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Music Catalog's Purchases - Why market's high interest?

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Why Music?

“There are two things you can’t live without: water and music.”

-Quincy Jones

“Music thrives at the intersection of culture, technology, and commerce. It’s the single most influential global art form, with an unmatched ability to attract audiences, drive social interaction, transcend borders, and unite people.”

-Robert Kyncl, Chief Executive Officer, Warner Music Group

Background: The Music Marketplace

Changes in Music Consumption – A Reversal of Fortune

- Sales from recorded music in the U.S. hit an overall peak in 1999 at \$14.6 Billion USD.
- In 2000, sales in the CD category alone hit a peak of \$13.2 Billion USD.
- By 2010, digital sales of music helped to stabilize a combined physical and digital sales market that had shrunk to \$6.6 Billion USD.
- By 2013, revenues from physical sales fell to approximately 35% of total revenues, while revenues from the sale of digital downloads increased to 40% of total revenue.
- By 2015, record label revenues from physical sales declined to \$2 Billion USD, while digital revenues (digital downloads, subscription and streaming, ringtones and ringbacks) increased from \$230 Million USD in 2004 to around \$4.8 Billion USD.

Background: The Music Marketplace

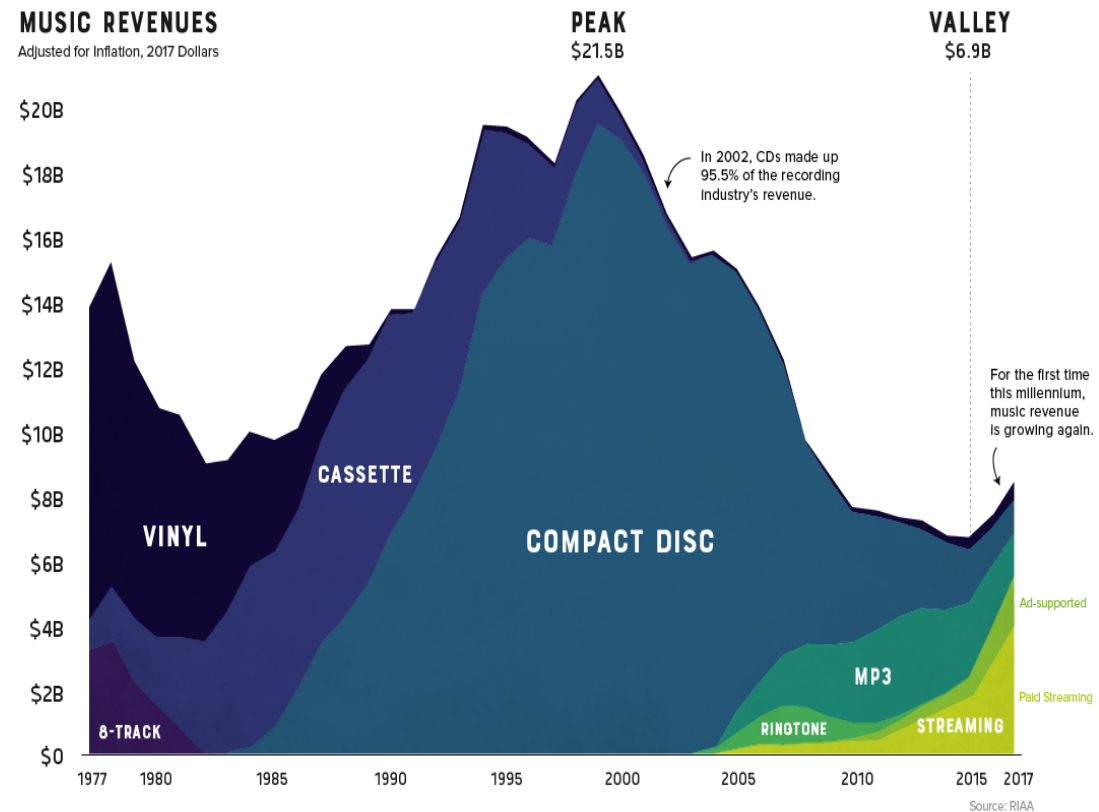
- By 2015, the combined number of digital and physical albums sold was 249 million as compared to 435 million in 2008. Sales of singles, however, remained somewhat stable, averaging one billion per year from 2008 to 2015 (with a peak of 1.4 billion in 2012).
- *This is a demonstrated shift in the consumption of music from physical to digital consumption, as well as a demonstration of less of a consumer emphasis on the album format.*
- **2016 was a seminal year for the U.S. recorded music market. Streaming overtook all other formats, generating the majority of industry revenues for the first time, helping to grow revenues from recorded music in the to \$7.6 Billion USD of which \$3.93 Billion USD was attributable to streaming revenue.**

