Purchase Price	Rev	EV/Rev
Tidal	Square	3/4/2021	\$297	\$56	5.3x
Team Coco	Sirius XM	5/24/2022	\$150	\$20	7.5x
Musiio *	Sound Cloud	5/3/2022	\$7	\$0	20.0x
Sonatic *	Spotify	4/17/2023	\$116	\$2	77.0x
Findaway	Spotify	7/28/2022	\$123	\$23	5.4x
		Q1		\$2	5.4x
		Q3		\$23	6.5x
		Average		\$20	6.1x
		Median		\$20	5.4x

(\$) in Millions

Entertainment & Streaming Services - 10%					
Target	Acquirer/Event	Date	Purchase Price	Rev	EV/Rev
Next Games	Netflix	3/2/2022	\$72	\$27	2.6x
Simon & Schuster	KKR	8/7/2023	\$1,600	\$1,100	1.5x
All3Media	RedBird IMI	2/16/2024	\$1,450	\$1,300	1.1x
Keywords Studios	EQT	7/3/2024	\$2,800	\$800	3.5x
		Q1		\$607	1.4x
		Q3		\$1,150	2.9x
		Average		\$807	2.2x
		Median		\$950	2.1x

(\$) in Millions

Massive - 40%					
Target	Acquirer/Event	Date	Purchase Price	Rev	EV/Rev
Wondery	Amazon	12/30/2020	\$300	\$40	7.5x
Art19	Amazon	6/25/2021	\$300	\$24	12.5x
		Q1		\$28	8.8x
		Q3		\$36	11.3x
		Average		\$32	10.0x
		Median		\$32	10.0x

EV/Rev	
Q1	6.3x
Q3	8.0x
Average	7.3x
Median	6.9x



# Weighted Valuation

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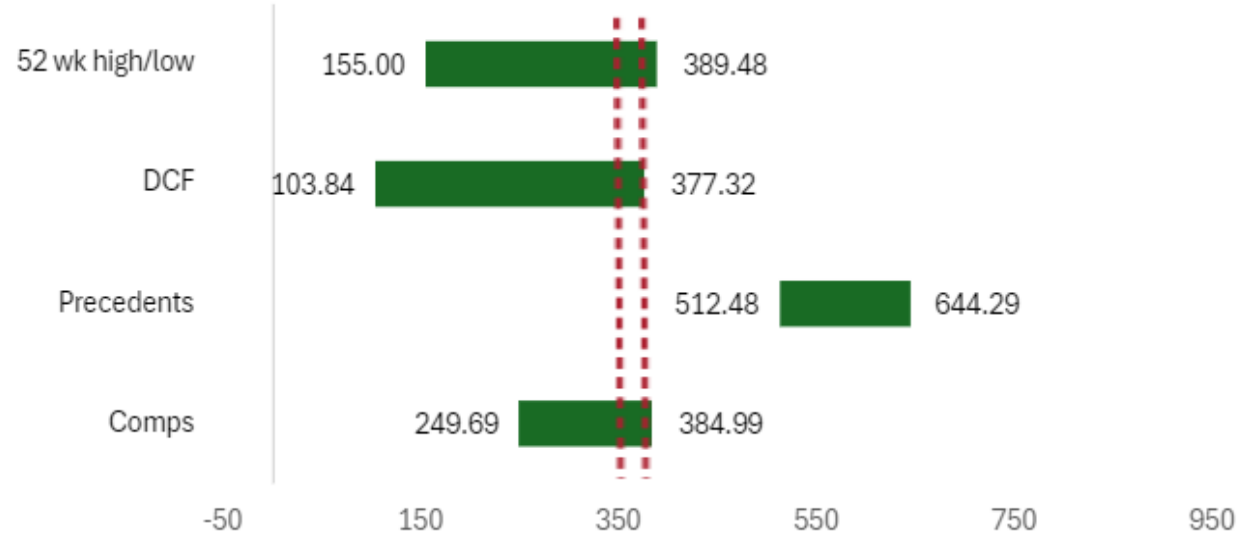
Governance

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Valuation Summary- Equity Value per Share



Football Field Data

	Low Bar	High Bar	Δ
Comps	\$249.02	\$384.32	\$135.30
Precedents	\$511.82	\$643.62	\$131.81
DCF	\$103.84	\$377.32	\$273.48
52 wk high/low	155	389.48	\$234.48

Implied Price

Section	Price	Weight
Comps	\$325.36	50%
Precedents	\$584.70	25%
DCF	\$169.03	25%
<b>Total</b>	<b>\$351.11</b>	



# Conclusion

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Investment Thesis/Company Overview – *Not to buy Spotify*

Business Model – *Freemium business model*

Industry Analysis – *High expected growth, high barriers of entry*

Risks and Growth – *Growth potential through diversification and high risk of competition*

Governance – *Majority independent director board*

Valuation – *Implied Stock Price at \$351.11, which is 7.4% lower than current*

Recommendation - *Do not buy, monitor until pitch 3 (JAN 2025)*





The background of the image is a blurred financial market data page. It features various tables and line charts. One prominent chart is titled 'IngnTech Share Price' and shows a line graph with a shaded area underneath, representing price movement over time. The y-axis is labeled 'Share Price' and has values 250, 300, and 350. The x-axis shows dates from August 13 to September 13, 2013. A callout box points to a peak in the graph with the text 'Change on day 32.30'. Another callout box points to a lower peak with the text 'Change on day 1.95'. The overall scene is overlaid with a semi-transparent red rectangle, and the word 'Exhibits' is centered in white, bold, italicized font.

