



HOULIHAN LOKEY

# MUSIC INDUSTRY CONSIDERATIONS

MARKET UPDATE | SPRING 2020



# Houlihan Lokey Music Industry Update

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In recent weeks, COVID-19 (better known as coronavirus) has globally sent shock waves through markets and captured the attention of the world. Since mid-February, the outbreak has accelerated and infections have become widespread, resulting in significant market volatility that is expected to continue for the foreseeable future. Substantial disruption to business operations has occurred, and all sectors of the economy have been impacted, including the music industry.

At this point, it is impossible to know how long the outbreak and shutdown will last or the lingering effects on businesses, the economy, and the credit and M&A markets, but despite temporary disruption of live events, we believe that once business resumes, the music industry will continue to see high levels of activity as companies respond to the impacts of COVID-19. We have included industry insights to help you stay ahead in this dynamic and constantly evolving sector. Driven by growth of streaming music, the sector has seen continued consolidation (such as Tencent's acquisition of a stake in UMG and Pandora's investment in SoundCloud) and evolving dialogue around artist remuneration. Despite the current disruption, we expect activity to remain high for the foreseeable future as the sector continues its evolution, the key players refine their strategic goals, and artists continue to fight for their share.

We understand the anxiety created by these uncertain times, and we are here to share our perspective based on our real-time conversations with industry executives and our comprehensive views on the markets—M&A, public equities, and credit. We will continue to monitor this rapidly evolving situation and look forward to staying in touch.

Regards,



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# Select Recent Music Transactions

Houlihan Lokey's professionals have unparalleled experience in advising music companies.

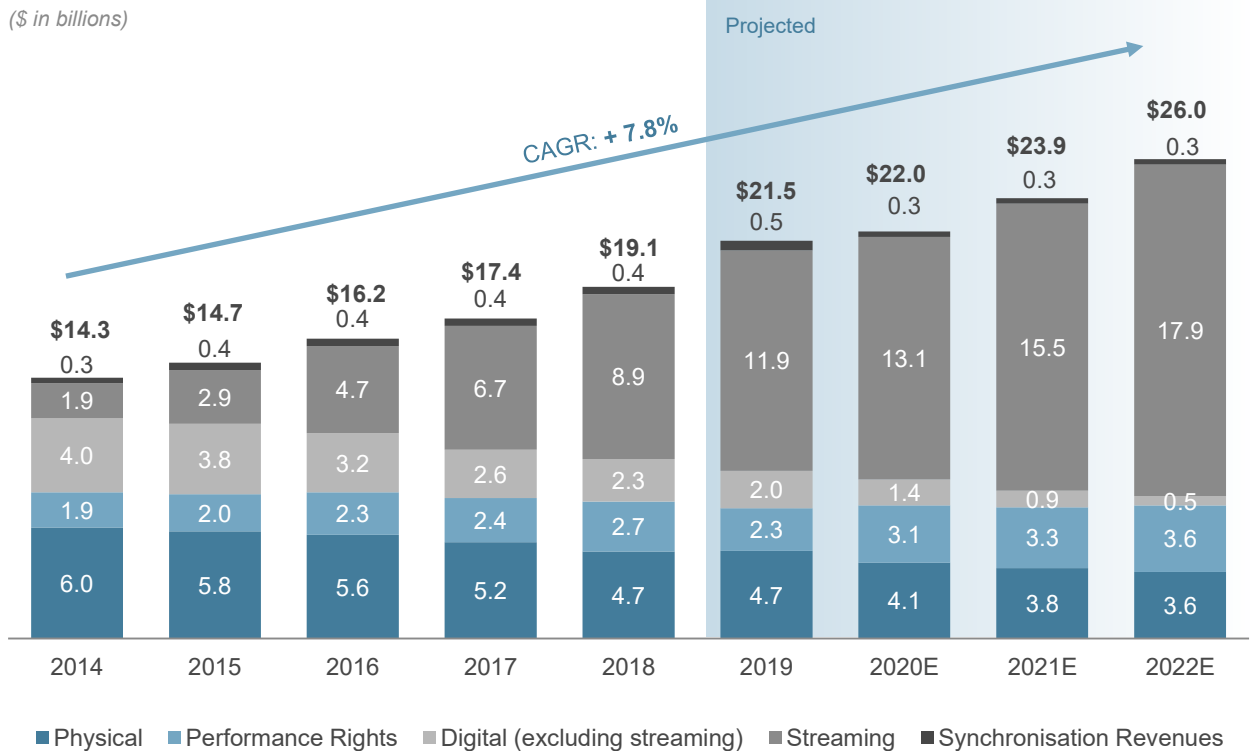
 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>A portfolio company of</p>  <p>Sellside Advisor</p>
 <p>has confirmed a Chapter 11 Plan of Reorganization, restructuring approximately \$450 million of debt</p> <p>Second Lien Noteholder Advisor</p>	 <p>has exchanged stations with</p>  <p>Financial Opinion</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>	 <p>\$50,000,000 Financing</p>  <p>Financial Advisor*</p>	 <p>has divested its equity stake in</p>  <p>to</p>  <p>Financial Advisor*</p>
 <p>investment from</p>  <p>Financial Advisor*</p>	 <p>has raised equity from Wood Creek Capital to acquire</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>
 <p>has completed a financing transaction in connection with its acquisition of</p>  <p>Fairness Opinion</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>	 <p>has acquired</p>  <p>Financial Advisor*</p>	 <p>a portfolio investment of</p>  <p>Valuation Opinion</p>

\*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company. Tombstones included herein represent transactions closed from 2011 forward.

