

## New Deal Between Universal and Spotify Lays Grounds for the Latter to Go Public

By Diego Sendagorta Laso, LL.M. Candidate 2017 | April 11, 2017

On Tuesday April 4, after two years of tough negotiations, [Spotify](#), the leading global music streaming service, and [Vivendi](#)'s subsidiary [Universal Music Group](#) (UMG), a world leader in music-based entertainment, entered into a new multi-year global license agreement where both sides got what they wanted.

In making the announcement, Daniel Ek, Chairman and CEO of Spotify, [said](#), “Starting today, Universal artists can choose to release new albums on premium only for two weeks, offering subscribers an earlier chance to explore the complete creative work, while the singles are available across Spotify for all our listeners to enjoy.”

At UMG, streaming services are now the largest revenue source. Sir Lucian Grainge, Chairman and CEO of UMG, [said](#), “Eight years ago, when streaming was a welcome but small source of revenue, UMG embraced partners like Spotify as a way to help return music to a vibrant future benefitting the entire ecosystem. Working hand in hand with these digital services brought us the industry's first real growth in nearly two decades. Today, streaming represents the majority of the business. Our challenge is transforming that upturn into sustainable growth.”

Spotify [has agreed](#) to let UMG and its artists restrict new albums only to Spotify's 50 million paying subscribers for two weeks, which pays far higher royalties than the free version. Financial filings from 2016 showed that 70% of Spotify's users were on the free tier. UMG will also get data from Spotify on the listening patterns of users, helping the label improve its marketing strategy.

Spotify is growing fast but remains unprofitable largely because of the fees paid to labels. With this contract, Spotify may cut the royalties it pays for UMG's recordings, which control around a third of all music sales around the world.

The streaming market is [increasingly getting more competitive](#). A decision by UMG to give Spotify a better royalty rate could have led to pressure to accept less from services like Apple Music (with 20 million subscribers) and Amazon Music Unlimited. Labels are reluctant to reduce their rates, but UMG may have solved that problem by tying lowering the mentioned royalties to ambitious growth targets for Spotify.

Through this deal, Spotify also removes a major obstacle for going public by ensuring the presence of highly demanded music in its streaming services.

Spotify is still negotiating with two other major music labels — Sony Music and Warner Music Group — but it will use UMG's deal as a template. Valued by investors at more than U.S. \$8.5

billion, Spotify hasn't said when it will go public. The company [had planned to issue shares](#) this year – via direct listing rather than a traditional IPO – but may delay until 2018.