

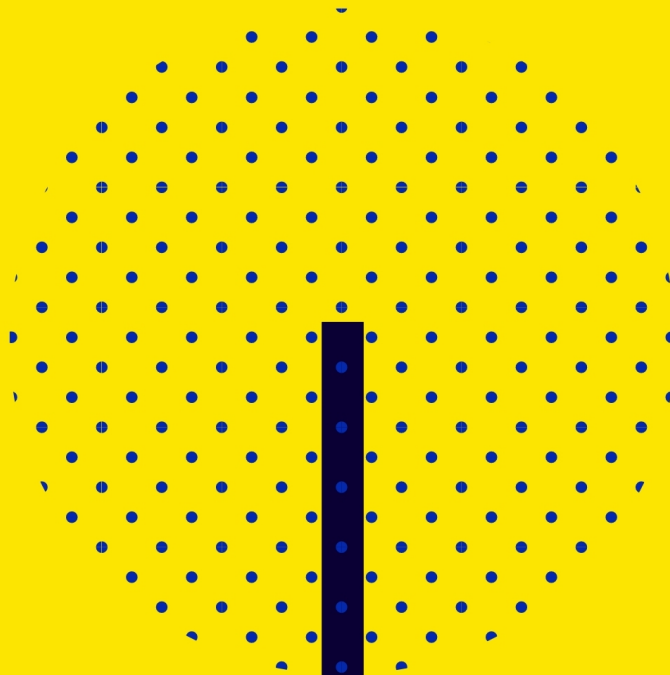
The changing nature of royalties  
and licensing in 2021

**T/A**

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# ROYALTIES REPORT

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## How Data Transparency is Shaping the Royalties Industry

Lack of transparency is an issue that has seeped itself into the fabric of the music industry from its inception. As the original way of doing things, it created a stain seemingly so hard to remove that eventually, people just learned to live with it. Recording artists had no choice but to go along with the business they were happy to be a part of, and one that still promised unimaginable opportunities.

In the late 1990s and early 2000s, file-sharing sites and programs such as Napster and The Pirate Bay became industry disrupters. But unlike modern disrupters with a mission to take over an industry, these disruptions were disorganized messes of peer-to-peer activity. While pirated music hurt the music industry, it never threatened to blow the entire business model apart.

Eventually, though, those intimate with music and the business of entertainment knew that change was coming. And when streaming music slowly became the primary way people consumed music, it was only a matter of time before there was a total upheaval of the industry. But while the old way of doing this is a distant memory, establishing an open and transparent system for royalty distribution is still a work in progress.

## What Does Transparency in the Music Industry Mean?

Let's define what exactly transparency means in the music industry. There are three main facets of transparency: rate and revenue transparency, structural transparency, and repertoire

transparency.

### Structural Transparency

Structural transparency refers to how services such as publishers and performing rights organizations function and what their relationship is to the artist. Structural transparency is primarily straightforward and does not have the capacity to be quite as damaging as the other two categories.

### Rates and Revenue Transparency

Transparency of rates and revenue means knowing exactly how royalties are split, who gets paid, and why they get paid. In the modern era, royalty micro-payments can come from over 700,000 different sources, which places a massive burden on a data provider to account for each equitably.

### Repertoire Transparency

Repertoire transparency means accurately accounting for the rights ownership of a piece of music. One might assume that tracking down copyright ownership would not be a challenge in 2021. However, in actuality, tracking down every last rights owner on a piece of music can be an exhausting exercise that has a real chance of ending in failure.

**“Musicians say there is no money in streaming. That’s what you know, isn’t it? Well, that’s wrong. You see, someone has lied to them.”**

**- Willard Ahdritz, CEO Kobalt Music Group**

With more readily available ownership information, the industry can facilitate more efficient licensing and accurate payments.

### The Real Meaning of Transparency in the Music Industry

Beyond a technical definition, transparency means a world where the business of music is no longer shrouded in shadows and doubt.

Transparency means that through a portal, Skrillex can see that fans in Scandinavia love a particular sound, which can allow him to cater a DJ set on his next tour to the area.

“Of course, there’s money in streaming. The problem is, we don’t have an economy with transparency.” Mark Beaven, CEO of Advanced Alternative Media.