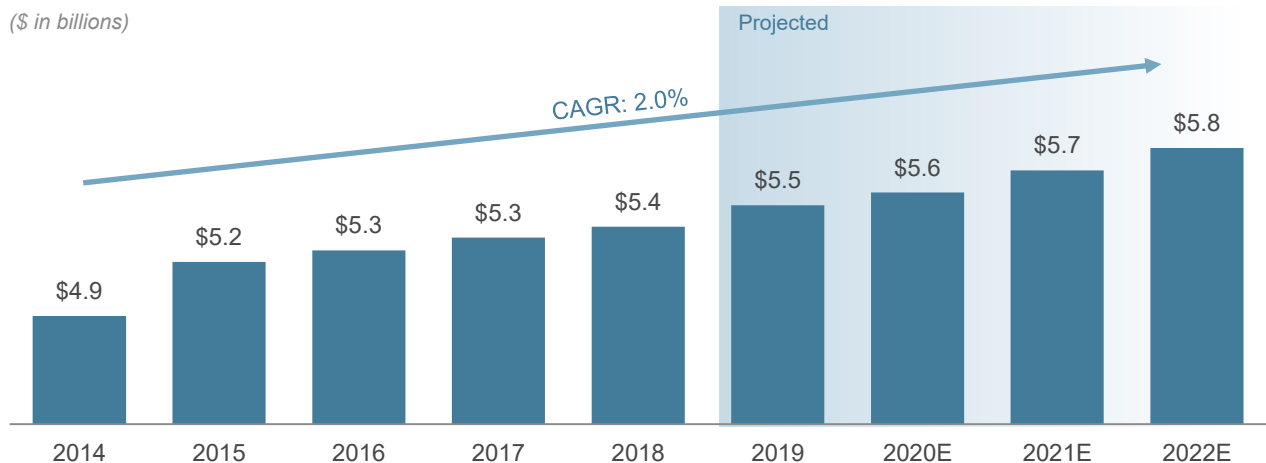
# Streaming Driving Growth Across Music Ecosystem

Continued boom in streaming, now more than 50% of recorded music revenue, causing growing complexity and increased diversification of business models and artist/label relationships; likely driving continued disruption and business model innovation.

## Global Recorded Music Revenue (2014A–2022E)



## U.S. Music Publishing Revenue (2014A–2022E)



Sources: IFPI, Global Music Reports, UBS Research, April 2018. Wall Street estimates, IBISWorld Industry Report dated August 2017.

Note: Figures represent revenue received by labels and artists, net of intermediary distribution costs.

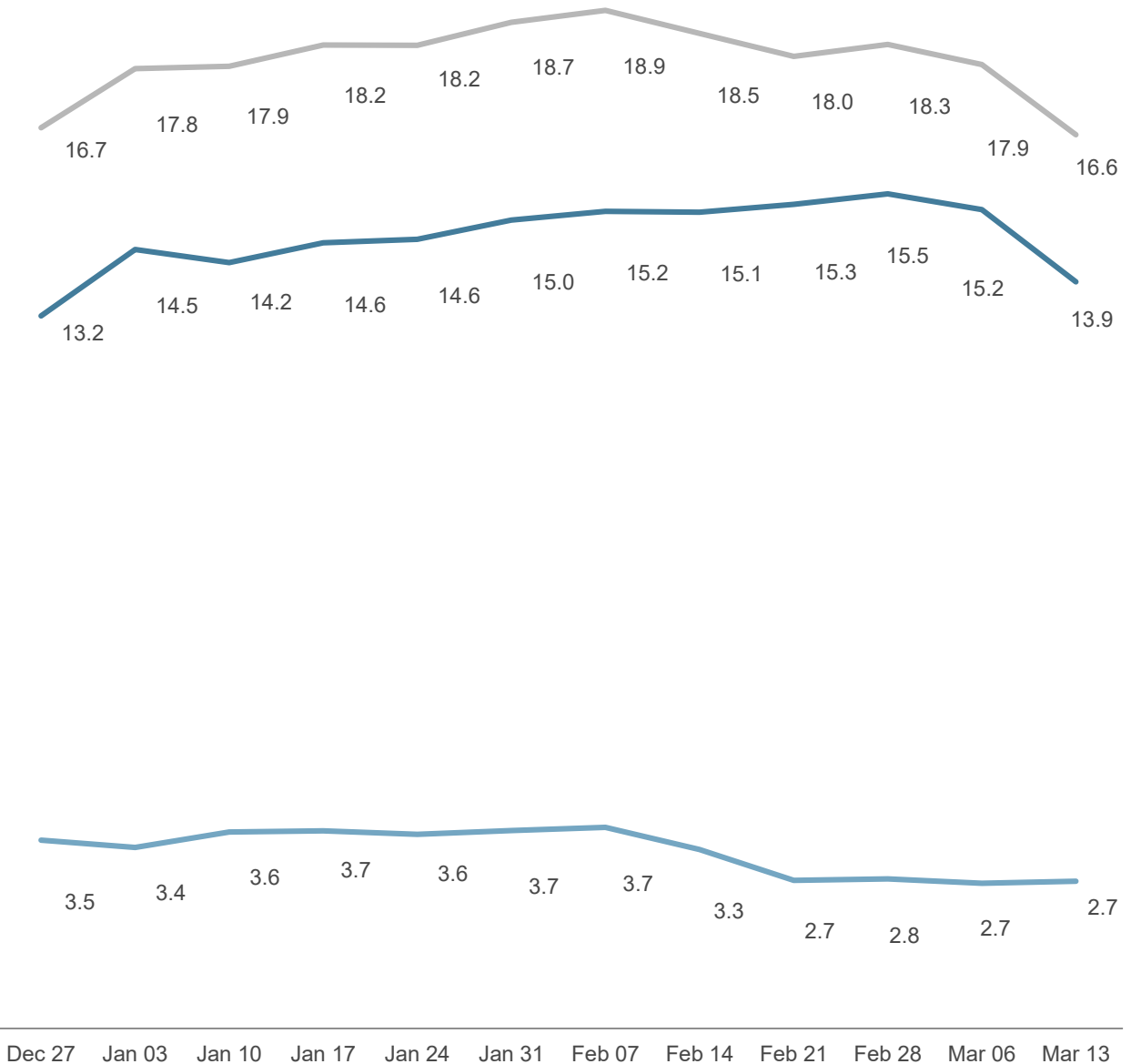
# Situation Update: Impact of COVID-19 Not Yet Clear

Audio music streams were down the week of March 13 while video music streams showed an increase, consistent with overall increases in video consumption during this period.

