Written: February 24, 2022
Updated: September 27, 2022
Appendix Added: October 19, 2022

Acast Investment Thesis

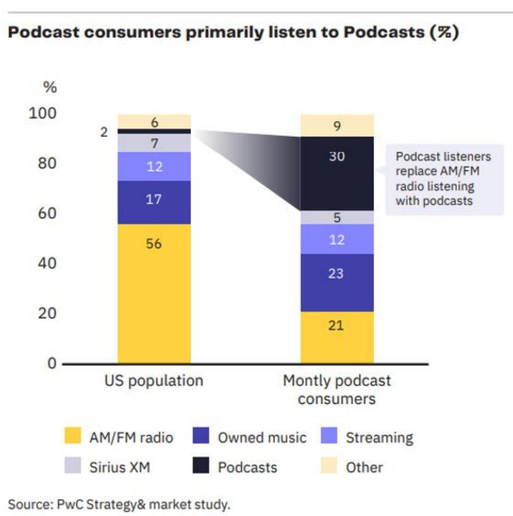
Investment Thesis: Podcasts are one of the most popular forms of media in the world, and yet, are woefully under-monetized. Acast, the largest marketplace for global podcast monetization, is competitively advantaged (via its network) to fill that void and further consolidate both supply (podcasters) and demand (advertisers), thereby driving industry monetization. Acast presents a compelling growth opportunity and a highly asymmetric expected return profile.

Part 1. Podcasts are under-monetized

In 2005 Steve Jobs introduced podcasts to the world at the All-Things Digital Conference. He described podcasts as being, "Wayne's World for radio" and "sort of like Tivo, but for radio, but for the iPod." [1]

We take it for granted that everybody knows what a podcast is today. In 2005 there were fewer comparisons to be made for podcasts that would resonate with the general population. What Jobs understood and tried to convey was that the internet had fundamentally altered the ways in which digital content could be distributed. Podcasting was (and is) the internet version of radio talk shows except with no regional bandwidth limitations and zero distribution costs. He also understood that because the content was freely available, it would need to be monetized via advertising dollars.

Today, podcasts are ubiquitous. 162 million Americans listened to a podcast in 2021. Of those, 80 million people listened to an average of eight episodes a week for an average weekly listen time of 6 hours and 39 minutes. [2] If podcasting was a single application, it would get more attention per user than every single competing social media application. [3] **The overarching mega-trend at the center of all of this is that traditional commercial radio is being digitally transformed**. Radio's importance is decreasing as audiences shift to more convenient on-demand services.



[1] https://youtu.be/B8WCRXCdDz4
[2] Edison Research, Infinite Dial 2021
[3] Individually, not collectively

Yet, despite the mass popularity of podcasts, advertising (Jobs' prediction) has not caught up yet:

2021 data *U.S. population, millions*	Ad-Supported Modes of Content Consumption: Linear Television	Connected Television	Short-Form Video	Social Media	Linear Radio	Podcasts
Monthly active users	73	183	262	233	130	162
Avg. time spent weekly (h:m)	19:40	7:35	5:36	12:43	9:43	6:39
Advertisement dollars	59,800	5,800	16,300	58,800	38,100	843
Scaled providers	Comcast, Charter, AT&T	HuluTV, YoutubeTV, Peacock	Youtube, Twitch	Facebook, TikTok, Instagram, Snap	NPR, regional broadcasters	

Sources: Edison Research Infinite Dial 2021, Bureau of Labor Statistics - American Time Use Survey, Statista, Nielsen Total Audience Report, PwC Strategy & Market Study, eMarketer

In 2020, the US podcast industry produced a meager $843m of advertising spend, while linear radio (the inferior substitute) garnered $38.1 billion. Radio's revenues were 45x larger than podcast's despite 80% of the listenership! For comparisons sake, I have included the other ad-supported modes of content consumption. [4]

