

Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Intrinsic” for the year 2021 written by our sub-advisor CL Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Vorstand: Jens Große-Allermann, Waldemar Lokotsch
Aufsichtsrat: Dr. Maximilian Zimmerer (Vors.), Wolfgang Fritz Driese (stv. Vors.), Alexander Pichler (stv. Vors.)
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Investmentvermögen mit veränderlichem Gesellschaftskapital

Sub-Fund Intrinsic

Annual Report 2021 of the subadvisor CL Capital GmbH

Dear Co-Investors,

The performance of the TGV intrinsic in 2021 was +24.5% after all fees, while the DAX achieved a return of +15.8% in 2021. The NAV as of December 31, 2021, was EUR 170.21. Since the launch of the TGV Intrinsic on March 29, 2019, the fund has achieved a performance after all fees of +21.3% per year. The DAX increased by an annualized average of +12.3% during the same period. The annual rate of return becomes important after a period of 5 years at the earliest.

The TGV Intrinsic Annual Report 2021 first provides an overview of the portfolio structure and performance. Then I will show how the largest online retailer in Latin America, MercadoLibre, sacrifices short-term profits to set the stage for long-term value creation. This long-term approach is not inherent in human nature and is therefore only found in a few entrepreneurs and companies. With the investment recommendation for the music streaming provider Spotify, I believe to have found another company of this rare kind.

Portfolio structure and performance overview as of December 31, 2021

Portfolio structure

NAV as of 12/31/2021	EUR 170,21
Number of investments	11
Weighting biggest investment	18.8%
Weighting five largest investments	68.9%
Weighting cash	2.0%

Alphabetical listing of the five largest positions within the TGV Intrinsic

Fomento Económico Mexicano (FEMSA)

Frontier Digital Ventures

MercadoLibre

Microsoft

VEF

Performance overview

Period	TGV Intrinsic (1)	Dax ¹ (2)	Delta ² (1)-(2)
2019 (9 months)	9.2%	15.0%	-5.8%
2020	25.2%	3.6%	21.7%
2021	24.5%	15.8%	8.7%
Since inception	70.2%	37.8%	32.4%
Since inception p.a.	21.3%	12.3%	8.9%

There were no changes within the five largest portfolio positions, and the companies have developed well operationally. Therefore, the consistently positive price development of the TGV Intrinsic in the first and second half of 2021 seems logical at first glance (1st half-year +10.2%, 2nd half-year +13.0%). However, this impression is deceptive: share prices of the individual companies have developed very heterogeneously. For example, since the beginning of September, MercadoLibre's share price has been down 30%, and Frontier Digital Ventures' share price is down around 15%, while VEF's share price is up 60% in H2 2021. Therefore, it is coincidental that the aggregate price development of the TGV Intrinsic has been so smooth. I do not try to cushion share price volatility, and it does not play a role in my investment recommendations. The only decisive criterion for my investment recommendations is my assessment of a company's long-term performance – in the conviction that this development will be priced in in the long term. In the short term, the TGV Intrinsic might, therefore, also report significantly negative annual results.

In November, I visited four companies in South America in which the two portfolio positions, VEF and Frontier Digital Ventures, are invested. I visited two investments of VEF in Sao Paulo (Brazil): the company Creditas (about 45% of the VEF portfolio), which issues secured loans to private individuals, and the digital investment broker Magnetis (2% of the VEF portfolio). Creditas has performed extremely well in the first nine months of 2021, and in the third quarter of 2021, revenues increased by +233% year-on-year. In the fall of 2021, the company also announced a partnership with one of the world's largest neobanks, Nubank, in which also Berkshire Hathaway owns a stake. This partnership could prove to be a valuable channel of customer acquisition for Creditas. Today, Nubank has around 50 million customers, while Creditas only serves around 200,000. At the same time, this partnership is an indication of the barriers to entry in the area of secured loans since Nubank, a well-capitalized neobank, has decided not to set up this loan product independently.

