

Spotify's US listing highlights Europe's failings

Karel Lannoo

Europe must wake up to the urgent need to enable pan-European public offerings and to recognise the economic imperative of fostering vibrant capital markets for financing enterprises.

One of the largest listings to be issued in recent years is of European parentage, but its founders have opted to go public in the US on April 3rd. This strategic decision underlines the fact that Europe has the capacity to grow innovative high-tech companies, but once these firms need capital, Europe disappears from the map. It also demonstrates the need for more far-reaching initiatives if Europe truly wants an effective union in its capital markets, to act as an attractive alternative to bank financing for channelling funds to firms. This need is even more urgent in light of the UK's imminent departure from the EU.

Spotify is the largest music streaming subscription service in the world. Founded in 2008, the company reported total revenues of €4 billion in 2017, with large accumulated losses in recent years. The company is European in the sense that it was founded in Sweden (its founder, chairman and CEO is 35 years old), has registered its holding company in Luxembourg and publishes its accounts in euro, following International Financial Reporting Standards (IFRS) adopted in Europe, as opposed to Generally Accepted Accounting Principles (GAAP) adopted by the US. One-half of its workforce and its largest subscription base reside in Europe. By the end of 2017, Spotify Technology had 159 million active users, 58 million of whom live in Europe, compared to 52 million in North America. This figure is nearly double the scale of its closest competitor, Apple Music, as indicated in its [SEC filing](#)). It is a high-tech, growth stock *par excellence*.

Karel Lannoo is Chief Executive of CEPS and General Manager of ECMI. An earlier version of this contribution appeared on 31 March 2018 in three European newspapers: Le Monde ("[Aucun debat n'a eu lieu en Europe pour l'entrée de l'européenne Spotify a la bourse de NY](#)"), de Tijd ("[Spotify IPO shows that EU misses out](#)") and Financieel Dagblad ("[US IPO Spotify is missed opportunity for EU](#)").

ECMI Commentaries provide short comments on developments affecting capital markets in Europe. They are produced by specialists associated with the European Capital Markets Institute, which is managed and staffed by CEPS. Unless otherwise indicated, the views expressed are attributable only to the author and not to any institution with which he is associated, and do not necessarily represent the views of the ECMI.

European Capital Markets Institute, Place du Congrès 1, 1000 Brussels, Belgium
www.eurocapitalmarkets.org, info@eurocapitalmarkets.org

© Copyright 2018, Karel Lannoo. All rights reserved.



Thinking ahead
for Europe

With a market valuation of about \$29 billion (€23.6 billion), Spotify is a major market listing of 2018, even at global level. Strictly speaking, it is not an IPO (initial public offering), but rather a public listing of existing shares. These shares are being resold directly by the registered shareholders and are not being underwritten by any investment bank. Thus, it cannot be determined how much of these shares will be placed on the market. For comparison, Europe's market for IPOs was buoyant in 2017, with a total value of €43.9 billion, which is projected to continue in 2018. Europe's share of the global IPO market stood at 25%, of which the London Stock Exchange was the most active with 28.5%.¹

The Spotify listing would have symbolised a great addition to Europe's capital markets and its growth stocks. It would have shown that Europe can also provide fertile ground for high-performance, high-tech firms and could advance the aims of the Capital Markets Union. It is therefore surprising that its announcement of the US launch stirred hardly any debate in Europe – in fact, it is a pity that Spotify, as a European company, would go public in the US to start with. No effort was made to keep the company in Europe. A closer look at the EU's listing rules reveals that these are part of the problem.

Attempts to harmonise the rules for listings and allow for mutual recognition of these offerings among EU member states are as old as the single market, but they are still incomplete. Successive updates of the original 1989 text in 2003, 2010 and 2017 still do not allow for a single pan-European offering. The EU still lacks a single authority, akin to the US Securities and Exchange Commission (SEC), which could vet an appeal to a pan-European investor base. According to the current rules, an offering must be authorised in the company's home country, which in the case of Spotify would be Luxembourg or Sweden, and then notified to 27 or more authorities, to obtain permission to call upon local investors. Moreover, the prospectus presenting the offering would have to be translated into all the local languages and comply with local investor protection rules. Even the European Commission's latest proposals to enlarge the competences of the European Securities Market Authority (ESMA) would not allow offerings such as Spotify's or other global brands to qualify for a single EU-wide authorisation.

Brexit makes this predicament even more alarming. As indicated, the City commands the largest share in European IPOs, and it is also the most important player in Europe attracting non-European IPOs. Selling these stocks in the EU-27 after the UK's departure will be even more difficult, and vice versa for the EU in the UK, given the uncertainty surrounding the question of equivalence. In short, Europe faces the likely prospect that its critical mass and the attractiveness of its capital markets for growth stock offerings will be further reduced – if this has not already happened. An initiative is therefore urgently required to enable truly single pan-European offerings of securities, and even more to raise the awareness of the importance of fostering vibrant capital markets for financing enterprises.

¹ See PWC, "IPO Watch 2017" (<https://www.pwc.co.uk/audit-assurance/assets/pdf/ipo-watch-europe-2017-annual-review.pdf>).