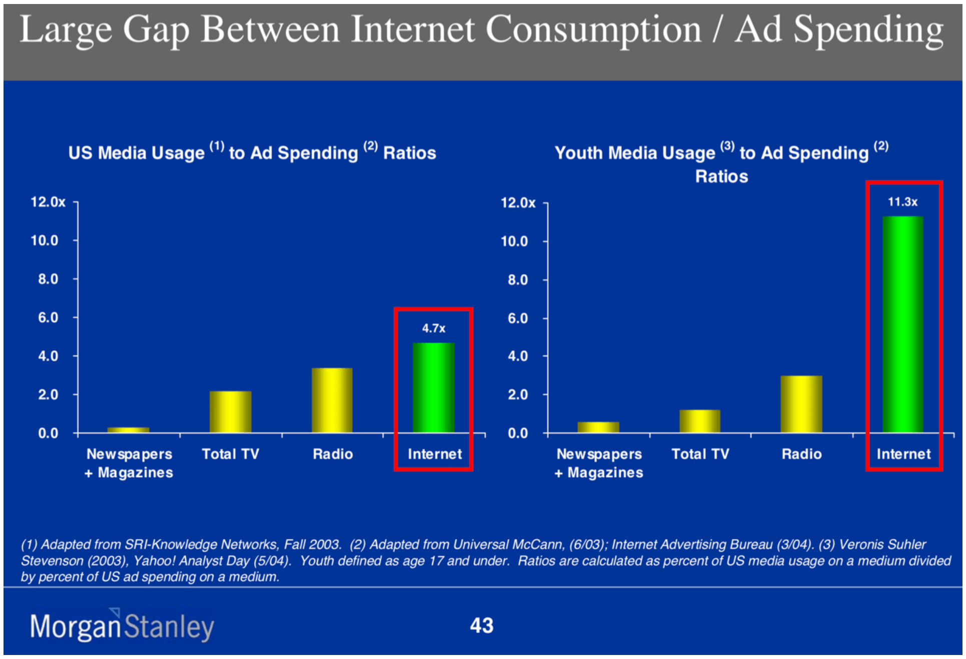
The key observation is that podcasts are one of the most popular forms of media in the world yet are woefully under-monetized relative to the size of the audience that they attract on a weekly basis.

Part 2. An aggregator will emerge

Decentralization is the primary reason why podcasts remain so under-monetized. Effectively selling advertising means having one place for advertisers to go to reach a large number of listeners.

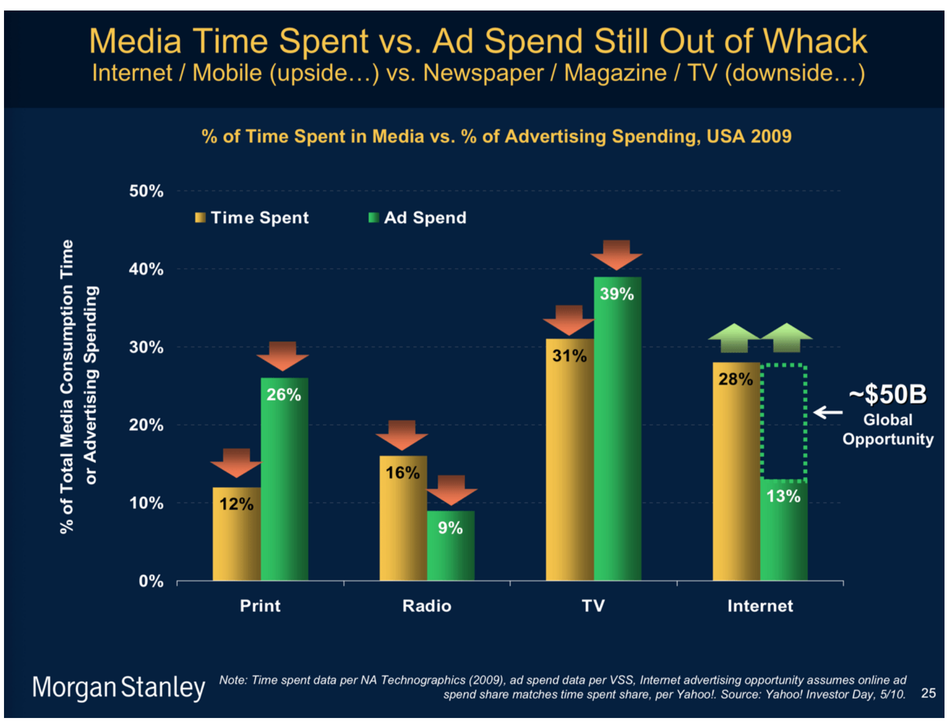
The current state of podcast advertising is a situation not so different from the early web. The amount of consumer attention paid to the internet in its early years far exceeded the amount of advertising spend. From Mary Meeker's 2005 Internet Trends Report:

[4] There are tons of additional nuggets of information to learn from this table. Here's one -- observe the dislocation in ad spend between linear and connected tv. Despite less than half the audience, linear television still enjoys ~10x the advertising dollars. That is a topic for another day and serves as the foundation for another holding of ours.