In Montevideo (Uruguay), I spent a day with the founder and the management team of Infocasas. I also visited the company's Managing Director for Bolivia in Santa Cruz (Bolivia). Infocasas, comparable to the German "Immobilienscout24", is the second most important investment for Frontier Digital Ventures and market leader in Uruguay, Paraguay, and Bolivia. Ricardo Frechou (Founder and CEO), Martín Coulthurst (COO), and Guillermo Tavidian (CTO) are great entrepreneurial personalities and have built an impressive agile corporate culture. The lead qualification technology they developed allows real estate agents to be assigned more valuable leads, and in return, Infocasas earns a share of the commission on completed real estate transactions. At the same time, this lead qualification technology learns from successful transactions which contacts are particularly valuable and

¹ A global stock index would be better suited for comparison but would incur high royalties.

² Rounding differences are possible.

thus builds up a growing competitive advantage over time. In 2021, the transaction-based part of the business was already generating more than half of all sales. Another trait I look for in potential investment recommendations, aside from building competitive advantage, is a company's willingness to sacrifice short-term earnings to maximize long-term profit potential.

In Sao Paulo, in a conversation with the Senior Vice President Strategy at MercadoLibre, Andre Chaves, it once again became clear to me how consistently MercadoLibre implements this precept in many areas: For example, with the increasing focus on the logistics field, which causes high initial costs from the operation of logistics centres and the development of fulfilment capacities but should increase profits in the long term. The existing loan book is also being carefully expanded to collect more data on each customer cohort – although accelerated growth could result in a quickly realizable increase in profitability. MercadoLibre already generates EBITDA margins of over 30% in the credit segment. The company's focus and clarity in allocating resources continues to impress me.

This clarity is crucial for MercadoLibre to continue to grow strongly for many years to come. In my view, the capital market underestimates the future profit potential, particularly in the profitable lending area. The number of customers with available credit lines increased from 28 million to 36 million in the third quarter alone because MercadoLibre can assess credit risks better and better thanks to the many points of contact with its customers. Due to cautious advertising for the loan segment, only 6 million customers use their credit line yet. This area could become a significant profit driver in the coming years. I rarely find such a long-term orientation of the corporate strategy as with MercadoLibre. The situation is similar in areas outside of investing: people frequently act on a short-term basis. Often, they have trouble giving up a short-term reward in favour of a larger long-term reward.

Why many people would rather eat one marshmallow right now than two later

People who have the ability to delay instant gratification in the short term have greater resources in the long term. However, this ability is rather rare. The best known experiment on short-term rewards for humans is probably the so-called Marshmallow Experiment.³ In this experiment, children are given the choice to eat one marshmallow right away or wait for 15 minutes to get two marshmallows. A follow-up study⁴ of the experiment shows that children willing to forego a short-term reward to receive a larger reward later on had better long-term cognitive and social skills.⁵ The second finding coming from the original experiment is that children generally found it difficult to resist the short-term reward (only 10 of the 32 children waited). This is understandable from an evolutionary point of view: For most of human history, it was much more important to consume food immediately because early humans did not know when they would get their next meal and whether they would still be alive in a year. This is also one of the reasons why many people today like to eat sweets or salty snacks, since, in the past, high-calorie food was essential for survival – and if food was available, people preferred to eat as much as possible straight away.

Although we often know that it would be more rational to take a longer-term view, we often act with a short-term perspective. The same applies to business leaders. Short-term thinking can be reflected in corporate culture, with companies mistreating or taking advantage of their own employees. This may increase profits in the short term, but it leads to lower employee motivation and loss of the best employees in the long run. Short-term action can

³ Mischel and Ebbesen (1970): Attention in Delay of Gratification.

⁴ Mischel and Shoda (1988): The Nature of Adolescent Competencies Predicted by Preschool Delay of Gratification.

⁵ There are several follow-up studies - partly they confirm the findings, partly they find additional influencing factors for the ability to delay instant gratification.

also result in lower growth because companies are unwilling to invest in customer retention (e.g. through generous service), and therefore customers switch more quickly to competitors. And just as short-term thinking can be seen in the allocation of capital – especially when profits are distributed as dividends, despite there being long-term value-adding investment opportunities internally, these examples are the norm rather than the exception in the corporate world. This is why long-term corporate governance is an important differentiator that sets a company apart from its competitors.

