Investing in Music

Industry Dynamics, Trends, & Investment Opportunities
(Short Extract Version)
Supportive tailwinds and innovation-driven disruption are translating into opportunities for investment – *music is roaring back* as an investment class

**Key Trends**

1. **Fundamental tailwinds are positive**
   - People are listening to more music than ever, more music is being made than ever
     - Streaming now accounts for c.70% of recorded music revenues\(^1\) … growth is resilient and predictable
   - Social media changing the way artists can reach and grow their fans
     - TikTok
     - Instagram
   - DIY platforms and artist services offer choice for the “unsigned masses”
   - New creator tools making music making more accessible than ever

2. **Label & rights ecosystem evolving**
   - Majors remain dominant in face of a shifting industry, although their share is in moderate decline
   - Balance of power shifting to artists / IP owners
   - Catalogue investments driving record buy-outs
   - New creators tools making music making more accessible than ever
     - amuse
     - BandLab
   - Evolving role of Collections Societies
     - SESAC
     - ICE
     - AMRA

3. **Democratization fuelling “non-professional creator economy”**
   - Social media changing the way artists can reach and grow their fans
     - TikTok
     - Instagram
   - DIY platforms and artist services offer choice for the “unsigned masses”
   - New creator tools making music making more accessible than ever
     - amuse
     - BandLab
   - Evolving role of Collections Societies
     - SESAC
     - ICE
     - AMRA

---

1. In developed markets

Source: Official Charts Company, BPI, Goldman Sachs, Expert Interviews, Desk Research, OC&C analysis

Music Industry - trends & investment opportunities (Short Version) | © OC&C Strategy Consultants 2022
After a 15 year collapse, the recorded music market returned to growth in the mid 2010s – driven by Streaming

Net Global Recorded Music Industry Revenues, 1999-2021 (US$bn)

Recorded Music Only
(Indicative of Total Market)

From 2015 - 2021, revenue from streaming has fuelled much of the recovery of the industry, with the strong user experience of streaming accelerating the decline of piracy over this period

1. Adjusted for Inflation – Inflation adjustment using the ONS CPI Index 22 June 2022, where 2015=100

Source: CPA, OC&C analysis
Simplistically, there is an established ecosystem and a more disruptive ecosystem which caters for unsigned as well as signed artists / writers.

Ecosystem Overview

Market Ecosystem

<table>
<thead>
<tr>
<th>Music Creation &amp; Financing</th>
<th>Distribution</th>
<th>Rights Management</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Established Ecosystem</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labels / Publishers + Established Artists</td>
<td>Major labels</td>
<td>Labels (in House)</td>
<td>Broadcasters (TV and Radio)</td>
</tr>
<tr>
<td>Music Publisher</td>
<td>Major publishers</td>
<td>Outsourced Licensing &amp; Distribution</td>
<td>Physical Retailers</td>
</tr>
<tr>
<td>Professional Studios</td>
<td>Indie publishers</td>
<td>Curve</td>
<td>Amazon</td>
</tr>
</tbody>
</table>

| **Disruptive Ecosystem** |              |                    |             |
| Emerging, smaller professionals and amateurs | Major labels | Labels (in House) | Broadcasters (TV and Radio) |
| Music Publisher | Major publishers | Outsourced Licensing & Distribution | Physical Retailers |
| Professional Studios | Indie publishers | Curve | Amazon |

Source: OC&C analysis
The established eco-system is evolving, although not radically transforming.

- **Established Ecosystem**
  - Labels / Publishers + Established Artists
  - Record Labels
    - Major labels
    - Indie labels
  - Music Publisher
    - Major publishers
    - Indie publishers
  - Professional Studios
    - DOWNTOWN
    - Abbey Road Studios
  - Digital Rights Mgmt
    - PRO
    - Mechanical & Master Use Collection Societies
  - Marketing
    - Show.co
    - found.co

- **Disruptive Ecosystem**
  - Emerging, smaller professionals and amateurs
  - Talent Discovery
  - Specialist Finance Providers
    - Alternative Finance
    - Home Studio
  - Collaboration Platforms
    - Professional Studios
  - Physical and Merch
    - Distributors / DIY Platforms
  - DIY/B2C publishers
  - Social Media
    - Emerging Digital Platforms
    - Rights Cleared Music Libraries

**Key Points**

1. Majors continue to dominate industry, although share in moderate decline
2. Balance of power shifting towards artists
3. Catalogue investors buying rights
4. Evolving role of collection societies
A disruptive eco-system has emerged around developing non-pro creators, and monetises primarily as a B2C model rather than through royalty share.

