



Research paper

Music Mania: Why music catalogues are a booming asset class

Written by

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Contents

Music Multiples Mania: Why music catalogues are a booming asset class	1
Introduction	2
Breakdown of a music catalogue	3
What is a music catalogue?	3
How to does a music catalogue generate revenue	5
How to value to a music catalogue	5
Why are music catalogue sales booming right now?	6
Investing in Music Royalties	8
References	10

Music Multiples Mania: Why music catalogues are a booming asset class

Introduction

The sudden uptick in private equity and specialist investor interest in the music industry is nothing short of astonishing. As recently as a few years ago, the entire business world had written off the Music Industry as dead, with online piracy acting as the chief culprit. However, in the past several months, record amounts of money have poured into the purchasing of song catalogues, driving deal values to previously unheard-of levels.

In October 2021 alone, Blackstone, KKR and Apollo collectively poured over \$3bn into buying song copyrights - either through the direct purchase of copyrights to song catalogues or via investment in new specialist funds who invest in music catalogues. The world's biggest rights-holder, Universal Music Group, was listed on the Euronext in Amsterdam in September 2021 at an astonishing \$54.3 billion valuation, while the market value of rival Warner Music Group rose to a decade high \$22.6 billion.

With valuations at all-time highs and heightened fears the market is overheated and due a correction, let us examine what is behind the current boom in the music catalogue industry.

	Deal	Deal Value
NOV 2020	Taylor Swift catalogue sold to Shamrock Capital	\$300m+
DEC 2020	Primary Wave takes a majority stake in Stevie Nicks' catalogue	\$100m
DEC 2020	Bob Dylan's catalogue sold to Universal Music	\$300m +
JAN 2021	Majority stake in catalogue of Ryan Tedder and OneRepublic sold to KKR	\$200m
JAN 2021	Half of Neil Young's catalogue sold to Hipgnosis	\$150m
APR 2021	Paul Simon's catalogue sold to Sony	\$250m
JUNE 2021	David Guetta's catalogue sold to Warner Music	\$100m
SEP 2021	David Bowie's catalogue rights sold to Warner Music	\$200m
OCT 2021	Kobalt catalogue, including hits from Lorde and The Weeknd, sold to a KKR-led group	\$1.1bn

Source : Ft.com

Breakdown of a music catalogue

What is a music catalogue?

In its simplest form, a music catalogue is a collection of songs created by or registered to the same beneficial owner(s) who controls all the various copyrights (publishing, sync or master) associated with them.

The number of songs in a catalogue varies and is dependent on the artist and rights owners. Some artists have hundreds of songs in their catalogues that they have created for themselves or others over their career, while record labels and publishing companies will often have catalogues with songs numbering in the thousands, spanning multiple decades, artists and genres.

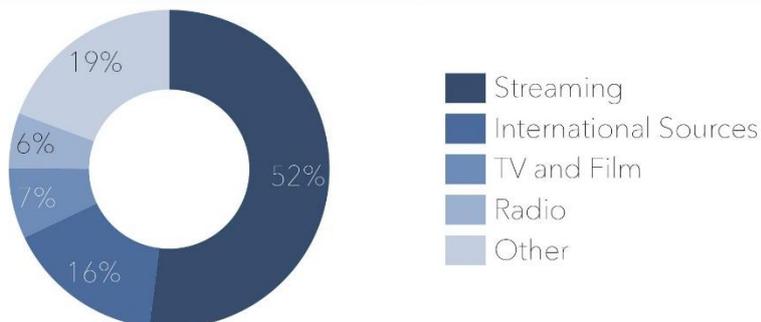
In the modern-day music industry, it is rare for one person to own full rights to a song they have created. More typically, copyrights are divided amongst all parties who were involved in the making of the music. Typically, besides the main singer or band, this tends to include songwriters, musicians and beatmakers, publishers, record labels, managers and other stakeholders. All these parties get a share of the copyright (in varying proportions) and these rights then become a part of their music catalogue. Hence, the same piece of music can be a part of different music catalogues, albeit with different rights included in each catalogue.