The same applies to the TGV Intrinsic: the investment strategy is based on the analysis of long-term corporate developments. The most important factor in implementing this strategy is you – the investor. Only because of you, as a long-term investor in the TGV Intrinsic, it is possible for me to make investment recommendations that, for example, ignore the short-term volatility of share prices. You represent the decisive factor that distinguishes the TGV Intrinsic from many other market participants and, at the same time, it is the basis for long-term above-average performance. Figuratively speaking, you are one of the few people who choose to wait to get two marshmallows. An exceptional example of long-term thinking is the Swedish music streaming provider Spotify: in product development, in negotiations with the major music labels, but also in monetization, Spotify has always taken the more difficult, long-term path. As a result, the company is now the undisputed global market leader in music streaming services and has good chances of becoming the market leader for other audio products as well.

Spotify – From a music streaming provider to a platform for audio products

“The mindset is you want change to happen overnight, but no change happens overnight. It does take a tremendous amount of time. The single biggest virtue that I probably have is if you’d ask anyone, it’s not that I’m smarter than anyone, it’s not that I’m more driven than anyone, but I have one super trait and that is that I’m insanely patient.” – Daniel Ek, founder of Spotify

When Daniel Ek and Martin Lorentzon founded Spotify in 2006, the business idea for Spotify was by no means obvious. The music industry had its back against the wall. Global sales dropped from USD 24 billion in 1999 to USD 19 billion in 2006 due to piracy and illegal downloading. It even took until 2014 for music industry sales to bottom out at USD 14 billion. Ek and Lorentzon meet in 2005 and stay in touch – also to set up a Counter-Strike competition against each other, which Ek’s team clearly wins and impresses Lorentzon. In 2006, Daniel Ek sells his company Advertigo to Martin Lorentzon’s Tradedoubler, and Lorentzon takes Tradedoubler public. Both are now financially independent and have time. When Lorentzon asks why not build a business model combining Ek’s two passions, music and technology, Ek explains that this isn’t a good idea: Too many pirate copies, Napster had failed, the music rights holders are too inflexible. So Lorentzon asks, “But if you were to try anyway, how would you approach it?”. To which Ek replies, “We need to build a product that beats illegal downloads and is still free.” That is the product they create, and Spotify has since become the main driver of the music industry’s growth today.

In his new book, *The Cold Start Problem*, investor Andrew Chen breaks down the development of platforms with network effects into three mutually reinforcing phases:

1. Acquisition Effect
2. Engagement Effect
3. Economic Effect

These three phases can be observed in many companies – MercadoLibre also went through them: First, a large number of sellers were brought onto the platform, and MercadoLibre thus offered a wider variety for buyers (1. Acquisition Effect). They then improved the customer experience through their own payment system MercadoPago and their own logistics division MercadoEnvios, leading to more transactions per customer (2.

Engagement Effect). MercadoLibre is now increasingly focusing on boosting revenue per user through additional services (3. Economic Effect). They do this, for example, with the help of advertising opportunities for brands and sellers (today, only 1% of the GMV as sales, Amazon is closer to 5%) or profitable loan offers. In general, there are good opportunities for investors when the first two steps have been taken, and the monetization phase is just beginning. Many market participants are focusing too heavily on short-term developments, which are often not economically promising – whereas long-term monetization opportunities are underestimated. Spotify has successfully launched the first two phases and is now putting a greater focus on the third phase.

The first two phases of Spotify's development: Acquisition Effect and Engagement Effect

„The superpower of Spotify is taking commodity content and unlocking better user experience on that commodity content.“ – Daniel Ek

The rights to the most important part of the global music catalogue are held by the three major music labels: Universal Music Group, Sony Music Entertainment, and Warner Music Group. Many music streaming providers have licensed these catalogues, and the offer is therefore almost identical on platforms such as Spotify, Apple, or Amazon. Spotify focused on offering the end customer the best user experience, setting itself apart from the competition. 200 milliseconds – that's how long it can take for a song to start. Then the listener perceives the beginning as immediate. Spotify achieved this goal through a combination of powerful in-house servers and the use of peer-to-peer networks. Since a song should start immediately, the first 30 seconds were always played directly from the fast Spotify servers. The rest of the song was then loaded over the cheaper peer-to-peer network. In addition, after long negotiations, Spotify – unlike all its competitors – managed to convince the labels to offer free music streaming. For a long time, music was one of the few products that offered a better user experience as a pirated product than the original. With these two characteristics – instant playback and no costs – Spotify had launched a product that was differentiated from the competition and immediately won many customers.