**Market Ecosystem**

**Composition / Publishing Ecosystem**
- Record Labels
- Music Publisher
- Professional Studios

**Recording Ecosystem**
- Labels (in House)
- Outsourced Licensing & Distribution
- Sync Licensing / Library Agents

**Recording and Composition Ecosystem/Other**
- PRO, Mechanical & Master Use Collection Societies (recorded rights)
- PRO, CMO, Mechanical Agencies (composition rights)
- Digital Rights Mgmt

**Consumption**
- Broadcasters (TV and Radio)
- DSPs
- Physical Retailers
- Venues
- Events and festivals

**Ecosystem Overview**

**Established Ecosystem**
- Labels / Publishers + Established Artists

**Disruptive Ecosystem**
- Emerging, smaller professionals and amateurs

**Composition / Publishing Ecosystem**
- DIY platforms allow artists to self-release
- Social media aids in building fanbases for emerging talent

**Recording Ecosystem**
- New creator tools make music making more accessible

**Recording and Composition Ecosystem/Other**
- Rights cleared music libraries pioneering new business model for music

Source: OC&C analysis
Disruption has been across multiple parts of the music ecosystem: creation platforms, DIY distribution, publishing admin and rights cleared libraries

<table>
<thead>
<tr>
<th>Market Disruption Archetypes</th>
<th>Description</th>
<th>Example Investments</th>
</tr>
</thead>
</table>
| A | Tech Supporting Long Tail of Creators | • Hardware and software for musicians to create high quality music at home, as well as collaboration tools  
• DIY distribution tools allow musicians to release music to DSPs without the need for record or publishing deals | Insight Partners invested in Distrokid a 'DIY distribution platform' at a $1.3bn valuation (amount not disclosed)  
Goldman Sachs invested $50m in sound library tool for music creators, Splice |
| B | Music, Discovery and Fan Engagement | • Tools and tech have emerged to help artists connect with fans, virtually and physically  
• Recently tools involving NFTs have emerged  
• Live event discovery and booking platforms are also popular | Live entertainment discovery platform raised $220m in latest funding round  
Artist fan NFT platform raised $6.5m in seed funding |
| C | Venue Technology and Live Music | • An eco-system of business exist to support the live events industry  
• As live music increased in popularity over the past decade, large companies have emerged running multiple festivals | Providence equity invested into provider of advanced creative and engineering solutions for live events  
Frontier Growth invested $30m into atVenu, a merchandise management tool for live events |
| D | New Rights Management Models And Technology | • Some publishers and labels are challenging traditional deal terms and offering artists alternative contract structures  
• There is also an emerging music-tech eco-system to aid the efficiency and effectiveness of royalty collection | Francisco partners acquire Kobalt for $750m – Kobalt is a music publisher known for pioneering admin only deals  
Utopia acquires tech enabled music publisher Sentric, who focus on a low service model for low-mid tier artists |
| E | Rights Cleared Music Libraries | • Traditional users of music who would indirectly pay royalties (e.g. advertisers, podcasters, venues) now more options  
• This has opened up the use of quality music to creators who may not have typically had resources/skills to deal with PROs | Blackstone Music Group invest $450m in Epidemic Sounds, a subscription based royalty free music library  
Premium beat, a library of 20,000 tracks, was acquired by Shutterstock to accompany the stock image business |
| F | Catalogue Investment | • There has been a significant increase in the purchase of composition and recorded rights; total spend on music catalogue and rights was c.$5bn in 2021 | Hipgnosis acquired Justin Timberlake’s catalogue for <$100m  
Sony Music Group acquired Bruce Springsteen’s catalogue for $550m |
OC&C has broad experience across the music value chain

OC&C Relevant Credentials – Music

**Labels, Publishers & Artist Management**

- SM Entertainment
- Downtown Music Services
- EMI
- Kobalt
- SONGTRUST

**Music Rights Administration**

- STIM
- BMI
- ASCAP
- ICE
- AMRA
- PRS for Music

**Music Consumption Platforms**

- Spotify
- Era
- Amazon Music
- Deezer
- Sky
- Global Radio

**Music Distribution, Tech & Adjacent Services**

- AdRev
- Soundrop
- Epidemic Sound
- Artlist
- Cdbaby
- FUGA
- ASM Global
- atVenu

*Not Exhaustive*
Thank you!