Transparency in the music industry means that songwriters and producers have access to all the information and the power that has been wielded over them by the major record companies for decades.

As an example, through the Kobalt portal, an artist can receive a request from a movie producer to use a song in an upcoming film. The request includes an offer amount, and the artist can

accept the offer in real-time, cashing a royalty check with a few swipes and a click.

“The music industry is historically opaque. And it still is. There is a lot of fear among artists that they’re not getting paid. I tell them, ‘You are right. You’re getting screwed.’” – Willard Ahdriz

## An Abridged History of Music Royalties

If you were a kid growing up before the onset of the iPod and iTunes, the majority of your music listening likely came from radio airwaves or on a cassette or CD. But no matter how many times you heard a song on the radio, the artist was not directly compensated.

If you purchased the physical

product to listen to the entire album, the label would receive a royalty which would eventually trickle down to the recording artists and others involved. This is the way music royalties worked for decades—until outside pressure in stride with advancing technology made the Music Modernization Act a reality in 2018.

“Musicians say there is no money in streaming. That’s what you know, isn’t it? Well, that’s wrong. You see, someone has lied to them.” – Willard Ahdriz, CEO Kobalt Music Group

When Kobalt CEO Willard Ahdriz said this to Kevin Gray of Wired Magazine, it was 2015. That year saw the culmination of a slow-moving, ominous storm. By the summer, the storm had burst into a torrential lightning

shower as pressure mounted to modernize an industry that had begrudgingly become a universe of streaming services.

Towards the end of 2014, Taylor Swift released 1989. However, Swift did not allow the album to be streamed on Spotify. One month later, in November of 2014, her entire catalog became unavailable on the streaming service.

Swift alluded to Spotify and streaming services in general as “a grand experiment” as she detailed her reasons for pulling her catalog. Earlier that year, Swift had written an op-ed for the Wall Street Journal detailing her opinion on the value of music. Apple Music was up next.

In June 2015, Apple Music announced that it would offer a





free three-month trial to new users. Apple also told artists and labels that they would not receive royalty payments for these streams. While this type of policy would become the norm for streams on free services in 2015, it seemed rather unfair. Especially to Taylor Swift, who expressed her thoughts on the matter on Tumblr:

“I find it to be shocking, disappointing, and completely unlike this historically progressive and generous company.

This is not about me. Thankfully I am on my fifth album and can support myself, my band, crew, and entire management team by playing live shows. This is about the new artist or band that has just released their first single and will not be paid for its success. This is about the young songwriter who just got his or her first cut and thought that the royalties from that would get them out of debt. This is about the producer who works tirelessly to innovate and create...”

Somewhat surprisingly, Apple backed down a day later and agreed to pay out royalties to everyone with a license during its free trial of Apple Music. A week later, Swift’s entire catalog was streaming on the service.

Taylor Swift’s spat with Spotify wasn’t about Spotify. Specifically, it was an issue with the streaming industry as a whole. With Apple, Swift wanted something specific, which was to overturn what was universally seen as an unfair practice. While her issues with streaming services were seen by some, such as Pandora co-founder Tom Conrad as “mostly theater,” Swift’s superstar spotlight helped to usher fair royalties for streaming into the forefront of the entertainment industry.

**“ Obviously, physical distribution is down all over the world. But there is still a market for it. Some of the seminal groups of the 70s still generate a decent amount of royalties from that exploitation where the record companies have labels set up solely to service those seminal acts. They continue to repackage that music and it continues to sell.**

- Vince Leoni, Partner at Miller Kaplan

## The Future of Music

In 2005, at the peak of unregulated “pirated” music and a declining music industry, David Kusek and Gerd Leonhard wrote “The Future of Music” for Berklee Today. The full article is worth a read, but the salient points are as follows:

### Music Became a Product

“Have you ever wondered why we have rivers of indistinguishable, shrink-wrapped music oozing at us?

It is because record companies think they sell products, MTV shows products, retailers display products, and we consumers have been willingly buying these products. For record companies, that’s nice and simple, easy to control, and easy to manipulate. Sell singles, sell albums, sell CDs, sell downloads.”