## Less “On-the-Go” Behavior May Impact Music Streaming Habits

(weekly streams in billions)

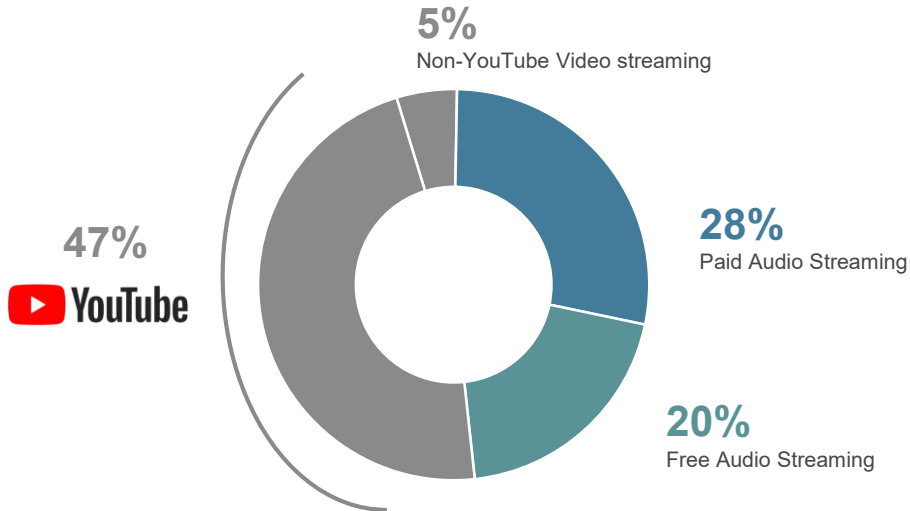
— Audio — Video — Total On-demand



# YouTube Dominates D2C Music Streaming...

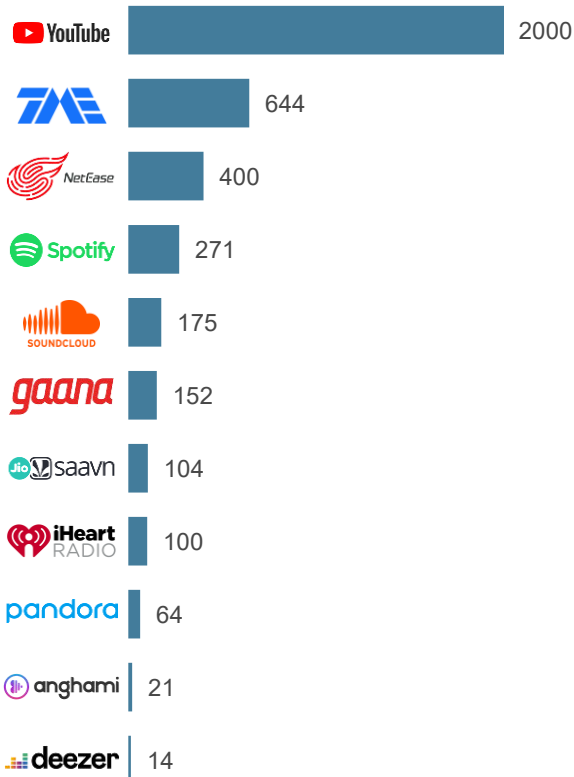
Music accounts for 5% of YouTube's videos, but represents 20% of its views.

(% Time Spent Streaming Music by Platform Type)



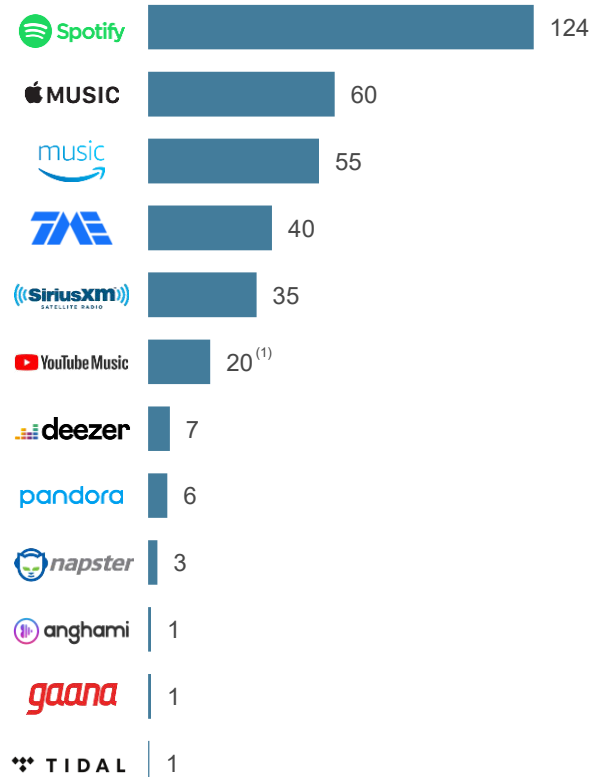
## Total Users

(in millions)



## Paid Subscribers

(in millions)



Sources: IFPI Music Consumer Insight Report 2018, Forbes, Company filings, Music Ally, Variety, SNL Kagan.

(1) Includes Google Play Music paid subscribers.