# *Exhibits*

# Exhibit 1 – Assumptions Downside

Select Operating Data								
Period				Projected Annual Forecast				
	2021	2022	2023	2024	2025	2026	2027	2028
				1	2	3	4	5
Revenue	\$11,435.0	\$12,351.8	\$14,327.0	\$16,619.3	\$18,746.6	\$20,666.2	\$22,359.2	\$23,824.6
Growth Rate (%)	27.10%	8.0%	16.0%	16.0%	12.8%	10.2%	8.2%	6.6%
EBITDA	\$261.4	(\$514.0)	(\$178.5)	\$664.8	\$843.6	\$1,033.3	\$1,229.8	\$1,310.4
EBITDA Margin (%)	2.3%	(4.2%)	(1.2%)	4.0%	4.5%	5.0%	5.5%	5.5%
EBIT	111.2	(694.1)	(349.3)	\$432.1	\$581.1	\$744.0	\$916.7	\$976.8
EBIT Margin (%)	1.0%	(5.6%)	(2.4%)	2.6%	3.1%	3.6%	4.1%	4.1%
Depreciation & Amortization	\$150.2	\$180.1	\$170.9	\$232.7	\$262.5	\$289.3	\$313.0	\$333.5
D&A as a % of revenue	1.3%	1.5%	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%
Cash Growth (%)				4.0%	4.5%	5.0%	5.5%	5.5%
Accounts Receivable Growth (%)				15.7%	12.5%	10.0%	8.0%	6.4%
Inventories Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid Expenses Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Payable Growth (%)				8.6%	6.9%	5.5%	4.4%	3.5%
Accrued Expenses Growth (%)				(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)
Capital Expenditures Growth (%)				3.0%	5.0%	7.0%	9.0%	11.0%



# Exhibit 2 – Downside Calculations

Sum of present values of FCFs	\$3,689.7
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## Terminal Value

### *Growth in perpetuity method:*

Long term growth rate	2.3%
-----------------------	------

WACC	7.7%
------	------

Free cash flow (t+1)	1,155.7
----------------------	---------

Terminal Value	21,448.0
----------------	----------

<b>Present Value of Terminal Value</b>	<b>\$14,809.6</b>
--	-------------------

## Enterprise Value to Equity Value

Enterprise Value	\$18,499.3
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Less: Net debt	(2,901.4)
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<b>Equity Value</b>	<b>\$21,400.7</b>
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Diluted Shares Outstanding	206.1
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Equity Value Per Share	<b>\$103.84</b>
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# Exhibit 3 – Assumptions Upside

Select Operating Data								
Period				Projected Annual Forecast				
	2021	2022	2023	2024	2025	2026	2027	2028
				1	2	3	4	5
Revenue	\$11,435.0	\$12,351.8	\$14,327.0	\$18,052.0	\$21,171.4	\$24,098.1	\$26,763.2	\$29,427.0
Growth Rate (%)	27.10%	8.0%	16.0%	26.0%	17.3%	13.8%	11.1%	10.0%
EBITDA	\$261.4	(\$514.0)	(\$178.5)	\$1,444.2	\$2,540.6	\$3,614.7	\$4,817.4	\$6,179.7
EBITDA Margin (%)	2.3%	(4.2%)	(1.2%)	8.0%	12.0%	15.0%	18.0%	21.0%
EBIT	111.2	(694.1)	(349.3)	\$1,227.5	\$2,286.5	\$3,325.5	\$4,496.2	\$5,826.6
EBIT Margin (%)	1.0%	(5.6%)	(2.4%)	6.8%	10.8%	13.8%	16.8%	19.8%
Depreciation & Amortization	\$150.2	\$180.1	\$170.9	\$216.6	\$254.1	\$289.2	\$321.2	\$353.1
D&A as a % of revenue	1.3%	1.5%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Cash Growth (%)				8.0%	12.0%	15.0%	18.0%	21.0%
Accounts Receivable Growth (%)				25.5%	16.9%	13.5%	10.8%	9.8%
Inventories Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid Expenses Growth (%)				0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Payable Growth (%)				14.0%	9.3%	7.5%	6.0%	5.4%
Accrued Expenses Growth (%)				3.0%	3.0%	3.0%	3.0%	3.0%
Capital Expenditures Growth (%)				0.5%	1.0%	1.5%	2.0%	2.0%





# Exhibit 4 – Upside Calculations

Sum of present values of FCFs **\$11,617.4**

## Terminal Value

### *Growth in perpetuity method:*

Long term growth rate	2.3%
WACC	7.7%
Free cash flow (t+1)	4,935.6
Terminal Value	91,596.9
<b>Present Value of Terminal Value</b>	<b>\$63,246.5</b>

## Enterprise Value to Equity Value

Enterprise Value	\$74,863.9
Less: Net debt	(2,901.4)
<b>Equity Value</b>	<b>\$77,765.3</b>
Diluted Shares Outstanding	206.1
<b>Equity Value Per Share</b>	<b>\$377.32</b>