A closer look into music catalogues

Sample Music Portfolio		Included Rights	
Drake, Megan Thee Stallion, and Big Freedia			
Track ID	Track Name	Type	
15670887 16156189	Booty Whop	Musical composition	Sound Recording
16156193	Explode	Copyrights included?	
16379368	Gin In My System	No	-
31694882	N O Bounce	Rights	
17258554	Nice for What	Mechanical Public Performance Sync	Sales Streaming Sync
27133321	Rent	Sources	
26915166	Ride or Die	Internet Streaming, AM/FM & Satellite, TV/Film/Commercial Performances...	Internet Streaming, Satellite Radio, Digital Downloads, CD Sales, TV/Film/Commercial Placements, Perfromances, Samples...
40080416	Rock Around the Clock	Distributors	
16156179	Turn Da Beat Up	BMI	-
16379393	Y All Get Back Now		

Sources of revenue for music catalogues



An example of a music catalogue

How to does a music catalogue generate revenue

In the last 20 years, the music industry has drastically transformed its revenue sources. Historically there were just three revenue sources associated with the music industry, however today there are more 6-7 different music revenue streams :

1. **Record Sales:** This refers to the sale of physical copies of songs such as CDs, vinyl etc, via retailers. Royalties from sales are then awarded to the rights holders in lump sums at fixed dates. Although this sales channel has decreased in size, it still accounted for 25% of recorded sales in 2018 (To compare more evenly between sales channels, we've used pre-pandemic figures).
2. **Live Concerts/Performances:** Pre-Pandemic, live music accounted for close of 50% of the total music revenue. In the pandemic the number dropped to the low 10s and is not expected to recover to the high-water mark of 50% until at least 2023. While live music has declined in terms of market share, it still offers the highest dollar value per track played amongst all music revenue streams.
3. **Synchronization:** Synchronization refers to the use of songs in TV, Film or any other production. This includes one-time use of a song for purposes such as a political rally, as well as multi-year uses such as the opening track for a TV show. Historically, sync revenue has steadily comprised 2-3% of revenue for the recorded music industry, however, the recent explosion in user-generated content on Tik Tok, YouTube, and other platforms may signal growth for this revenue channel.
4. **Streaming Revenue:** In 2020, streaming revenues reached 13.4 billion U.S. dollars worldwide, the highest recorded today and more than four times 2015 figure, when music streaming revenue amounted to 2.8 billion. Streaming now accounts for over 62 percent of total global recorded music revenue. Streaming services have shifted the model of music consumption from ownership to recurring consumption. Streaming companies use a complicated formula compromising of total number of subscribers, artist popularity, number of song listens, etc., that are calculated monthly to determine the revenue share of the label and publisher. Due to the complicated nature of these calculations and the low royalty payments per single stream, streaming payments represent one of the lowest dollar values per track played amongst all music revenue sources.

How to value to a music catalogue

- Older valuation methods for music catalogues have become less relevant as new digital trends and intense competition among major publishers have emerged
- The disruptive rise of streaming has had a profound impact on the interaction between consumers and artists and royalty cash flow distributions
- Streaming services and digital tools have created a more consistent and well-dispersed space of more stable royalty and cash flows spread over multiple years
- Many valuers, investors and industry players have drifted away from the **NPS multiple valuation model**, and shifted towards evaluating the asset by looking at a multitude of factors such as **regression, IRR, net cash flow value** and **current/future activity values** (along with a synthesis of all the above)

Three Major Approaches:

1. The Market Multiple Approach

- Calculates multiples over measures of performance and compares them with the industry's averages (based on recent comparable transactions)
- Usually more accurate for catalogues with more classic, evergreen hits that have been played and consumed over a period of more than 10-15 years
- NPS (Net Publisher's Share) = royalties received – royalties paid
- Recently, most transactions have closed with an average multiple of 5x to 15x NPS
- Evergreen catalogues usually trade between 10x to 15x NPS, while fresher / less well-known catalogues trade between 5x and 10x NPS.
- Multiples can range lower in the case of non-exclusivity rights, or higher in the case of competitive biddings

2. The Income Approach

- Sets a PV based on future royalty streams (based on DCF model)
- Music popularity can be tough to predict – 5-7 years historical data ideally needed
- With appropriate discount rate, model aims to estimate projected future streams of a catalogue, payback period / life cycle
- Ex: if the popularity of a song/catalogue peaks and reaches max value within the first couple of years, and continually flattens out moving forward, this model gives us a very conservative valuation