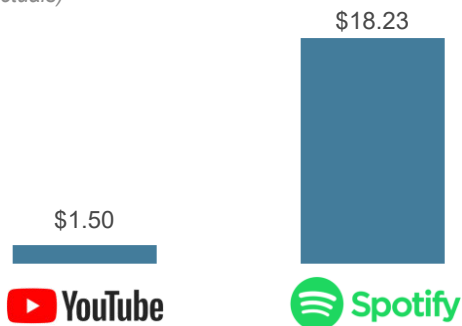
# ...But Is a Less Valuable Platform for Artists Than Peers

YouTube's ad-supported model (and lower payout rates on video streaming) leads to lower payments despite more users.

## Spotify vs. YouTube: Not All Users Are Created Equal

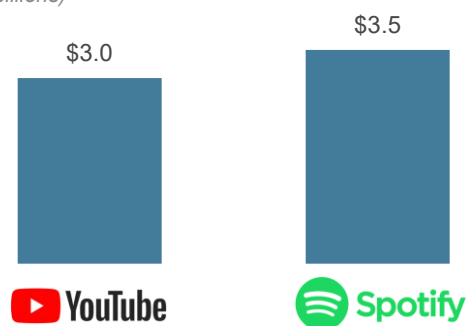
Illustrative Per-User Payout to Rightsholders<sup>(1)</sup>

(\$ in actuals)



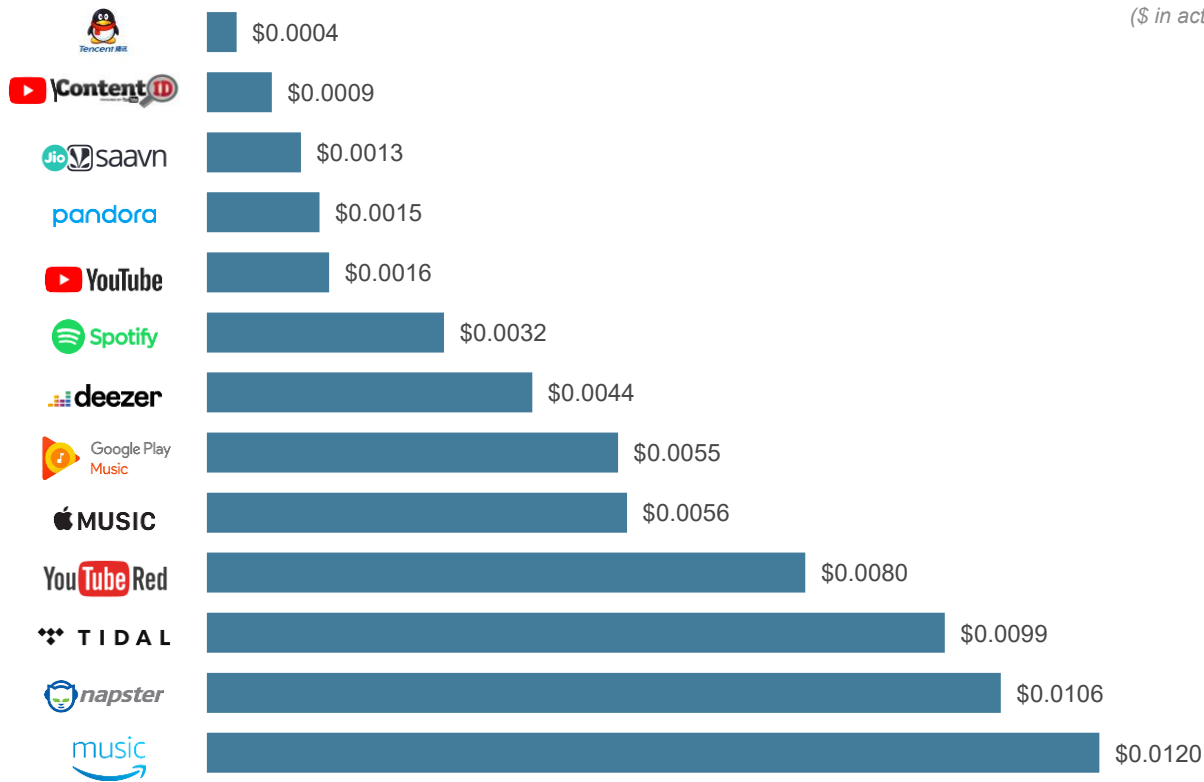
Total Payout to Rightsholders (2019)<sup>(2)</sup>

(\$ in billions)



## Illustrative Average Per-Stream Payout Rate<sup>(3)</sup>

(\$ in actuals)

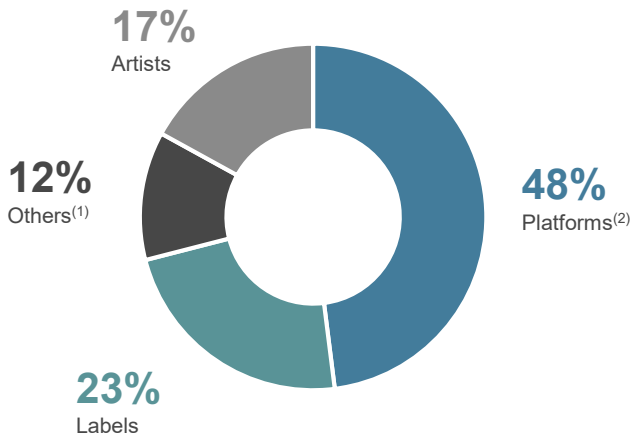


Sources: Digital Music News, The Trichordist, Soundcharts, YouTube announcement, Company filings, Music Ally.

- (1) Per-user payout is calculated by dividing total revenue paid out to music rightsholders by the monthly active users.
- (2) YouTube annual payout includes subscription and advertising revenue for both publishing and royalties.
- (3) Per-stream rate represents how much an independent artist is paid per play.

