Spotify could start a new wave of non-IPOs…

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- Portfolio Manager, Asset Management Firm, Boston

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This is Why IPOs are About to Become Interesting

Most of you well know that I have been calling the death of the big banks for years. They are institutions that are beyond their sell-by date. They kill you on fees and are just not a part of this new world where everyone wants to see the value before they pay a dime. Even down to everyday stuff, you are forced to pay what they demand in terms of banking charges. It doesn't seem fair. On an investment banking side, trading has slowly shrunk to nothing, the investment research has almost disappeared and now the final attack is coming in the form of their investment banking fees where companies are listing their own stock!

They have steadily shrunk, and companies like ours have risen in their place. All that is left are their high street banking operations which, over time, will be replaced by cryptocurrencies and their private wealth divisions, which if you look at, are shrinking fast as millennials look to new interesting investments rather than straight equity as sources for their retirements. I'm just waiting on them officially splitting or completely demerging their parts. It's only a matter of time.

I've never been a fan of IPOs and we don't really cover them for a variety of reasons. First and foremost is that they are engineered. **The investment banks have an incentive for getting the price as high as possible to sell to the public.** Did you know that banking fees are between 7-9% of the offering size? I read that Alibaba (BABA) gave up to 15% to its lead bankers of a $250m fee base, plus a $50m incentive fee! Well, you tell me. If you were a big bank, you would want those fees at all costs. Mainly at the investors' cost. Fancy roadshows, puffing the stock up, restricting the float to certain people, lock-up periods and pure engineering aimed at getting the maximum fee. That's not the sort of investment I like.

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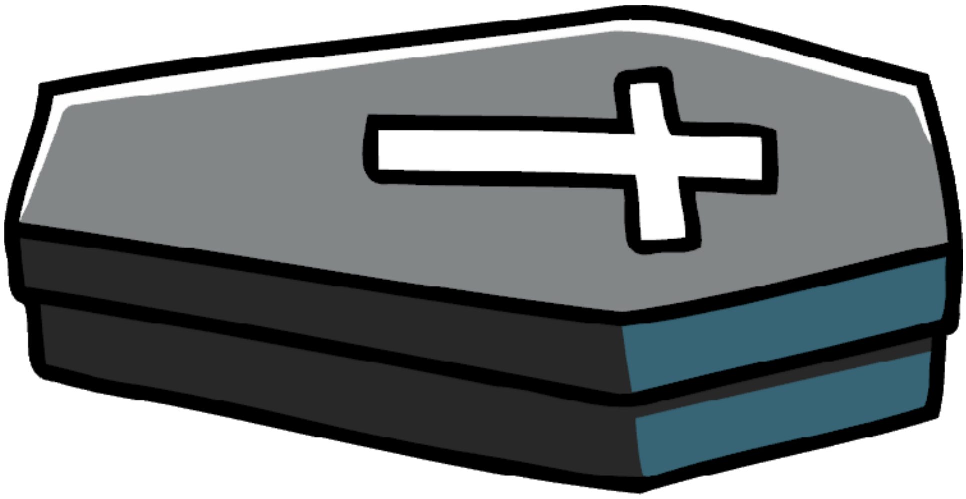

RIP Big Banks. You've milked it for too long…

Having said that, times are changing. Spotify, the digital music and video streaming service, is coming to the market in an unconventional way – very similar to a Spinoff, and that's why I like it. The non-IPO as it's being called won't be offering new shares to investors, it won't be constrained by a lock-up enforced by underwriters, and it won't be marketing its offering behind closed doors to a select few. Result? A Spinoff-type situation that is very under-covered. It's under-covered because the big banks aren't making any money out of it!

Spotify not only **exceeds Pandora Media, Inc. (P) in terms of global subscribers (70m vs. 5m)** but also excels in the type of service it provides. Pandora is a radio service where a user can listen to a radio station, whereas Spotify allows a user to search and stream songs at will, as well as offering that same radio service. In other words, Spotify is like a **personalized music library, whereas Pandora is merely a radio station**. Furthermore, Spotify has a much bigger music library than Pandora, thereby giving more options to the user. There are many other reasons that make this a potential investment.