Source: Recording Industry Association of America

Background: The Music Marketplace

Changes in How Music is Consumed

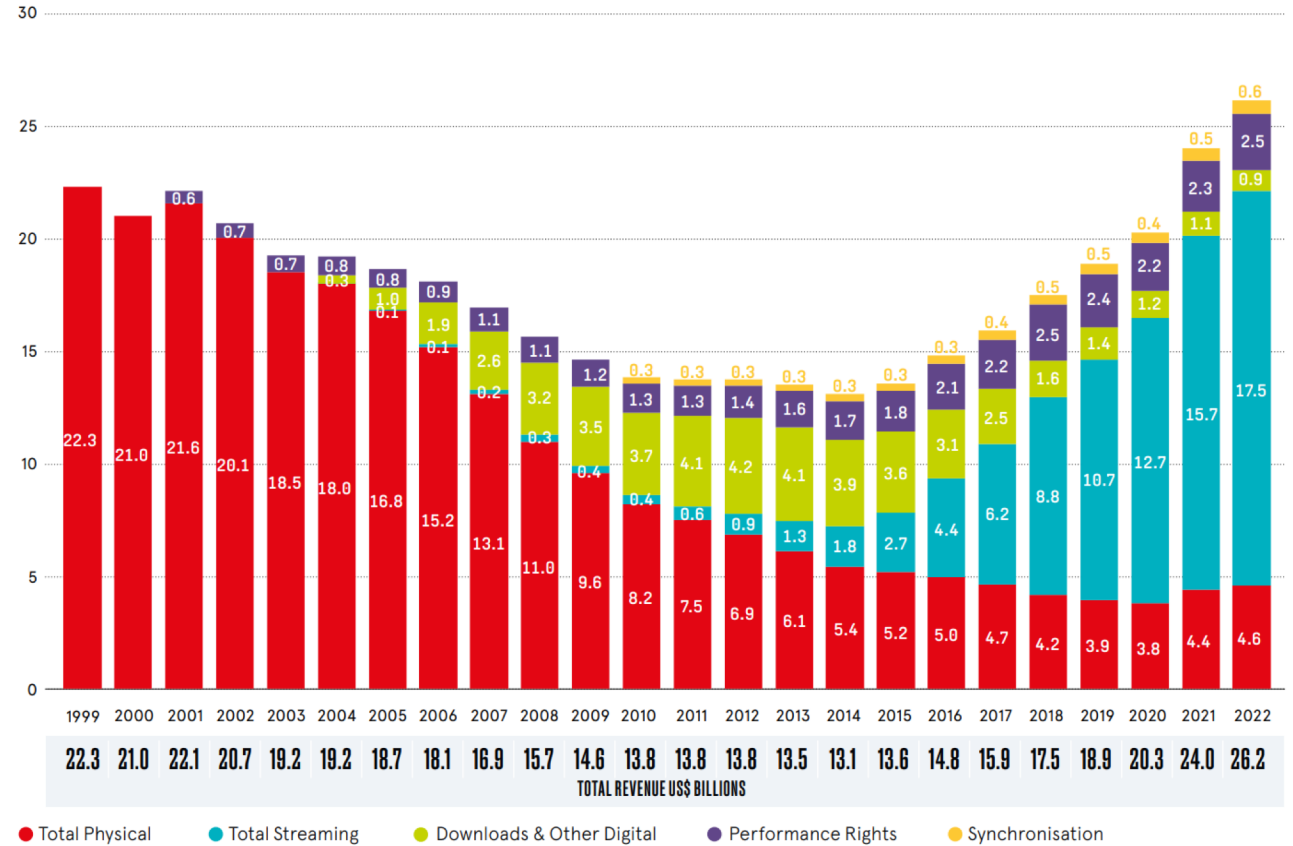
For the first time, the recording industry earned more from consumers accessing music than purchasing music



Growth of the Global Music Industry

In 2022, the global recorded music market increased to USD \$26.2 Billion, an increase by 9% compared to 2021

GLOBAL RECORDED MUSIC INDUSTRY REVENUES 1999 - 2022 (US\$ BILLIONS)



Source: IFPI

FIGURES BY REGION 2022

Once again, the recorded music market saw growth in every region across the globe in 2022. Four regions posted double-digit gains, outpacing the overall growth rate of 9.0% and Sub-Saharan Africa overtook Middle East and North Africa as the fastest growing area.

USA & CANADA

→ Maintaining its foothold as the world's largest region for recorded music, revenues in the USA and Canada increased by 5.0% in 2022; a slower rate than the prior year (+21.8%) when exceptional market growth had been partially driven by a post-pandemic boost.

Both USA (+4.8% in 2022) and Canada (+8.1%) remained global top 10 markets, with USA the single biggest national market in the world, exceeding US\$10 billion for the first time. Overall the USA & Canada region represented 41.6% of the global market.