# Labels and Platforms Currently Keep Approximately 70% of Every Dollar in the Music Ecosystem

While incumbents are focused on “protecting their turf,” there will be significant opportunity for next-generation business models focused on the long tail of the ecosystem and putting artists first.



“Article 13 plans to address the so-called ‘value gap’ between the revenues that online content-sharing platforms generate from enabling users to upload and consume copyright-protected works and the value returned to rightsholders”

ReedSmith April 2019

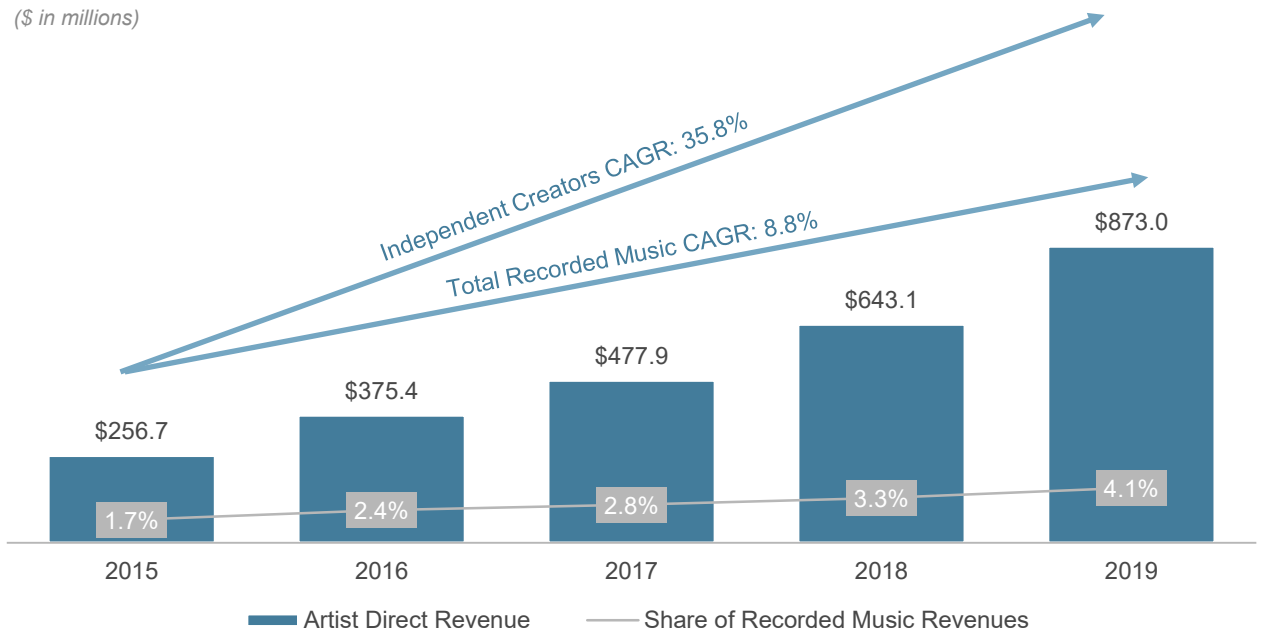
“We do not find it justifiable in a world in which record companies no longer have the costs of pressing, handling and delivering physical product for them to try to hold on to the lion’s share of streaming revenues.”

BMG

Jan 2020

## Independent Creator Revenue Significantly Outpacing Industry Overall

(\$ in millions)



Sources: Citi: Putting the Band Back Together (2018), PWC, Global Entertainment and Media Outlook, Statista, Wall Street Research, MiDia Research.

(1) Others include concert cost, manager, concert agent, retail margin, collection fee, concert promoter, and record producer.

(2) Platforms represent EBITDA of music platforms and cost of running music platforms (FM, Sirius XM, Spotify, YouTube).