Lastly, if this goes well, it could open the door to all sorts of listings in terms of new financing, unicorns and free valuations without investment banks manufacturing the price. It gets me excited for the investor. It could mark a new stage in investment opportunities. I really believe it.

The Edge has an initial overview of what we think of Spotify and we're in the process of concluding the full analysis. It is being upfront about when it will publicly release its financial forecast (March 26) and begin trading on the New York Stock Exchange (April 3) under the symbol SPOT. Call us to find out more about SPOT and other Special Situations coming up. I'd love to hear from you.

Jim Osman
CEO
jo@edgecgroup.com

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SPINOFF REPORT SPECIAL SITUATIONS STRESSED CREDIT

	2014 Q3 AEO	2014 Q4 AMZN	2015 Q1 INDV	2015 Q2 PYPL	2015 Q3 ADS	2015 Q4 HPE
Ticker	AEO US Equity	AMZN US Equity	INDV LN Equity	PYPL US Equity	ADS GY Equity	HPE US Equity
Company Logo	American Eagle Outfitters	amazon.com	INDIVIOR	ebay	adidas	Hewlett Packard Enterprise
What Was the Situation?	The arrival of retail turnaround specialist Jay Schottenstein and an accumulation of 12.5% of insider buying gave confidence to a promising redirection of a significantly underperforming company.	The Edge saw hidden value in the potential Spinoff of Amazon Web Services (AWS) when the market was quiet. The segment continued to be the primary driver for consistent revenue growth.	A Spinoff from Reckitt Benckiser in Dec. 2014, The Edge urged investors to ignore the Parent and focus on INDV for its insider buying ahead of the Spin, strong management, new products, and likelihood of a takeover.	The Edge highlighted the benefits of eBay's move to Spinoff its digital payments arm PayPal in July 2015 to clean its portfolio of services and create a more focused marketplace business.	ADS reshuffled its management, introduced a new product line, performed a strategic review, and had activist investors backing a strong balance sheet in this multi catalyst turnaround story.	Following its Spinoff from HP, Inc. in Oct. 2015, HPE went on to perform two Reverse Morris Trust splits of the Software (DXC) and Enterprise (MFGP) segments in 2017.
Portfolio Return (%)	37%	93%	55%	36%	26%	48%
Index Return (%)	-4%	-7%	-5%	-1%	-7%	25%

	2016 Q1 RR/	2016 Q2 BCO	2016 Q3 MET	2016 Q4 ARNC	2017 Q1 DATA	2017 Q2 SCAB
Ticker	RR/ LN Equity	BCO US Equity	MET US Equity	ARNC US Equity	DATA US Equity	SCAB SS Equity
Company Logo	Rolls-Royce	BRINKS	MetLife	ARCONIC	tableau	SCA Care of Life
What Was the Situation?	A management restructuring coupled with activist involvement and potential Spinoffs, Rolls Royce already had negatives priced in and a strong position for a turnaround in the European automotive space.	A strong management, led by turnaround specialist and new (as of June 2016) CEO Doug Pertz, is focused on improving operational efficiencies and expanding its high value and technology-driven services.	A Special Situation turned Spinoff, The Edge highlighted the potential benefits of separating its US retail unit in April 2016. The Spinoff of Brighthouse Financial was subsequently announced that following July.	The market struggled to follow the split, as Alcoa (Parent) transformed into Arconic while the Spinoff took the Parent's name and ticker. Heavy insider buying coupled with strong fundamentals produced a solid investment.	CEO Adam Selipsky (who grew AWS from scratch) took over the undervalued tech company in Sep. 2016, and set to improving DATA's business model, cloud subscription system, and long-term takeover potential.	Europe's largest private forest owner is a strong takeover target due to its high margin profile, diverse timber product range, and wide geographic reach. The new management is led by Forest segment veteran Ulf Larsson.
Portfolio Return (%)	22%	87%	41%	49%	68%	50%
Index Return (%)	14%	13%	39%	10%	29%	3%

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- Portfolio Manager, $25bn NYC Investment Management Firm

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The Edge Consulting Group LLC

GREATER NEW YORK: 89 Headquarters Plaza | Morristown | NJ 07960 | +1 (973) 867 7760

LONDON: 27 Old Gloucester Street | London | WC1N 3AX | +44 (0) 845 459 7103

www.edgecgroup.com