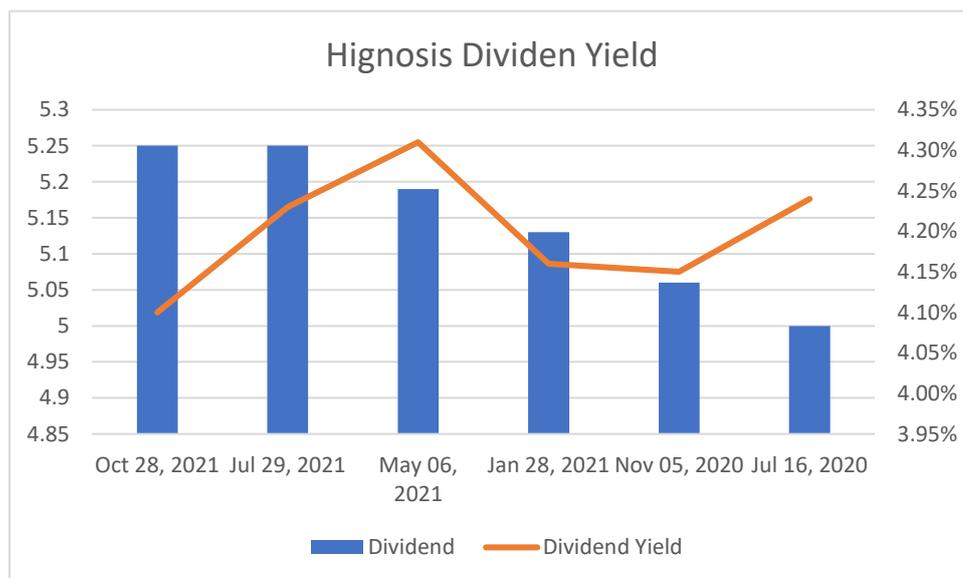
3. IRR Approach

- Similar to evaluating the IRR for any other project

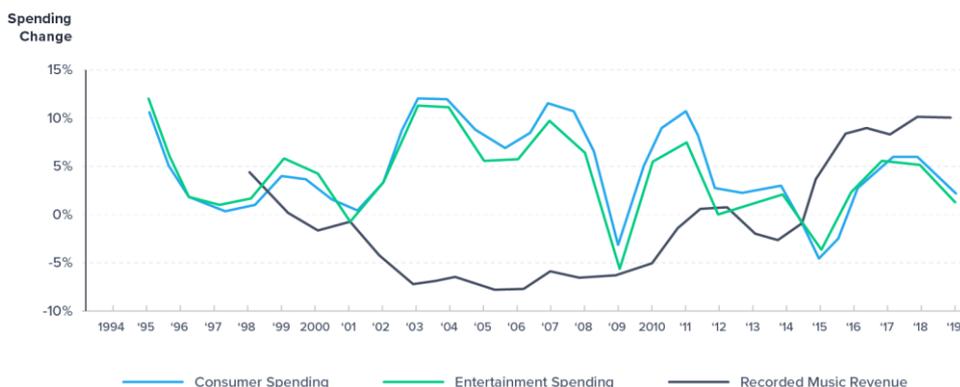
Why are music catalogue sales booming right now?