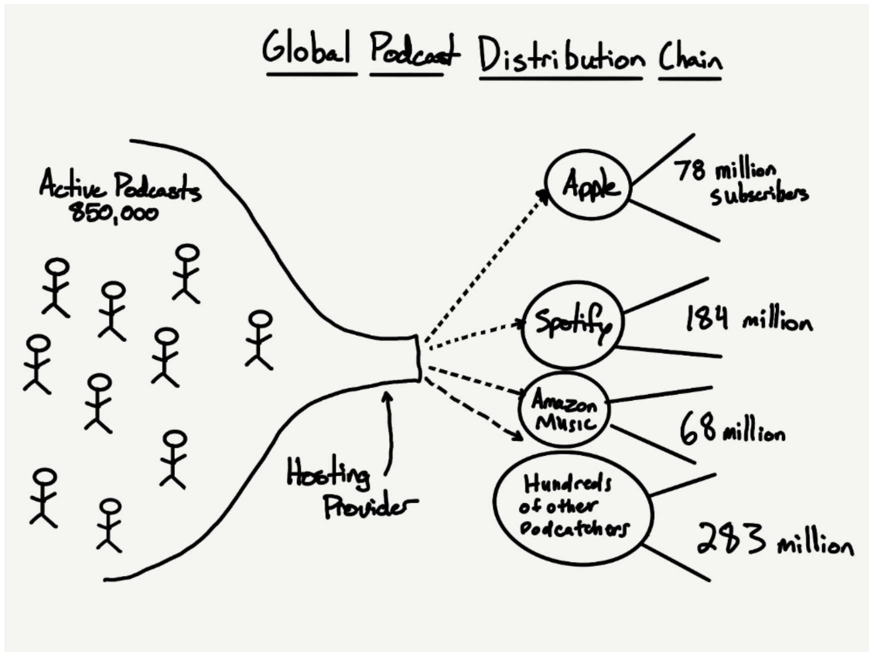
The table that I made in part one of this thesis indicates that a similar slide could be made for the current state of the podcasting industry. What happened with the early web was that in 2003 Google launched AdSense, an advertising network for websites. Now advertisers could buy ads in one centralized place, and those ads could be better targeted by the company with the largest data set and the highest degree of insights into end-consumer behavior.

Five years later, in 2010, Meeker updated her slide:

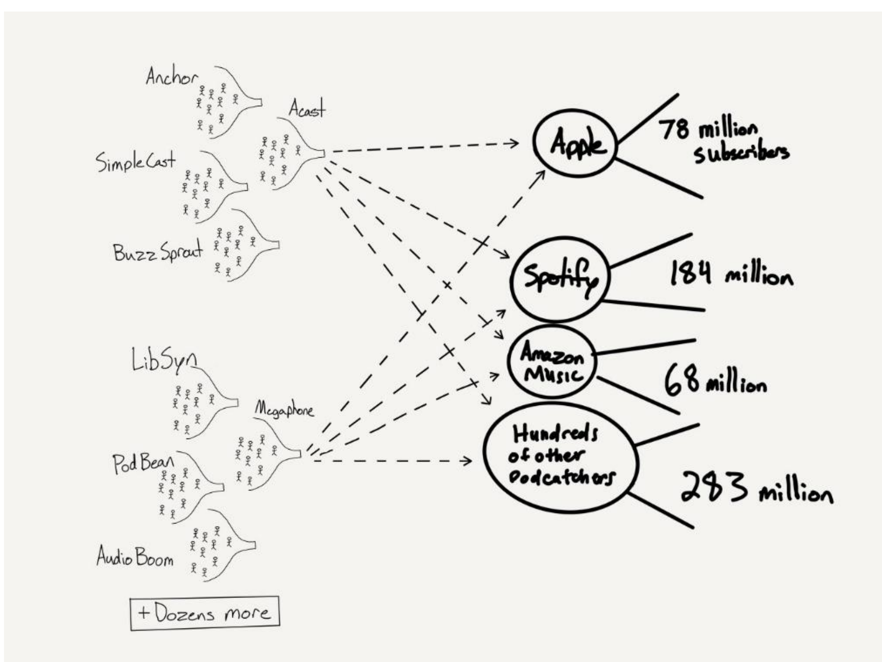


Internet attention still outpaced monetization, but the gap was significantly closer. More advertisers came on board because of the increased centralization layer that Google provided.

For podcasts to centralize there needs to be an aggregator of both supply and demand with sufficient data to provide the highest degree of targeting. Below is a drawing of the podcast distribution chain.



This is an idealized depiction of the distribution chain with a single aggregator of supply distributing to the various podcatchers (e.g. Spotify, Apple, etc.). This is the world that the podcast ecosystem is pushing towards via consolidation. In reality, the current podcast distribution chain currently looks more like the following.