So how was Spotify able to implement the second point of stronger customer engagement from Andrew Chen's model? In an interview in 2012⁶, when asked what the next value-add of the platform would be, Ek answered: "Making sense of it". It was not enough to make the worldwide music catalogue available to users. To keep them loyal to the platform, Spotify had to help them find the right songs. There were different methods for this, described in more detail in the book "The Spotify Play" by Sven Carlsson and Jonas Leijonhufvud. In addition to the data-based approach, a dedicated team of music curators plays a vital role. From my point of view, however, the breakthrough came with the playlist "Discover Weekly". Before the launch of Discover Weekly in 2014, users had created around 1.5 billion playlists, typically with thematically related songs. Two Spotify developers used this data to create a weekly playlist for users based on their taste in music. The songs feed on the compositions of other playlists and the comparison of songs according to the technical characteristics of speed, structure, and intensity. Just ten weeks after its release, the playlist had already amassed over a billion streams. Today, about a third of all streams occur through personalized or curated playlists, and Spotify is home to over 4 billion playlists. As described by Andrew Chen, the two phases, "Acquisition Effect" and "Engagement Effect", have also triggered positive network effects on Spotify's platform and reinforce each other, especially through the analysis of listening habits.

More data on music preferences leads to better recommendations, which leads to higher customer engagement and higher customer growth and, in turn, more data points. This is reflected in Spotify's figures: Spotify was able to gain around 400 million active monthly users by the end of 2021. While these users spent 190 hours a year on

⁶ Available on Youtube: <https://www.youtube.com/watch?v=j2wePlwIK6w> from 1:50:30.

Spotify in 2015, it was 270 hours a year in 2020. At the same time, the monthly customer churn rate has decreased from 7.5% in Q4 2015 to below 4% in Q3 2021.⁷ And Spotify's focus on better music recommendations also translates into a major advantage over its two main competitors, Apple and Amazon: users spend twice as much time on Spotify as on Apple Music and about three times as much as on Amazon Music. As a result, there are many opportunities for greater monetization of the platform. Topics such as ticketing, live events or the monetization of superfans will play a significant role in the future. I will focus on two areas in this letter, the "Two-sided Marketplace" and Spoken Audio Content. These two areas will become more important in the near future and represent the easiest ways to implement higher monetization levels.

Spotify's entry into phase three: monetization of the platform

One of the major points of criticism of Spotify's business model is that in the music sector around 65 cents per US dollar have to be paid out to the rights holders as license fees. This variable cost structure prevents incremental sales from expanding Spotify's margins. At the same time, the big labels are now significantly more profitable than Spotify. Could Spotify just become a label itself and bring artists exclusively to its platform? In theory, this would be possible since Spotify has a huge database of worldwide music preferences and offers many helpful tools for artists. Nevertheless, I think this development is unlikely to materialize in the next ten years. Artists generate the majority of their income from live events and merchandise. To maximize these sales, they want to be present on as many platforms as possible and maximize the number of listeners to persuade them to come to their concerts. A Spotify label strategy and associated exclusive music for Spotify would counteract this dynamic.

