

Music service Spotify wins high-profile backing

Tim Bradshaw, Andrew Edgecliffe-Johnson and Tom Mitchell

Spotify, the digital music service widely tipped as a potential challenger to the dominance of iTunes, is close to securing new investment from high-profile investors, including the charitable foundation of Hong Kong tycoon Li Ka-shing.

Spotify, pitched as a better alternative to illegal downloading, is looking to raise funds to expand in the US, building on the hype it has generated in Europe where it has attracted more than 2m users less than a year after launching in the UK and Sweden.

The free service allows users to listen to music on demand over the internet, without having to download a track. It is supported by advertising, with other revenues generated by a £9.99 ad-free subscription option, as well as commission from selling downloads.

Investors hope Spotify will attract more paying users if Apple allows the service to be used on iPhones.

The Li Ka Shing Foundation, the Hong Kong tycoon's charitable arm; Wellington Partners, London-based venture capitalists, and others are closing in on a total investment of up to \$50m, a bigger amount than expected that values Spotify at \$250m (£148m), according to people familiar with the process.

Of this, the service was set to raise about \$20m from Wellington and existing backers.

The fundraising, when venture capital funds are bargaining down valuations and being more cautious with investments, comes in spite of concerns that losses at the service far outstrip its revenues.

Spotify, which employs 75 people in Luxembourg, London and Stockholm, was formed in 2006 by Daniel Ek and Martin Lorentzon, two Swedes.

It is also talking to another strategic investor, which analysts said was likely to be from the music industry. Spotify has to pay a royalty for every song it plays, regardless of advertising revenue. Selling a stake to a record label would allow it to negotiate better terms.

Financial Times, London, Aug. 4th 2009, Companies, online.