The reason for the fragmentation is because the distribution function is a fairly commoditized service with minimal barriers to entry. Pretty much anyone can start a podcast hosting company and build a basic hosting service with a few (relatively) simple lines of code. The podcast hosting companies that win market share ultimately do so because they provide an extra layer of service in addition to the basic hosting that allows them to take market share from their generic hosting competitors. Some win podcasters due to their simplicity (Anchor), others provide helpful design tools (Podbean). Acast (the subject of this thesis) wins market share because it is the best in the world at monetization.

The key observation from Part 2 of this investigation is that decentralization is the root cause of under-monetization. An aggregator will emerge, and advertisement spend will increase rapidly. The aggregator will win a disproportionate share of the incremental advertising revenues.

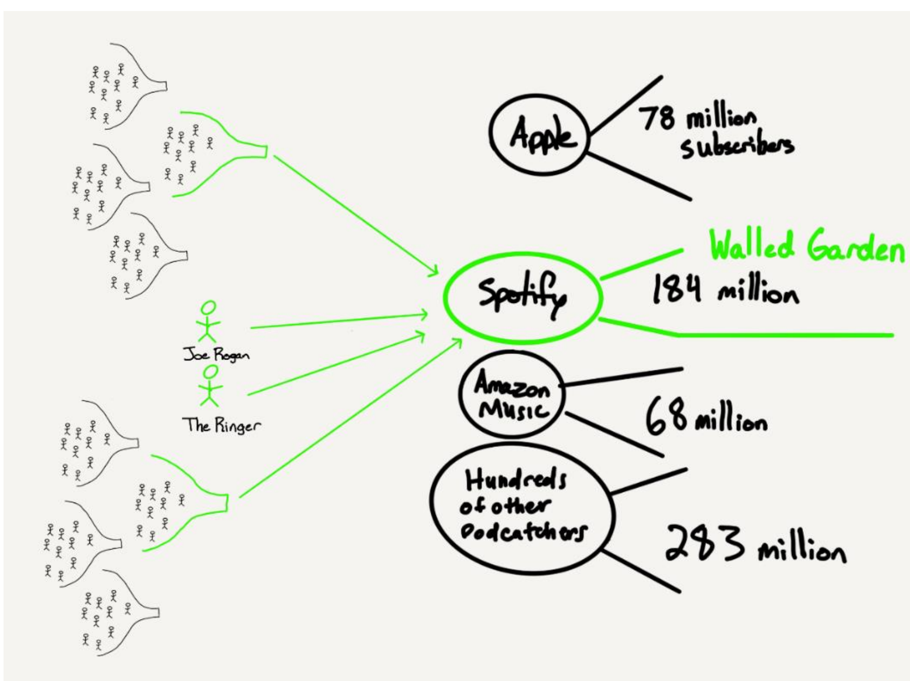
Part 3. Spotify's flawed business model

Spotify's ambitions are to be more than a mere audio player. They desire to own the entire podcast ecosystem and they are expanding aggressively backwards into the podcast distribution chain.

The reason for this is fairly obvious. Spotify's core music business generates poor unit economics and is unlikely to ever yield high returns on capital. Consider this… Spotify has no control over its supply. This leads to two problems. **First**, Spotify earns ~$4.25 per premium subscriber per month. That's a fixed rate that stays mostly flat year-over-year. However, the more the premium subscriber uses the product, the lower Spotify's gross margin gets on that customer. It's a rare backwards business model where Spotify's ideal customer is the one who pays the monthly subscription but never actually uses the product.

Second, Spotify does not have exclusive access to its content, which means that competitors like Apple Music have basically the exact same library.

In podcasts, on the other hand, Spotify seeks to own and control its supply and differentiate its library from its competitors, similarly to what Netflix has accomplished.



In 2019, Spotify announced their intentions of owning exclusive content. In the two years that followed, Spotify has spent more than $1 billion dollars acquiring hosting providers and exclusive rights to podcasters' content.