However, with the massive bundling of the demand side, Spotify is permanently positioning itself between labels and end customers. With the development of the so-called "Two-sided Marketplace", Spotify has developed a platform that helps labels with the targeted marketing of their artists. For example, Spotify offers tools to labels to draw attention to individual songs or artists through pop-ups in the app and increase awareness. If a promoted song is then played, Spotify pays a lower license fee to the labels. Statistics show that such investments in the targeted marketing of songs or artists are worthwhile for music labels. The quality of Spotify's user data is now so solid that artists on their live tours use this data to play different songs in different cities – depending on the preferences of fans in the respective geographies. Spotify's data also helps place artists' merchandise with fans who are particularly willing to pay. In my opinion, Spotify will use such products to better monetize its position between labels and end consumers. The strength of Spotify's market position is also evident from the decline in the share of the largest music labels in annual streams from 87% in 2017 to 78% in 2020. However, new audio content on the Spotify platform will have a greater financial effect.

Spoken Audio Content – from variable costs to a fixed cost structure through exclusive content

"The reality was, every other place had Justin Bieber including YouTube and Radio and all of these other services – so we won by other things. But ultimately it would be harder and harder for us to compete in that world. And so, we knew that eventually the final point of differentiation would be to differentiate on the content itself." – Daniel Ek

As described above, differentiation through exclusive music on the Spotify platform is not a sensible way. Still, the company realized early on that exclusive content in other audio areas would be a key differentiator. Spotify found the solution to this in the podcast market and completely changed it within a few years. The company has attracted many new podcasters to its platform, built exclusive celebrity podcasts, and created a range of tools and

⁷ The on first view high churn numbers are a little misleading since a major part of churned customers rejoin Spotify quickly afterwards.

monetization options for podcasters. Here, too, the numbers speak for themselves: At the beginning of 2019, there were around 200,000 podcasts on the Spotify platform, and in the third quarter of 2021, there were already 3.2 million podcasts. At the beginning of 2017, Apple was the undisputed market leader in the world's most important market for podcasts, the USA, with a market share of over 90%. Today, Spotify is the market leader there, ahead of Apple and Google. Of the approximately 400 million Spotify users, around 100 million users now listen to podcasts every month. Spotify's advance in the podcast sector has also seen strong growth in the overall market: the number of monthly podcast listeners worldwide has grown from 100 million in 2015 to 460 million listeners in 2020.

In the last license negotiations, Spotify and the music labels agreed to separate revenues from podcasts from music revenues for the labels: another indication of Spotify's growing independence. The streaming provider can now generate a better margin profile for its own podcasts. Instead of giving the music labels 65 cents of every dollar earned, Spotify now has a fixed cost structure in the podcast field. Every additional dollar in revenue means that fixed costs are better shared and brings higher profit margins. In general, there are two ways to monetize podcasts: advertising revenue and premium subscription models. The first podcasters are already charging a fee for exclusive content or special interviews. I am convinced that Spotify will also offer its own premium subscription for podcasts in the future – for example, for podcasts without advertising. The company has learned from the past to provide customers with as much content as possible for free, as this increases customer loyalty. Then users will gradually switch to premium subscriptions. In the near future, however, advertising revenue from podcasts will play a greater role for Spotify.

There are three main players in the podcast value chain: podcasters or publishers like iHeartMedia from the US create the content, podcast hosting companies like Acast from Sweden distribute this content. And the content is played via podcast apps like Apple's. Spotify, in turn, is active in all three areas: They publish a large number of their own podcasts, have bought the two podcast hosting companies Anchor and Megaphone⁸ and, with Spotify, own the most widely used podcast app worldwide. When an agency runs an ad, the publisher typically gets 50-70% of the ad revenue, depending on whether the podcaster speaks the ad themselves or the hosting company inserts the ad. The podcast hosting company gets 30-50% of the advertising revenue, and the podcast app usually gets no revenue. That's why it was so significant for Spotify to invest in Podcast Publishers, securing exclusive shows and expanding into the podcast hosting market. At the same time, Spotify has a major advantage over mere publishers and hosting companies: While they usually only know whether a podcast episode has been downloaded, Spotify, thanks to its app, knows exactly who listened to which episode, where and for how long. In addition, Spotify puts different advertisements into the podcast depending on the listener. As a result, Spotify can offer advertisers significantly higher efficiency than competitors and, in turn, promise better monetization of their podcasts to podcasters who use Spotify as a hosting company. Podcasters seem to feel the same way: 80% of podcasters who are new to the Spotify platform use Spotify's hosting platform, Anchor, which has a total market share of about 50% in the hosting market.