The tried-and-true formula of repackaging the same old songs is essential to take note of because it is indicative of how much the music industry has evolved. The old formula can still work. There is still demand for physical products. But it only works as a large-scale business for the superstars.

“Let’s define a product simply as something made or created and offered for sale. Is that what music is all about? Is it a product? Music is a combination of entertainment, communication, and passion – an ephemeral occurrence, something intangible, and something that is experienced in everyday life.” – Berklee.edu And that intangibility is precisely why it has taken so long, and has been so incredibly hard to define what the actual value of music is, and how it can be fairly and equitably distributed.



“There are more bands, more writers, more songs, more CDs, more shows, more awareness of all of it. This makes it very difficult today to duplicate the success of mega-artists like Madonna, Michael Jackson, and the Who. There are too many choices, too many different ways to get music, and, of course, too many other interesting ways to spend money. In other words, consumers are starting to leave the narrow confines of the turf that the purveyors of media wanted them to stay in, and diversity is ruining the plan the worked so well for so many years... Access to music will replace ownership of it. We have passed through the industrial age to the information age, and music will never be the same again. This is where the idea of ‘music as a service’ can come in. In the future, music will be, economically speaking, bigger than ever before, once it is freed from having to be a product.” – Berklee.edu

The folks at Berklee nailed it.

From the exploitation of record companies to the “piracy” of Napster and freely shared music, this industry has seen turbulence unmatched by others over such a long stretch of time. But thanks to the efforts of artists with a voice, entrepreneurs with a vision, among many others, music royalties are beginning to be distributed fairly in the modern-day.

#### **How Music Royalties Are Paid in 2021**

As a Partner, CPA, and head of royalty audits at Miller Kaplan, Vince Leoni is an expert in the field of royalty payments. According to him, when speaking about modern music royalties, “The most significant change, when music is distributed digitally and streamed or played on internet radio, is the label and the artists receive a piece of the royalty. Historically, there was no royalty generated for the owner of a master or the artist when it was played on terrestrial radio.”

Leoni also detailed to Trusted

Advisor how royalties vary depending on the version of the streaming service you are using:

**“Depending on how the music is consumed, there are different rights that are divided up as well. With a regular Spotify user, you’re not listening to music on demand. You pick a station, and they provide you the content. When you’re consuming music that way, there is no mechanical royalty generated. But as soon as you are able to pick a song on demand, a portion of the income generated is attributable to a mechanical right.”**

Whenever the user can choose the song they want to stream on-demand, there is a royalty generated for the label, the publisher, the artist, and the songwriters. These royalties are also paid out through different avenues. “ASCAP and BMI collect for the publisher and songwriter and then pay it out. Label collects their share, and the music publisher collects their mechanical share.”

**“We’re seeing more artists than ever in the history of this business selling between 2,000 and 4,000 seats per show right now.**

**- Rick Mueller, President of AEG Presents in North America**

Similarly, if you listen to a song on SiriusXM, that artist and everyone involved in the copyright of the song receives a royalty payment.

As of January 15, 2019, the music royalty fee you pay on your SiriusXM bill increased from 19.1% to 21.4% of your package price. SiriusXM stated in a release that the price hike was due primarily to the passing of the Music Modernization Act.

#### **ASCAP and BMI Launch SONGVIEW**

In December of 2020, performing rights organizations BMI and ASCAP presented Songview to the world, creating a massive, searchable database by combining their collective data. The move was the latest step towards total transparency in the music industry, an idea that was seemingly a pipe dream just ten years ago.

As the two largest performing rights organizations (PROs) in the United States, this collaboration shows significant progress for the music royalty industry. Finding the rights owner for a recording issued from a label can be simple enough, especially when there is only one owner. However, tracking down song-

writer info can be a laborious process, as many songs have multiple songwriter credits. Each of those rights holders can be affiliated with different performing rights organizations, making it even more challenging to know where to look.

In practice, for a song to be cleared for new licensing, all rights holders must be contacted to give their approval. That means if a major motion picture wants to license a piece of music, but one representative with small percentage ownership cannot be tracked down, that song cannot be used. Songview streamlines this process in a free and accessible platform.

You can access Songview through either the BMI or ASCAP websites, although only songs that have a writer associated with one of the two PROs will show up in a search. While Songview has its limitations, it is clear that the modern era of music needs similar continued collaboration.