Spotify Announced Acquisitions		
Hosting Providers	**Year**	**Amount (m)**
Anchor	2019	$140
Megaphone	2020	$235
Gimlet Media	2019	$200
Whooshka		n/d
Creators	**Year**	**Amount (m)**
The Joe Rogan Experience	2020	$200
The Ringer	2020	$196
Call Her Daddy	2021	$60
Kim Kardashian West	2020	n/d
Ava DuVernay	2020	n/d
Jordan Peele	2020	n/d
Joe Budden	2020	n/d
Michelle Obama	2021	n/d
Michelle & Barack Obama	2021	n/d
Prince Harry	2020	n/d
Meghan Markle	2020	n/d
Mark Whalberg	2020	n/d
Paul Fieg	2020	n/d
Anthony & Joseph Russo	2020	n/d
Lele Pons	2020	n/d
Warner Bros and DC Entertainment	2021	n/d
Chernin Entertainment	2020	n/d
Mark & Jay Duplass	2021	n/d
The Last Podcast on the Left	2020	n/d

Dozens more of these creator deals have been inked, but only the news-worthy have been announced. The trouble with this approach is two-pronged. **First**, Spotify makes these podcasts exclusive. When Joe Rogan moved exclusively to Spotify, some who were listening on other platforms moved with him, but a large majority of them did not. [5]

It is one thing for Joe Rogan, who runs the most popular podcast in the world, to absorb that loss, it is another thing entirely for others who lose the large majority of their audience in doing so. Exclusivity is the primary reason why *Joe Budden* and *The Last Podcast on the Left*, both left in 2021 when their contracts expired. [6]

Secondly, Spotify acquires the right to commercialize those podcasts, meaning that they keep all of the proceeds earned from advertisements. Spotify pays the creator for *ownership of the right to commercialize* that creator's intellectual property. Spotify then recoups its investment via advertisement dollars, that it keeps 100% of the proceeds from. What happens then is Spotify increases the rate at which advertisements are shown on a given podcast, and hosts are expected to read and endorse companies that they otherwise may not have chosen, all for zero incremental benefit to themselves. This is the reason why several more podcasts have also chosen to leave Spotify, most notably the hosts of *The Nod* spoke out about this in 2020. "At the end of the day, investing in someone's talent isn't the same as having the

[5] The Verge – Joe Rogan, Confined to Spotify, is Losing Influence
[6] LPOTL source: LA Times --- Joe Budden source: The Verge

talent yourself," Brittany Luse, host of *The Nod* told The Verge. "It's very strange that Spotify and Gimlet are the only people who can claim ownership over The Nod and its segments." [7]

Similarly, Joe Budden, in his final episode exclusive to Spotify said that he was leaving and took the time to air some complaints. Joe claimed that Spotify wouldn't allow him and his team to take vacation days on Christmas or New Year's Eve, because that would have required them to miss two episodes. "That was the first time it dawned on me that Spotify is pillaging," he says. "You pillage the audience from the podcast, and you've continued to pillage each step of the way without any regard for the fans… Spotify never cared about this podcast individually," he says. "Spotify only cared about our contribution to the platform." The company wanted him to read ads, and he refused, making it one of the only shows to not be monetized on the platform.

Three years and more than $1 billion dollars later, Spotify has not succeeded in controlling its supply. Today, Spotify's exclusive shows makes up less than 1% of the total global podcast content and only two shows in the global top 100. [8] The ultimate problem boils down to the fact that Spotify only controls ~20% of global demand, and it would be ludicrous for a creator to silo themselves to a fraction of their global audience. *Spotify is therefore forced to acquire its way into exclusive rights because it is not seen as a viable platform that podcasters would otherwise choose for themselves.*

For Spotify to become the aggregator of the podcast industry it needs to control supply, yet suppliers are disincentivized to join Spotify. It seems to be highly unlikely that Spotify succeeds unless it is somehow able to dramatically alter its incentive structure.