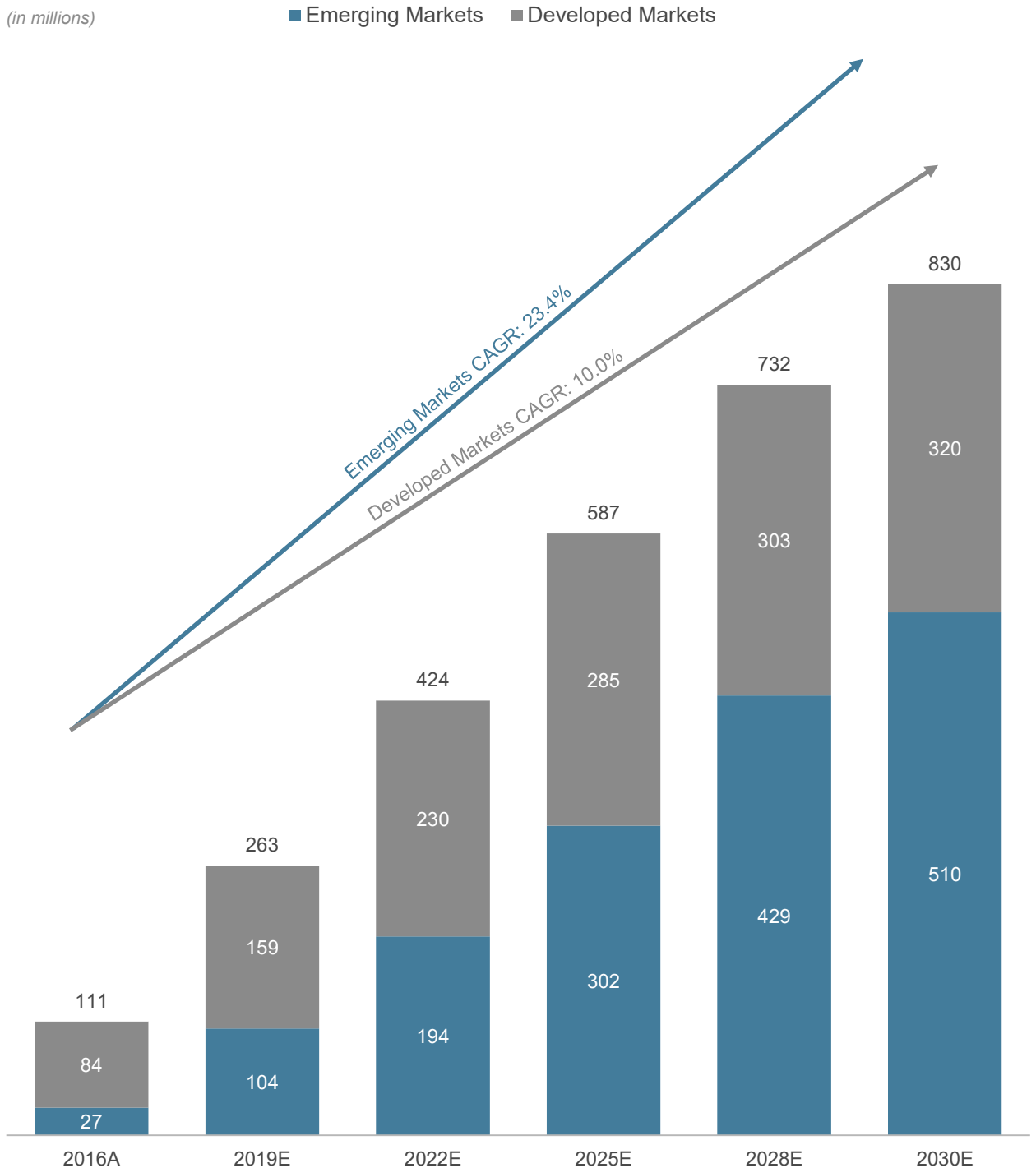


# Growth of Streaming Globally Leading to Consolidation and Expected to Be Key Driver of M&A

Due to increasing smartphone penetration in emerging markets growing at 5% CAGR, emerging markets will overtake developed markets in number of users by 2025.

## Paid Music Streaming Subscribers by Geography (2016A–2030E)

(in millions)

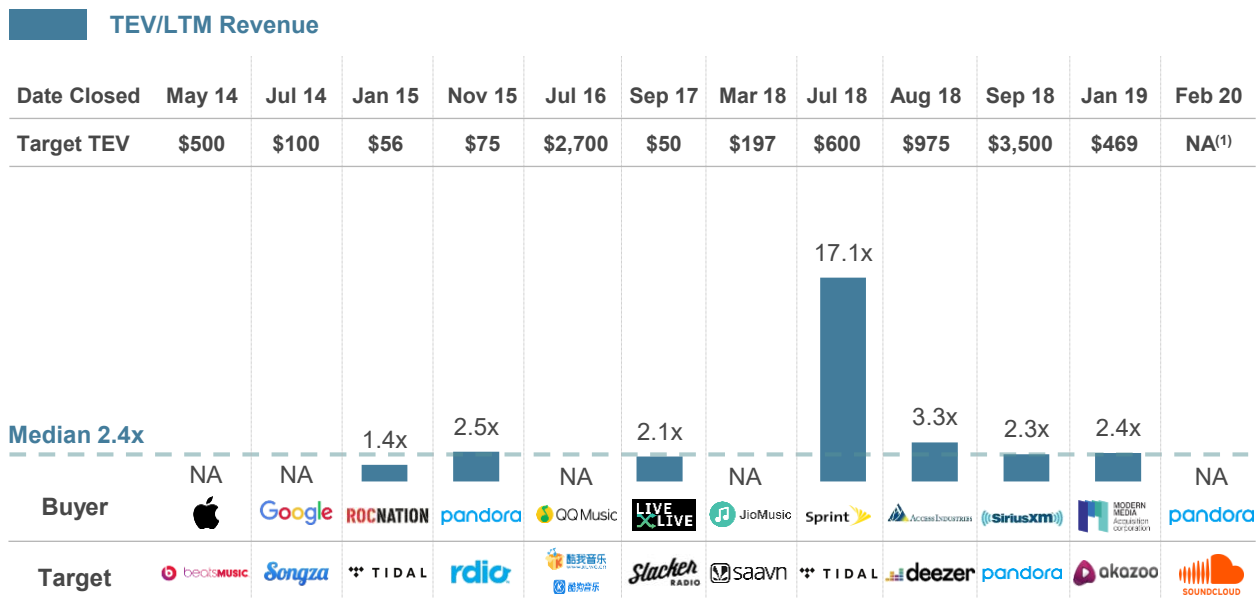


# Sector M&A Activity

Demand for IP and further consolidation in D2C likely to drive value as strategic players plot their course post COVID-19.