#### **The Rise of the Middle Tier of Recording Artists**

One of the primary goals of the MMA was to shorten the gap between royalty payments earned

by the music industry’s most successful stars and artists that are still working to establish themselves. Recent evidence shows that it has already been a success.

**According to Rolling Stone, “It must now be beyond doubt: There is a very significant shift in the democratization of music industry revenues taking place, with the momentum swinging away from blockbuster mega-stars and towards a much larger “middle tier” of artists.”**

A statistic used to convey this message is the example of Drake. He was the biggest streaming star in the United States during the first half of 2018 and the first half of 2019. But his tally from 2019 was less than his tally from 2018, despite streaming as a whole being up double-digit percentages every year.

The “rise of the middle-tier” is being noticed by people that matter. Rick Mueller, President of AEG Presents in North America, told Rolling Stone, “We’re seeing more artists than ever in the history of this business selling between 2,000 and 4,000 seats per show right now.”



## Music Modernization Act of 2018

The most significant moment for modern music royalties came in 2018, with the passage of the Music Modernization Act. The Act promised to completely reimagine how royalties are earned from streaming music, and it went into effect on January 1, 2021.

### MMA Legislation

Revamping Section 115 of the U.S. Copyright Act brought with it three pieces of legislation:

- Music Modernization Act. Aimed at modernizing music royalties for a streaming world.
- CLASSICS Act. Compensation for legacy artists (pre-1972 recordings).
- AMP Act. Allocation for Music Producers to improve royalty payments.

### What Does the Music Modernization Act Change?

In addition to expanding and redefining the way that royalties are earned from streaming services, the MMA established a new agency to govern licensing, the Mechanical Licensing Collective (MLC).

### The MLC Data Quality Initiative (DQI)

The MLC is the Mechanical Licensing Collective, which was established under the Music Modernization Act of 2018. The primary purpose of the legislation and the creation of the MLC was to streamline the way license holders are paid when their music is streamed online. The new copyright law was achingly necessary for an industry that had been stuck in the past for far too long.

### What Is the Mechanical Licensing Collective?

The Mechanical Licensing Col-





lective was established as the agency that will administer the new license law. The MLC is the most complete database of music copyrights globally, and its sole purpose is to collect mechanical royalties and distribute them to their rightful owner.

### How Does the MLC Work?

As an intermediary, the MLC collects monthly usage reports along with royalty payments from various music platforms. The MLC double-checks the usage activity, and royalties are matched to their rightful owners and are distributed. However, if the rightful owner has not signed up with the MLC, they cannot receive their deserved royalty payment.

According to the MLC, as of February 16, 2021, a total of \$424,384,787 have been accrued in unmatched royalties from DSPs (digital service providers). As part of a requirement related to liability for past infringement, 20 different DSPs transferred accrued historical unmatched royalties to the MLC's database. With this information now in their possession, the MLC can begin the lengthy process of auditing the data to find and deliver payment to the rightful copyright owners.

### SoundExchange Unveils Upgraded Data Exchange

As “part of a multi-year effort to continue leveraging the use of data to streamline systems and increase transparency across the music industry,” [SoundExchange announced](#) on March 17, 2021 a significant upgrade to its data exchange system.

The upgrade is known as the Common Works Registration (CWR) Pre-Fill. The CWR enhances the dataflow's compatibility on the Music Data Exchange (MDX) the centralized application that enables the exchange of sound recording data before

a recording is released into the market. This means that publishers can now make claims in the Music Data Exchange with pre-populated data from their Common Works Registration files.

“The integration of CWR submissions represents an important step in the evolution of MDX. By empowering labels and publishers to share data with greater ease and efficiency, we are laying the groundwork for improved data and transparency, not only within MDX but also within the larger music industry.” – Anjula Singh, SoundExchange Executive Vice President, and Chief Financial Officer

To use the new feature, you must have an account registered with MDX and a CWR feed set up. If you are not already a registered user, you can request [an account here for free](#). If you have an account but need help submitting a CWR feed, contact [info@musicdataexchange.com](mailto:info@musicdataexchange.com).