Part 4. Enter Acast

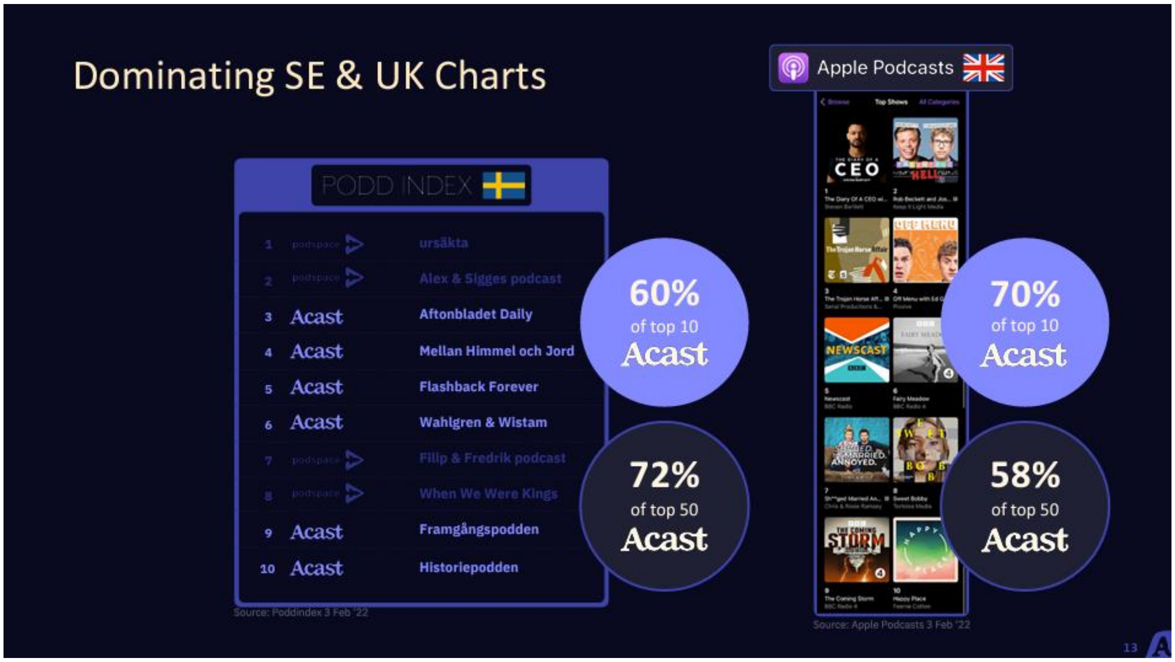
Acast is a Swedish-founded company that provides hosting, monetization and growth support to podcasts. In 2014, it developed a dynamic insertion technology which can target advertising within podcasts based on location, time and personal data. Acast provides hosting services for free to podcast creators and earns a percentage of every advertisement played during the episode.

Acast is the self-proclaimed global independent power source of podcasting. More than 40,000 shows rely on Acast for the hosting and monetization of their audio content on a weekly basis. The breadth of podcasters runs the gamut, from some of the most popular podcasts in the world (like BBC, Financial Times, PBS, The Economics, Off Menu, The Adam Buxton Podcast, Anna Farris is Unqualified, and others) to smaller podcasts with only a few listeners.

Acast-powered podcasts generated more than 1 billion listens in Q4'21, making them the largest podcast publisher in the US. In Acast's home market, Sweden, 72% of the top 50 podcasts in the country use Acast, and in the UK it is 58%.

[7] The Nod source: The Verge

[8] https://chartable.com/charts/chartable/podcast-global-all-podcasts-reach



Globally, more than 20,000 podcasts (~2.1% of the estimated total active podcast market) made the switch to Acast in the last twelve months. Creators choose to partner with Acast because they are the largest independent monetization network in the world. **Acast can effectively enable its creators will earn more money within the Acast network than with any other hosting provider in the world.** That is because Acast's network makes them the largest centralized aggregator of supply in the world.

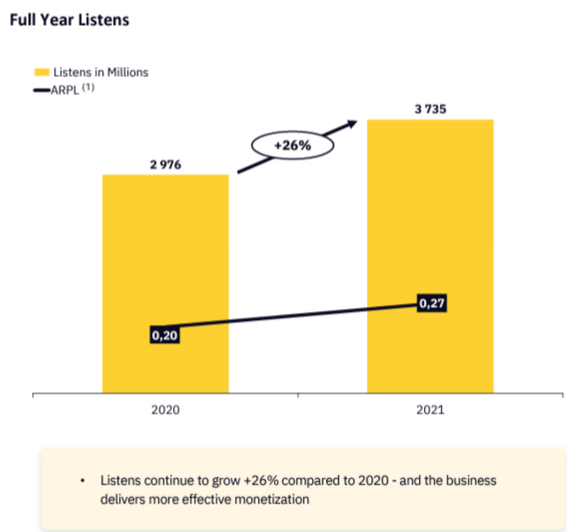
Podcast creators want to grow their audience and maximize their earnings while maintaining control of their content. Acast's business model perfectly aligns its incentive structure with these customer goals. Acast only profits when a podcast generates revenue, and Acast is incentivized to maximize revenue for its entire network of podcasters, thereby benefiting all participants involved.