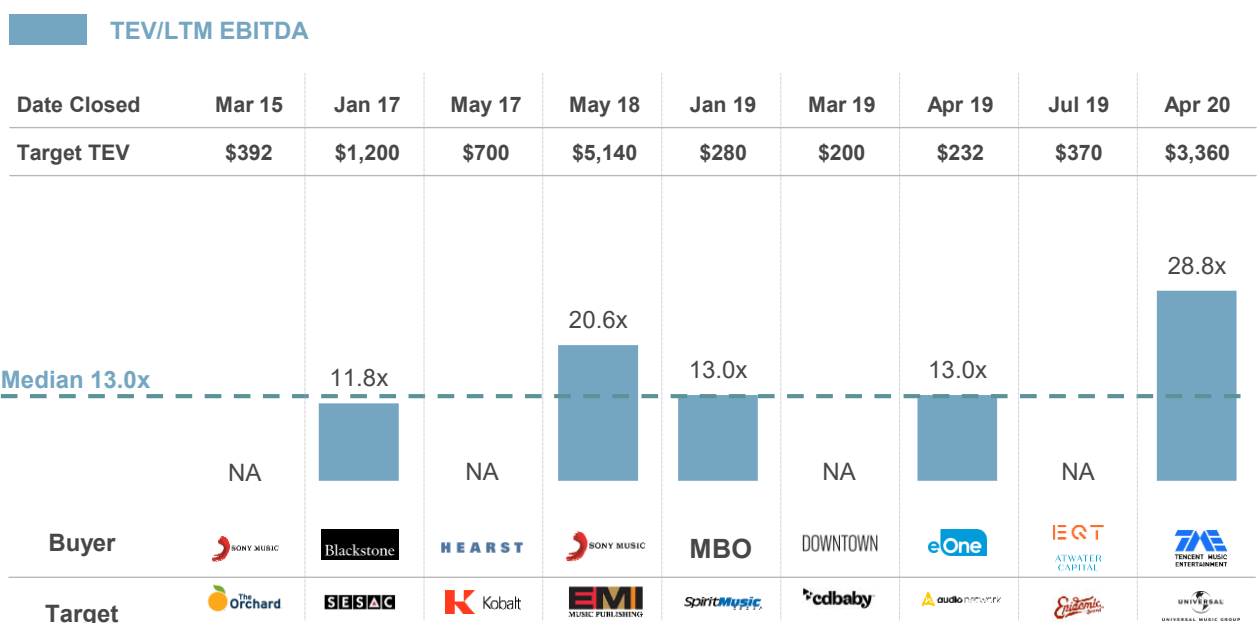
## D2C Music Streaming

(\$ in millions)



## Record Labels/Music IP

(\$ in millions)



Sources: S&P Capital IQ, public filings, other publicly available information.

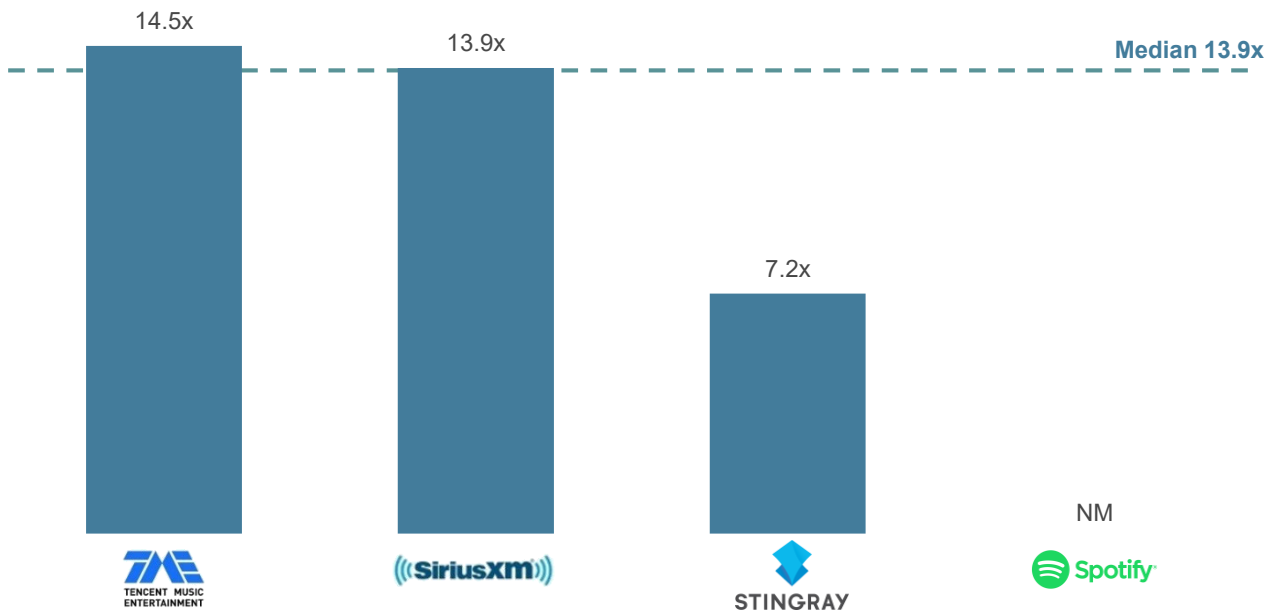
(1) Represents minority investment.

# Public Market Music Sector Performance

Some companies have seen multiple compression, but not to the degree of overall market.