### Continued Collaboration Is Necessary for Total Transparency

Now more than ever, it's crucial for industry organizations to make data more accessible to artists and their teams. Collection organizations are collaborating and innovating to provide access to data and ensure that all payments due are accurately dispersed to the appropriate parties.

These collaborations have massive potential, but continued collaboration is necessary for total transparency in the music industry. It has never been more fair and equitable to be a recording artist, large or small, than it is in the current market. But progress is a never-ending pursuit, and the realization of total transparency is not yet a reality.

# New Ways to Earn Royalties through Licensing Deals

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Content creators have been leveraging their personal brands for many years now. But the confinement of 2020 encouraged more artists than ever to uncover innovative ways to monetize their audience. Beyond the basic merchandising deals of the past, the modern frontier of celebrity licensing is limitless when a compelling brand meets a captive audience.

Below, we will cover the key points to define in a celebrity licensing deal and how to negotiate a profitable and mutually beneficial arrangement.

“A celebrity should maximize the value of their brand by strategically monetizing every aspect of it.” – C. Anthony Mulrain, Attorney and Co-Chair of the Sports & Entertainment Group

Celebrities have been leveraging their personal brands to earn royalties for decades. But while in the past only the most captivating personalities could cultivate an impactful brand, the modern world of influencer marketing has changed how we define celebrity. And while it has never been easier to become an influential figure, it has also never been more essential for influencers to license their inner celebrity.

## Building a Brand Through Strategic DNA Matching

One of the challenges faced by business managers and their clients is being patient enough to wait for the right opportunity to materialize. It can be easy to jump into a deal that may not be the right fit due to being overly eager to sign a deal. Instead of taking the risk that your licensing deal might be a bad fit, by examining, enhancing, and matching your client’s brand DNA, you can ensure a successful partnership.

As C. Anthony Mulrain puts it, “For any celebrity, monetizing a successful brand requires that you develop, enhance, and market your organic DNA and match it with brands with a substantially similar DNA.”

In other words, if you are a strong and powerful athlete, you should pursue opportunities with brands that have a strong and powerful persona.

“The first steps for a celebrity that desires to monetize their brand is to assess their organic DNA, be purposeful about enhancing that DNA, and marketing it to companies that sell products or services that share the same DNA.”

Business managers must not only hold out for the best deals, but they also need to remind their clients to take advantage of quality opportunities once they arise.

**“I think it’s important when we think about celebrity...what happens a lot is a celebrity just wants to build a business,” said Kimberly Kreuzberger when describing how a business manager can most effectively go about cultivating a client’s image and brand.**

Kreuzberger went on to say, “Business managers need to be really discerning, and be the ‘No’ player. A lot of celebrities in my world surround themselves with ‘Yes’ people, and I think we’re the people that can say, ‘that doesn’t make sense.’”

Rather than playing not to lose, Kreuzberger argues that business managers need to be playing to win. And that is exactly what celebrities are looking for from their representation.



## Key Points of a Celebrity Licensing Deal

A licensing agreement must contain crucial key points to ensure that every scenario is covered, and all parties are not only pleased, but also fully aware of the contract's potential ramifications. Here are some of the key areas of a licensing deal that should be prioritized:

### Parties Needed to Sign Contract

Figuring out who needs to sign the contract is small but important task. A celebrity will likely be acting through a management company. So, it must be established that the management company has the authority to sign for the celebrity as their legal representative for portions of the contract.

Is there any intellectual property associated with the celebrity that will be part of this licensing agreement? Are there any logos,

copyrights, or trademarks that must be accounted for? If there are, who has the authority to authorize their use?

### Define the Scope of the Engagement

Is this licensing agreement for a specific period of time? Or is the agreement to be set in perpetuity? Is it limited to one location, or does it include all potential geographical locations? And what happens if the project changes course? Defining the scope of the licensing agreement is a crucial item that cannot be overlooked.

### Time Frame of the Agreement

Generally, you want the agreement to last as long as possible—while protecting your client's ability to end the relationship early if it no longer makes sense. Your client may want a right to renew the contract or a right to refuse a certain option. Your client may also

want the right to continue the relationship for future projects.