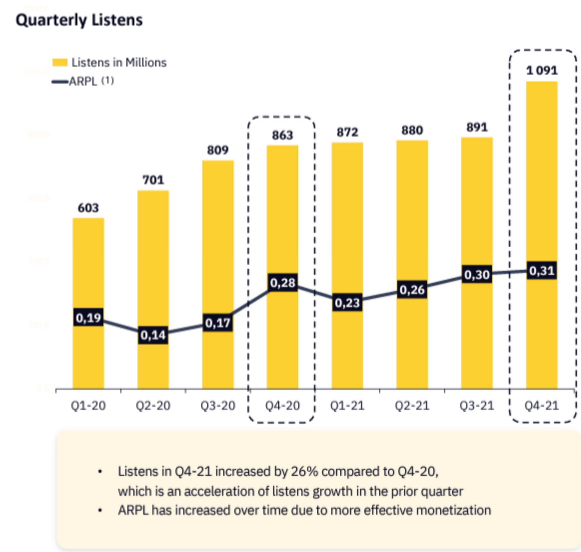
Acast, in a sense, is similar to other companies in the Asheville Capital Portfolio which generate usage-based revenues. These pricing models are powerful because they align company success with customer success and, if executed well, produce non-linear revenue growth.

Growth Opportunities

In 2021, Acast generated $120 million dollars of revenue, an 86% year over year growth rate. Acast has multiple levers for continued growth. The **first** and most obvious lever is to continue to add new podcasts to the network. There are an estimated 850,000 active podcasts globally, 150,000 of which were started in the last twelve months. Acast has a tremendous opportunity to win market share because of its competitively advantaged value proposition that enables Acast to maximize monetization per show per listen via its network of podcasts and advertisers.

The **second** lever for growth is by increasing the number of listens per podcast. This lever is a passive form of growth that is out of Acast's hands, yet continually increasing month-over-month.





The **third** lever for growth is by increasing the average revenue per listen (ARPL), which currently stands at $0.033 per listen. This will occur because of a natural increase in demand relative to supply as more advertisers join the network and bids for slots get more competitive over time.

In my estimation, based on numerous conversations with the management team and with competitors, advertisers, and former employees, the first lever for growth is going to continue to grow in excess of 20% per year for at least the next 3-5 years. The second lever (increase in listens per show) has historically increased in excess of 20% year-over-year. It is unreasonable to assume that that will continue, but a conservative estimate could expect high-single digit growth for the foreseeable future. The third lever (increase in ARPL) is more gradual and is likely to only increase 3-5% per year going forward.

The cumulative result is a growth profile that has a high likelihood of being in excess of 30% for the next 3-5 years, and potentially much longer. If I am directionally correct, Acast has a reasonable probability opportunity to grow its revenues by nearly 4x in the next five years with an ability for continued intrinsic value growth through the form of operating leverage in the years following.

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Revenue	38,195	64,313	119,560	155,428	202,056	262,673	341,475	443,918
Growth y/y		68%	86%	30%	30%	30%	30%	30%

A word on valuation

Importantly, while I believe these estimates to be achievable for Acast, I don't have to be correct for an investment in Acast to yield above-market returns. The company currently trades at a $140 million dollar market capitalization, and there is $119 million of cash on hand, meaning that the market valuation for Acast is currently ~$21 million, or ~0.2x NTM P/S.

I dare not predict what a reasonable price-to-sales ratio is for this (or any) business, but I will say this, Acast's fundamentals relative to its valuation present a highly asymmetric return opportunity. The potential downside is capped (in my estimation) at the cash available on hand, making for a downside scenario from here of 20%, and the potential for upside is 5x in the next five years, even if there were no multiple expansion.

Conclusion

Podcasts are one of the most popular forms of media in the world, and yet, are woefully under-monetized. Centralization via an aggregator will increase the rate at which podcast content is monetized. Spotify, despite its best efforts, is a structurally flawed business model, and unlikely to be that aggregator. Acast, the largest marketplace for global podcast monetization, is competitively advantaged (via its network) to fill that void and further consolidate both supply (podcasters) and demand (advertisers), thereby driving industry monetization. ***Acast presents a compelling growth opportunity and an asymmetric return profile that fits the Asheville Capital criteria for being world-class and not broadly recognized as such.***

Appendix: Running notes that serve as an epilogue

2022.10.19 – Podtrac News

Today, Podtrac posted its first ever analysis of the top podcast sales networks in the US. It revealed that Acast ranks #2 in the US in terms of US unique monthly audience, with 21.9 million unique monthly users. Acast ranks behind Wondery (25 million) and ahead of Libsyn (10.2 million) and PodcastOne (7.9 million). If this had have been sorted by global downloads and streams however, Acast would have ranked first by a landslide with more than 2x the number of downloads and streams (d/s) than Wondery. Observe the # footnote for Acast which reveals that Acast produced 426 million d/s back in June (the last time Acast publicly filed for that data in their earnings report). Additionally, Acast generated these d/s across 37 thousand shows, more than 100x the number of shows than all of the other competitors.