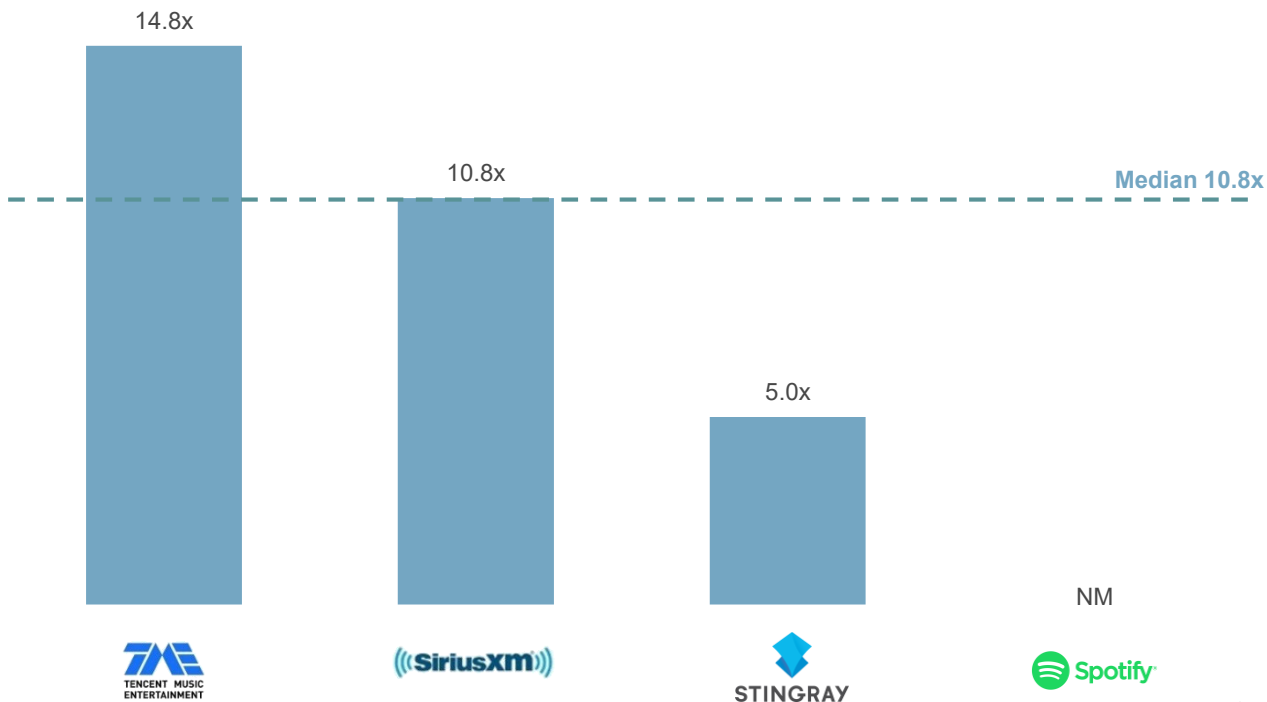
## Pre-COVID-19 Market Disruption (as of 1/6/2020)

Implied TEV/2021E EBITDA Multiples



## Post-COVID-19 Market Disruption (as of 4/1/2020)

Implied TEV/2021E EBITDA Multiples



Sources: S&P Capital IQ, public filings, other publicly available information.

# COVID-19 Considerations

Volatile market conditions have created many questions for businesses. Houlihan Lokey's significant product and end-market expertise positions us to help review a variety of strategic alternatives.

*How have the syndicated loan markets been affected by COVID-19?*



Syndicated loan markets sold off to 90% of par, and new issuances have slowed to a trickle. Private market issuances are open, but on a case-by-case basis. Lenders are willing to provide financing, but are starting to seek higher yields and more structure on terms (i.e., covenants and definitions).

*Can/should I refinance my existing capital structure? What about other options, such as a dividend recapitalization?*



Due to current market volatility, opportunistic refinancing transactions have been shelved as issuers and underwriters opt to wait to understand how the financial performance will be impacted and for stable markets. Despite recent outflows, market liquidity remains stable and opportunities to refinance will be available once volatility cools down.

*What should I do if my covenants are tightening or my lenders are being difficult?*



There are a number of alternative capital providers willing to engage in refinancing discussions. Please reach out to us directly to discuss your particular situation.

*What should I do if I'm considering a sale?*



Our relationships in the music industry, along with Wall Street's best private equity coverage group, give us unmatched, real-time insights into current buyer sentiment and potential diligence and other concerns related to COVID-19 that directly inform our ability to construct a sale process roadmap to maximize value.

*What should I do if I'm considering an acquisition?*



As companies analyze inorganic growth opportunities, it's important to understand risks to target businesses posed by COVID-19, in addition to understanding the ideal structure for a potential acquisition. Now is a great opportunity to accelerate M&A dialogue. Our substantial buy-side expertise and leading Capital Markets Group position us to provide guidance and capital in the current environment.

*Do I need to discuss COVID-19 as it relates to due diligence in a sale or financing process?*



Yes. COVID-19 is part of the world we now live in. It is crucial to have a clear description of COVID-19 protocols in place, a plan of attack to ensure employees are safe, and an understanding of potential business impacts from COVID-19 moving forward.

# How Houlihan Lokey Can Help

Our firm is extremely well equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients analyze, structure, negotiate, and execute the best possible solutions from both strategic and a financial perspectives.

## What We Offer

### 1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

### 2 Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory

### 3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

#### Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

#### Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000 to 2019.

#### Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

## Why We're Different

- ✓ Dominant in Special Situations and Restructuring
- ✓ Significant Experience With Financing Markets
- ✓ Senior-Level Commitment and Dedication
- ✓ Deep, Industry-Specific Expertise
- ✓ Superior Work Product/Technical Abilities
- ✓ Creativity, Imagination, Tenacity, and Positivity



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

- 1,300+ Employees
- ~\$1 Billion of Revenue
- 23 Offices Globally
- ~\$3 Billion Market Cap

## Corporate Finance

### 2019 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>184</b>
2 Goldman Sachs & Co	167
3 JP Morgan	141
4 Morgan Stanley	122
5 Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 U.S. M&A Advisor

Top 10 Global M&A Advisor

Leading Capital Markets Advisor

## Technology, Media, and Telecom

### 2014-2019 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$1 Billion

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>198</b>
2 Goldman Sachs & Co	162
3 Raymond James Financial Inc	155
4 Morgan Stanley	154
5 Evercore Partners	144

Source: Refinitiv (formerly known as Thomson Reuters)

## Financial Restructuring

### 2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>76</b>
2 PJT Partners Inc	43
3 Moelis & Co	36
4 Lazard	29
5 AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Global Restructuring Advisor

1,000+ Transactions Completed Valued at  
More Than \$2.5 Trillion Collectively

## Financial and Valuation Advisory

### 2000 to 2019 Global M&A Fairness Advisory Rankings

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>1,057</b>
2 JP Morgan	929
3 Duff & Phelps	734
4 Morgan Stanley	621
5 Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

No. 1 Global M&A Fairness Opinion Advisor  
Over the Past 20 Years

1,000+ Annual Valuation Engagements

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