1. **Low interest rates & Low Yield Required by Private Equity firms :** In 2021, the US treasury 10 year yield is 1.42% and the S&P500 dividend yield is 1.29%. In comparison, music royalties can be seen as an appealing asset class. In 2021, Royalty Exchange reported that that the “average annualized return on investment for catalogues sold on its platform was greater than 12%”. The Dividend yield on a specialist music fund Hignosis was close to 4.3% and another music fund Mills Music Trust has a dividend yield of 9.6%.
2. **Stability and Recurring revenue provided by streaming:** Streaming, for all its criticism by artists, has proven to be a revenue juggernaut. In 2019 streaming provided \$77b in revenue and captured an 83% market share of total music revenue. Furthermore, during covid when live concerts and movies were banned, streaming proved to be a recession-proof channel of income. The global recorded music market grew by 7.4% in 2020, the sixth consecutive year of growth and this growth was primarily driven by streaming, especially by paid subscription streaming revenues, which increased by 18.5%. As per IFPI issues Global Music Report 2021, “There were 443 million users of paid subscription accounts at the end of 2020 and total streaming (including both paid subscription and advertising-supported) grew 19.9% and reached \$13.4 billion, or 62.1% of total global recorded music revenues”. And this turbocharged growth shows no sign of ending. A Goldman Sachs report on the state of the music industry states that “The bank estimated the online streaming market could grow to capture 1.2 billion users by 2030.” That is nearly four times its 2019 customer base of 314 million paid subscribers. Along with an impressive growth, streaming has also completely upended the model of revenues from Music. Classically music royalties were paid out when

a customer purchased a physical or digital copy of the album or song or another entity (artist, radio, video game, etc.) played or performed the song. This would lead to heavy revenue inflows between 2 and 12 months from the release date and then revenues would be tail off. Streaming completely changed this model by stabilizing revenues after the classical tail off and ensuring a stable recurring revenue well beyond the 12-month lifeline of the album or song. Perhaps surprisingly, these post tail-end revenues have proven very resilient. This near stability in revenue flows, enabled by streaming, which transform the payoff structure of a music asset into one of a perpetual bond, has become incredibly attractive to institutional investors.



- The pandemic induced fire sales by artists for funding:** When Covid-19 hit, musical venues shut around the world, and touring and live shows came to a near halt worldwide. Revenues from live shows, an integral part of musicians' income, especially in the age of piracy, dropped to zero. This meant alternative revenue sources needed to be found for many artists' bills to be paid, and the most logical revenue alternative was the sale of old song catalogues to institutional investors clamouring for any kind of yield.
- Technology:** New technology has enabled lower barriers to entry into the music recording and publishing business. Technology has made it easier to administer publishing and collect royalties globally. Any artist with access to YouTube can launch a hit and any person can invest via new websites like Royalties Exchange.
- Diversification:** Music industry has shown little correlation to wider economic activity. As seen in the "State of Music Industry Report", music royalties have been little affected by COVID – 19. The chart below further illustrates this lack of correlation with broader spending activity. In the chart below, Goldman Sachs highlights this lack of correlation by comparing the recorded music industry's 15-year decline due to piracy and its subsequent streaming-driven rebound versus personal consumer expenditures (PCE.)



Source: Euromonitor, Goldman Sachs Investment Research



Investing in Music Royalties

Retail investors looking to gain exposure to music catalogues in their personal portfolios have a few options.

Buying equity in a listed music label is a low-risk way of gaining exposure to music catalogues. The music label industry is dominated by three players.

Warner Music (\$WMG)

Market Cap	\$24.871Bn
EPS	0.53
Founded	1929
IPO	2020
Price (14/11/21)	\$45.80
Market	Nasdaq

Universal (€UMG)

Market Cap	€48.85Bn
EPS	0.59
Founded	2020
IPO	2021
Price (14/11/21)	€27.30
Market	Euronext Amsterdam

The Sony Music Corporation parent company, Sony (\$SONY), offers a third option, however, investors cannot gain exposure to the music part of the business exclusively.

Another option available to retail investors is to invest in funds purchasing royalties. The vast majority of said funds are private however a few attractive publicly listed firms are detailed below:

Hipgnosis Song Fund Limited (£SONG)

Market Cap	£1.55Bn
EPS	0.05
Founded	2018
IPO	2018
Price (14/11/21)	£128.00
Market	London Stock Exchange

Mills Music Trust (\$MMTRS)

Market Cap	15.26Mn
EPS	3.11
Founded	1964
Listing	1998
Price (14/11/21)	\$54.95
Market	PINK

Finally, directly buying royalty catalogues listed through specialist sites such as Royalty Exchange provides investors with an exciting array of investment opportunities.

Their flagship offering is the 'Auction House' whereby royalties are bid on directly from the seller. There is also a public marketplace.

Artists may also tokenise their songs into an NFT and sell it through Royalty Exchange (via Ethereum), attracting a different type of buyer and appealing to the new retail investor.

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