### Services Rendered

Defining the expectations for a celebrity licensing deal is an area that should be scrutinized by both parties. As a business manager, you know your client better than they know themselves. Do not let an agreement go through unless you have 100% confidence in your client meeting the obligations and expectations of the other party.

### Compensation and the Timing of Compensation

The compensation arrangement will vary for each individual negotiation. More well-known celebrities that influence massive audiences will have much more leverage than others. If your client is not a well-known celebrity with an established audience of millions, compensation ultimately will depend on the leverage your client can deliver through



proven audience metrics.

Some arrangements include a fixed fee that is paid on a consistent basis, in addition to compensation for other activities or sales. The party licensing a celebrity's brand will likely ask to deduct a variety of expenses, such as taxes, debts, and transaction costs. If you represent a celebrity in one of these deals, be sure to include a right to audit.

### **Exclusivity**

A key component of any licensing deal is exclusivity. If a licensing deal includes complete exclusivity, business managers should ensure that the exclusive deal is in the client's best interests in the long run.

Some arrangements may include partial exclusivity. For example, a celebrity deal for a luxury product may exclude a celebrity from being involved in any other version of the same product.

### **Performances**

Depending on the nature of the celebrity, a performance may be expected or requested. This type of expectation could be obvious to one party, while taking the other party by complete surprise. Make sure that any performance expectation is discussed,

and terms are agreed on.

### **Expenses**

Another grey area that comes with varying expectations can be expenses. In a post-COVID world, hotel arrangements and meals will again be expectations of any celebrity making an appearance for a promotion. Be sure to cover the area of expenses if your agreement will include in-person appearances.

### **Use of Likeness**

Will the celebrity's name or likeness be used in promotional materials? If so, the celebrity would benefit from approval rights as an additional bargaining chip.

### **Breach of Contract**

Ensure that language explicitly defines infringement of the contract, and the consequences of early termination.

### **How to Create a Licensing Deal that Benefits Both Parties**

In any licensing deal, the licensor has the inherent upper hand. The licensor can and should press this advantage to ensure that their brand is protected. However, the licensor still must strike up a deal that benefits both parties. If the deal you are

signing is not beneficial to both parties, then it becomes a massive waste of time for everyone involved.

So how do you create a licensing deal that benefits both parties? Start by listening. Know what the other party desires most and ensure that they receive at least enough of a taste that the deal makes sense for them to continue.

Take care to not be overly greedy, though. The deal must be a win-win for both parties when the final signatures are made. If the other side discovers that you have been dishonest or feels betrayed months after the deal is signed, the potential negative consequences will outweigh whatever short-term gains you made on the front end.

### **Earning Royalties Through Product Licensing**

It is not only celebrities that can earn money through licensing deals. Anyone that has an innovative idea can earn royalties through product licensing. There are two primary ways to take advantage of product licensing: start a new company to commercialize your product or license your product to a company that already has the capacity and capability to market

**“Celebrities not making themselves available doesn't help anyone. The last thing I want when I do a partnership with a brand and client is for the assets to go unutilized or underutilized. I want partners to leverage the assets and see the impact working with a celebrity spokesperson can have for a brand.**

**- Jennifer Keene, Vice President at Octagon**



your product, thus earning you royalties.

The most efficient and profitable route is typically licensing your product with a partner company well-suited to produce and market your product. However, you must be realistic about your chances of successfully convincing a company to license your product. According to Startup Nation, less than 10 percent of inventors successfully license their product.

## The Rise of Music Catalog Monetization

You can never predict the future. This is a somewhat widely accepted notion. Although at times it may be disputed, there are certain aspects of life that no one in their wildest dreams can possibly conjure up.

The latest example is non-fungible tokens, or NFTs, and their hyperactive surge in value. If you do not have the slightest clue what a non-fungible token is, that is OK. No one really knows how to describe it. Roughly, a non-fungible token is a line of code that lives on the blockchain, which claims to be the most secure way to store and transfer information on the internet.

An NFT can be anything. It can be a series of GIFs that make up a digital NBA player's card on NBA Top Shot, or it can be a digital version of a piece of artwork. The allure of an NFT is that it is an original and cannot be duplicated. Whatever the NFT represents, it is the sole property of its owner.

While this concept may not seem overly compelling, it is a model that has fueled and sustained the \$60+ billion market of classic pieces of artwork for thousands of years.