In addition to positioning itself in podcasts, Spotify has made two acquisitions that show which industries the company will expand into next: live audio⁹ and audiobooks. In audiobooks, Spotify acquired the American company Findaway in November 2021 and entered into a partnership with the Swedish audiobook rights holder Storytel. With the acquisition of Greenroom, Spotify has also positioned itself in the growing live audio market. Overall, Spotify is again taking the long-term path for spoken audio content to achieve stronger network effects:

⁸ More specific information on how the Megaphone Acquisitions complement Spotify's Podcast strategy can be found in the presentation of a befriended investor: <http://www.patient-capital.de/s/SPOT.pdf>

⁹ Live Audio is a new content format, with interviews, discussions or lectures taking place in real time and where all listeners can actively participate. Today "Clubhouse" is the most-known app in that segment.

With the “Open Access Platform” announced in July 2021, Spotify (unlike Apple) allows artists to maintain direct contact with end consumers and their data. In addition, Spotify will not take any commission for paid models from podcasters until 2023 and then only 5% – Apple, on the other hand, requires a share of 30% in the first year and 15% from the second year on. This should result in more podcasters choosing Spotify as their platform, and the resulting largest podcast range should, in turn, attract more listeners.¹⁰ As previously described, Spotify’s focus is always first to build the best product (1. Acquisition Effect), then to improve customer experience and create network effects (2. Engagement Effect,) and only later monetization:

“We’re focused on our stakeholders, the creators and consumers and we prioritize speed, and we adapt quickly. So, by constantly improving our user experience, users will not only come to Spotify, but we will retain them. And if we retain users, we will bring more creators to the platform to share their content. Better content means more advertisers. And all of these things coupled together, users, creators, advertisers, unlock the power of our flywheel.” – Daniel Ek

This long-term thinking is also possible because Ek and Lorentzon, as founders, still hold almost 20% of the shares and control around 75% of the voting rights. As a result, they can act completely independently of the short-term interests of other capital market participants – exactly the starting position that I am looking for for my investment recommendations and which, for me, represents the basis for a long-term increase in the value of companies. For the investment of the TGV Intrinsic in Spotify, I expect a long-term annual increase in value of around 15%. In the following section, I will explain how I got to this expected return.

Why Spotify is a worthwhile investment

For Spotify, I value several parts of the company separately. For the near future, the segments music and podcasts will play a vital role. For the music sector, I assume that the number of users will double to about 800 million users in the next five years (about 15% growth per year). In Europe and North America, Spotify has a total population penetration of 16-18%; in the rest of the world, this penetration is significantly lower. These markets, some of which are quite new, will represent an important part of the growth. In the premium segment, I assume that sales per customer will drop slightly (due to the increasing proportion of users from emerging markets). In the advertising segment, sales per customer will increase slightly due to greater advertising efficiency. With products from the Two-sided Marketplace and an improving margin on music ad sales, I expect the gross margin to increase from 27% today to just over 30%. That portion should manage to return a 10% free cash flow margin on a normalized basis. That would correspond to almost 2 billion free cash flow in 5 years. With a current enterprise value of about 30 billion US dollars and the quite foreseeable development in the music sector, the market value is thus well covered.

It is difficult today to quantify the value Spotify will bring to the audiobook and live audio areas – which is why I consider both products with no value and see them as an incremental option. The value of podcasts for the Spotify platform can already be estimated better today. I approach this value from two perspectives, first with the help of a higher-level view: Today, the market for radio advertising is approximately 30 billion US dollars in size globally. That’s about 4% of the USD 700 billion global advertising market. I assume that the market for podcast advertising will grow to similar dimensions in the future. Podcast consumption is steadily increasing, the number of devices on which audio is heard is growing rapidly, and, unlike radio, advertising can be tailored specifically to individual listeners. If Spotify maintains its 30% market share, around 10 billion US dollars in advertising revenue would run through the Spotify platform. In the future, significantly more than half of the podcasts listened to on