+5.0%

LATIN AMERICA

→ Revenues in Latin America rose by 25.9% continuing a decade-plus trajectory of growth.

Every market saw double-digit growth, including the region's two largest markets, Brazil (+15.4%) and Mexico (up steeply by 24.3%). Once again, streaming revenues dominated, accounting for 85.2% of the Latin American market.

+25.9%

EUROPE

→ The world's second largest region for recorded music revenues saw growth of 7.5% in 2022. UK, Germany and France remained the three largest markets in Europe, all posting growth (+5.4%, +2.2% and +7.7% respectively).

Europe's revenues from streaming accounted for more than a quarter of revenues from the format globally (26.0% share) and also accounted for the highest proportion of revenues from performance rights (54.9% of global performance rights revenues).

+7.5%

MIDDLE EAST & NORTH AFRICA

→ Posting the world's third highest growth rate in 2022, Middle East & North Africa saw revenues from recorded music climb by 23.8%.

Streaming accounted for the vast majority of the market, with those revenues accounting for a 95.5% share.

+23.8%

SUB SAHARAN AFRICA

→ With a steep increase of 34.7%, and the only region to see more than 30% growth, Sub-Saharan Africa became the fastest growing region for recorded music revenues in 2022.

Growth was boosted by a strong climb in revenues in South Africa, the region's largest market (+31.4% versus a modest 2.4% growth the prior year).

+34.7%

ASIA

→ Asia experienced double-digit growth for the third consecutive year, up by 15.4% and outpacing the overall global growth rate.

Japan, the region's largest market saw a second year of consecutive growth (+5.4%) whilst the region's second largest market – China – saw a significant rise of 28.4% pushing it into the top five markets globally for the first time. Overall revenues from Asia accounted for 22.9% of the global market.

+15.4%

+8.1%

AUSTRALASIA

→ In Australasia, Australia – remaining a top 10 market – experienced growth of 8.1%, driven largely by streaming. Similarly New Zealand saw recorded music revenues increase by 8.0%.

Overall, recorded music revenues in the Australasia region rose by 8.1%, an increase on the prior year's growth rate of 4.7%.