PODCAST INDUSTRY RANKING
TOP PODCAST SALES NETWORKS
US AUDIENCE: **SEPTEMBER 2022**

RANK	SALES NETWORK	US UNIQUE MONTHLY AUDIENCE	GLOBAL DOWNLOADS & STREAMS	SHOWS
1	Wondery Sales Network	25,048,000	203,423,000	369
2	Acast	21,986,000	#	37,195
3	Libsyn AdvertiseCast	10,255,000	86,441,000	389
4	PodcastOne Sales Network News	7,946,000	48,428,000	367

Total mobile and desktop US podcast audience.

Unique Monthly Audience:
Total of unique audience members who stream or download network's podcast content across all shows in network.

Unique Streams & Downloads:
Total unique streams and downloads of podcast content for the month across all shows in network.

Shows:
Count of shows in network by and measured by Podtrac which contribute to the totals in the Ranking.

Ranking data only includes networks that participate in Podtrac measurement for the full month for which the ranking is being released.

426,231,000 downloads for 31,518 shows for June 2022 (Acast's Global streams and downloads are published after each quarterly financial report).

This is super important for one main reason:

Advertisers desire to be able to allocate marketing resources across multiple shows within the same genre. Numerous calls with advertisers has confirmed this fact. Advertisers don't believe podcast investing is worth their time if they can only put $20k to work into a single podcast. But rather, a **centralized aggregator** is needed because it allows them to put $1 million to work into multiple shows within a similar genre without having to expend the energy of establishing personal relationships with the 10-50 podcasters that they would ideally spread those dollars across. **This is crucial** because the two most important metrics to advertisers are the number of shows, and the number of total d/s. These two metrics, revealed by Podtrac this morning, clearly show that Acast is the market leader in the US in regard to the two metrics that advertisers care the most about.

This information is relevant to us because our long-term investment thesis in Acast is predicated on their ability to grow and capture market share in the US, akin to how they have captured market share in

Sweden and the UK in which they own both markets. Today more than 72% and 58% of the top shows in Sweden and the UK utilize Acast for their hosting and monetization needs. The US is Acast's top priority because there is more than $38 billion dollars of advertisement revenue that is up for grabs as advertisement dollars migrate away from linear radio to podcasts. The podcast industry produced ~$1 billion of advertising dollars last year in the United States and is set to quadruple in the next 3-5 years according to most estimates and according to the calls that I have had with advertisers that generally agree with those estimates.

Today's data point indicates that Acast is gaining significant traction in becoming the centralized aggregator that I expect them to be. Yet, they trade at 0.4x EV/GP currently with more than enough cash to support their continued investment in growth for the next 4-5 years before cash flow profitability will be required of them. Acast fundamentally is executing on the thesis that I have laid out for them and represents one of the most asymmetric expected return profiles in the portfolio today.

2022.10.10 – Spotify News

A series of negative press releases dropped over the weekend for Spotify, all related to its podcast business.

First, Spotify laid off 38 employees from its podcast staff… all of whom came over following the Gimlet Media acquisition in 2019. The Gimlet Union tweeted out a statement saying that Gimlet's shows lost as much as 75% of their audience after going exclusive to Spotify and that employees were given less than an hour to close out their work and leave.

Secondly, a former co-host from one of the cancelled shows tweeted out that "Spotify invested zero in building the show's audience, then forced us to go exclusive to Spotify, and then cancelled it because it didn't build a big enough audience."

Then another report came out that Spotify was relaunching a show (*Sex, Lies and DM Slides*) with new hosts, without the knowledge of the podcasters who created the show. The original shows were deleted and only the new shows by the new hosts remain.

Lastly, one of the most popular shows in Argentina announced that it was leaving Spotify because "Spotify does not pay us… Spotify pays for playback in the case of musical content but does not pay the creators of podcast content." The show, *El Método Rebord,* says it is leaving purely for economic reasons. Quotes like this are increasingly common from shows that were previously Spotify exclusives.

The most damaging bit of information from this was the revelation that Gimlet shows lose up to 75% of their audience. Back in 2019 Spotify paid $230 million for Gimlet Studios and you have to imagine that they didn't underwrite only 25% of the listenership, but rather paid a price that was (at least somewhat) related to audience size. This indicates the possibility of serious impairment to that $230 million asset. But more importantly, it validates the ideas posited in the Acast investment thesis that Spotify has the wrong business model to be playing in the podcast universe. The podcast world is too fragmented and there is too much turnover to expect to be able to buy exclusive control to supply. That is a treadmill that never stops turning. Spotify has to somehow make themselves the most attractive destination for podcasters to go to, but the mere presence of competent competition in audio makes it unlikely that a podcaster will ever willingly limit their audience.