¹⁰ Great insights into the „Open Access Platform“ can be found in the Podcast with Spotify’s Chief R&D Officer Gustav Söderström: <https://open.spotify.com/episode/78pGvc2o0EWPAVGModu7CV?si=cbae8754a3f743a7>

Spotify should come from its own and hosted podcasts, from which Spotify receives part of the advertising revenues. iHeartMedia, as a major publisher of podcasts in the US, achieves EBITDA margins of 30-35%. As a much larger company, Spotify should also be able to achieve the same in publishing. Acast, on the other hand, as a competitor in hosting, has gross margins of around 40% but no profits yet. Spotify should be able to host podcasts much more efficiently than Acast in the future due to its size. Depending on the distribution of the total number of podcast hours listened to in-house, hosted, and “external” podcasts, I expect Spotify to be able to generate an additional profit of about 1.5 billion US dollars. In addition, there are potential sales from a – significantly more profitable premium subscription model, which I have not yet taken into account here.

I compare this top-down approach with an analysis from the point of view of usage figures. In 2021, around 110 billion hours of content were played on the Spotify platform (i.e. around 45 minutes per day for 400 million users). 25% of monthly active users on Spotify now listen to podcasts. I expect that number to rise to 40%, and expect these users to be listening to podcasts 20% of their time. With overall slightly increasing Spotify usage figures, this will correspond to around two hours of podcast usage per week in a few years. Acast shows that for users who listen to podcasts weekly, that number is already significantly higher, with an average of six hours (up from four hours in 2015). Today, podcast advertising prices typically range from USD 20 to USD 30 per 1,000 impressions. That is significantly higher than for radio (closer to USD 5-10) and reflects the greater effectiveness of podcast advertising. However, many lesser-known podcasts today do not include ads, and these podcasts will fetch lower prices. Playing out advertising more precisely will counteract this. Another key factor is how much advertising time is put into an hour of podcasts. The so-called “ad load” is still well below the reference value of other media. The average ad load for podcasts is currently around 5%, while it is 15-20% on radio and 20-25% on TV. In this bottom-up valuation, I also get a value of about USD 1.5 billion in additional profit. In addition, again there are potential value contributions from ad-free premium podcast subscriptions.

Of course, there are a number of factors in this calculation that will develop differently from what I assumed – positively and negatively. However, I believe that the podcast division can justify doubling the company’s value in the coming years. If that were to happen within five years, it would mean an annual return of about 15%. Although I assume that this development will take a little longer, additional profits from the mentioned areas of audiobooks, live audio, ticketing, live events, or from the monetization of superfans are not yet included in this number. Therefore, I expect an overall long-term annual return of 15% for the investment of the TGV Intrinsic in Spotify. Some of the projects mentioned will turn out to be failures. Still, overall, I believe Spotify has the right culture to quickly test and adapt newly launched products and turn promising customer feedback into reality. This balance of long-term vision and strength of short-term execution will be decisive for the development of the long-term value of the company.

Long-term goals are compatible with a short-term focus on execution

I hope I was able to demonstrate why I believe in Spotify’s long-term prospects and recommended investing in it. However, long-term thinking does not mean losing sight of the present. Rather, long-term goals help maintain the right focus in the short term. Daniel Ek showed early on that, despite a long-term mindset, he also pursues short-term goals competitively. This also applies to the Counter-Strike game with his good friend and founding partner Lorentzon. Ek’s team won largely because of a prank Ek used: unnoticed by Lorentzon, he had hired players from a professional Counter-Strike team and dressed them in pyjamas for the match. This shows his unconditional will to win, even in the short term. Daniel Ek is one of those people who probably could have eaten the first marshmallow right away and still somehow managed to get a second one afterwards.

On May 21, 2022, the investor meeting of the Investmentaktiengesellschaft für langfristige Investoren will take place in Bad Godesberg. At the moment, we are still hoping that the event can take place physically. If not, we will be hosting a virtual investors' conference. As an investor in the TGV Intrinsic, you are cordially invited and I would be very happy to see you there – you will receive an invitation in the coming weeks.

I wish you a successful first half of 2022.

Clemens Lotz

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