Source: IFPI

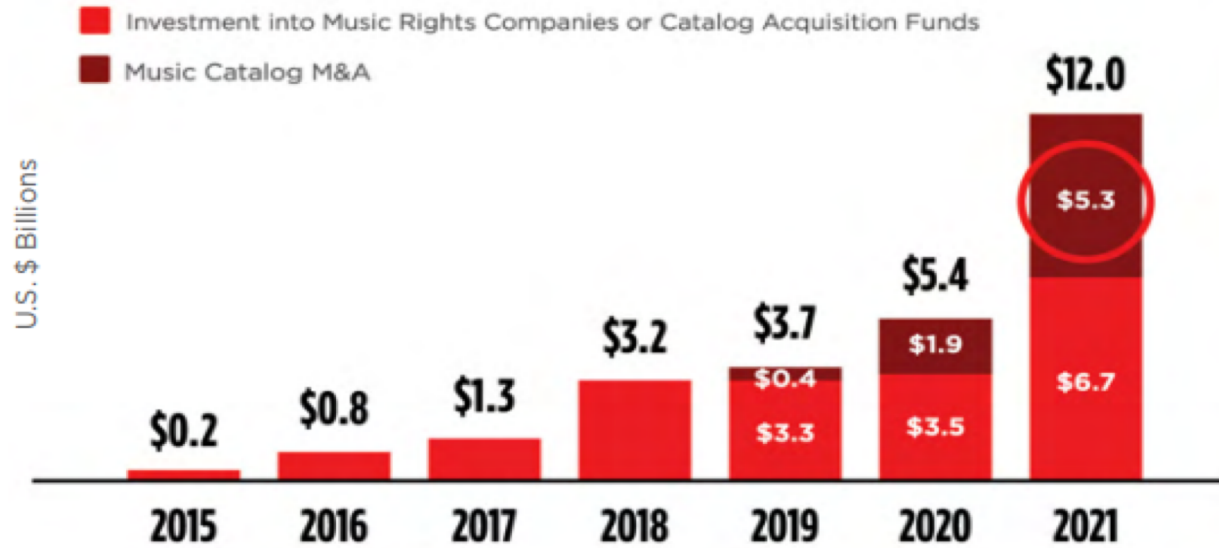
Music Publishing Revenue

- On the publishing side, U.S. revenues have **increased an average of 15.1% a year** since 2015 to over \$4.7 billion reported for 2021, according to the NMPA. Performance royalties contributed over 51% of that total, and mechanical royalties over 18.5%, both driven largely by digital streaming activity.
- Universal Music Group, the world's largest music company reported that for **2022 digital revenues** in its music publishing division **rose by nearly 50%** to over 1 billion euros (\$1.05 billion). Overall, Universal Music Group's revenues grew 21.6% to 10.34 billion euros (\$10.96 billion) for all of 2022, boosted by strong returns from recorded music subscriptions and streaming.
- Sony Music Publishing reported that for the first quarter of 2023 it had revenues of ¥65.96 billion/ USD \$483.92 million, **up 22.17% year-over-year**, and that for its 2022 fiscal year (ended March 31, 2023) it had revenue of ¥276.67 billion/ USD \$2.03 billion, up 38.10%.
- Warner Music Group reported that for the quarter ended March 31, 2023, music publishing **revenue rose 12%** to \$257 million from \$230 million in the prior year.

Music Publishing Revenue

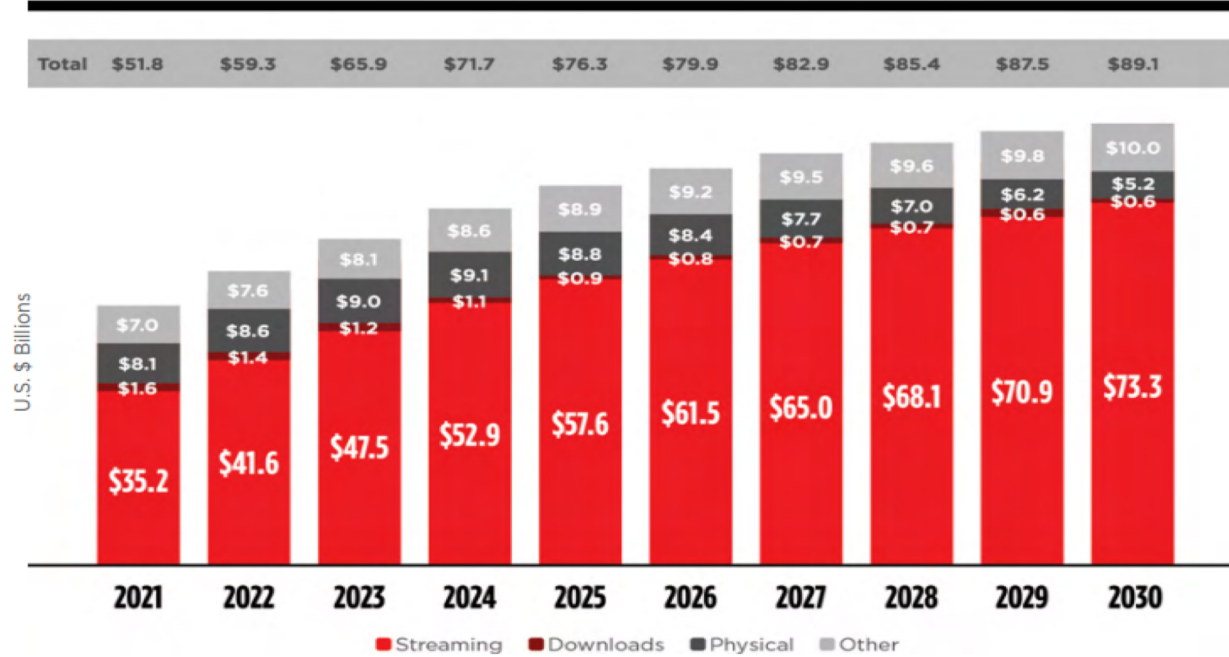
- In the UK last week, the Mechanical-Copyright Protection Society (MCPS) said its member distributions increased to £188.4 (USD \$232M) in 2022 - Highest Payout Total Since 2007.
- In the US on May 23, for mechanical royalties payable for on-demand streaming, the Copyright Royalty Board issued a determination for the Phonorecords III proceeding that maintains an up to 44% increase for U.S. songwriters and publishers' headline rate for mechanicals by the end of the period of 2018 to 2022. In December of 2022, the Copyright Royalty Board approved a settlement in the Phonorecords IV proceeding, which set the headline rate for the period of 2023 to 2027 at a minor increase above the prior period.
- In February 2023, the Mechanical License Collective, which administers the blanket mechanical license that became available to digital service providers in the United States on January 1, 2021, had distributed more than USD \$1 Billion in mechanical royalties since inception.

GLOBAL INVESTMENT IN MUSIC ROYALTIES^(C)



SOURCE: SOLOMON PARTNERS, MIDIA RESEARCH

RECORDED MUSIC REVENUES, RETAIL VALUES 2021-2030, GLOBAL



SOURCE: MIDiA RESEARCH STREAMING MODEL (JUNE 2022)

Music Catalogs as a Mainstream Asset Class

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