Like the essence of owning an NFT, the rights to a music catalog are a similarly unique type of asset. And like other types of investments, music catalog rights can earn passive income as long as you hold them.

Just like any good investment, marketplaces are necessary to facilitate and oversee trading. Two significant facilitators in this burgeoning industry are Royalty Exchange and SongVest, and we will cover them in further detail below.

### Disrupters Who Shook Up the Music Catalog Marketplace

The two heavy disrupters that stoked the flames of this new asset class and caused others to take notice are Primary Wave and the Hipgnosis Song Fund. Both are backed by investors with substantially deep pockets, and both wielded those wallets with splashy acquisitions of catalogs for artists such as John Lennon, Shakira, Neil Young, Fleetwood Mac, and Dire Straits.

So, why are startup companies beginning to see value in music catalogs? By obtaining music rights, these organizations can secure stable returns from royalties, licensing deals, branding, and any future revenue streams that become available.

The Hipgnosis Song Fund has been publicly traded on the London Stock Exchange. In comparison, Primary Wave is a management company headquartered in New York. It is funded by institutional investors, such as BlackRock, which provide cash into funds used by the company to acquire music properties.

Hipgnosis was formed in 2018 and began its acquisition spree by obtaining the rights to The D-ream and from songwriter Poo Bear. The play on Poo Bear was specifically to acquire the rights to the English version of

"Despacito" as well as "What Do You Mean?" by Justin Bieber.

Meanwhile, Primary Wave was busy negotiating a \$50 million deal for the rights to Bob Marley's song catalog. In 2019, Primary Wave obtained 50 percent of the rights to Whitney Houston. They also acquired a majority position in the pre-1964 recording catalog of Ray Charles.

In response, Hipgnosis went into high gear in 2020, acquiring a long list of recognizable names, such as Tom DeLonge of Blink-182, Mark Ronson, Rick James, Richie Sambora of Bon Jovi, Jack Antonoff, and Barry Manilow.

In November 2020, the Killers sold their pre-2020 catalog rights to Eldridge, a company with a portfolio full of intellectual properties. But this acquisition was Eldridge's first music property. The deal covers the publishing rights as well as the writer's rights, while the band retained its master recording rights.

### Universal Music Group Joins the Fray

As music catalogs became widely accepted as stable assets with potential for growth, more substantial companies entered the ring. Universal Music Group, which coincidentally also administers the Killers song catalog, paid close to \$400 million to acquire Bob Dylan's song catalog. The deal came just as 2020 was coming to a close and is the most substantial sale in song catalog history.

Taylor Swift's music catalog sale came close to Dylan's haul. Owned at the time by Scooter Braun, the sale has been estimated at over \$300 million. Swift said on Twitter this was the second time her music had been sold without her knowledge.

# Why Are Artists Selling Their Catalogs?

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There are a few reasons why artists are suddenly selling their catalogs. Covid-19 is one of the leading factors, as well as the incredible value placed on these works of art. Personal circumstances also play a substantial role. But one of the most significant factors contributing to these sales is tax benefits.

## **Tax Benefits of Selling Music Catalogs**

There is a quickly closing tax window in the United States, which could close as soon as Joe Biden's new tax plans take effect. The potential implication is increasing the capital gains tax up to the level of income tax for any sale over \$1 million. This amounts to the tax rate moving from 20 percent to 37 percent for these sales.

For example, if Bob Dylan received nearly \$400 million for the sale of his catalog, it will be taxed at 20 percent, amounting to \$80 million. If the tax rate had been at 37 percent, that \$80 million tax now becomes \$148 million.

## **How Are Music Catalog Prices Determined?**

By looking at a Hipgnosis investor report, we can determine

that they are paying artists a multiplier of 14.76 times historic annual income. Meaning, Hipgnosis will pay a number that should total 14.76 years of projected royalty profits for an artists' catalog.

In that report, the company states, "Since launch, we have now acquired 117 catalogues, comprising over 57,836 songs, for an aggregate consideration of 1.18 billion pounds (\$1.62 billion), representing a blended acquisition multiple of 14.76x historic annual income."

The bigger the star, the more stable and predictable the asset, and the higher the multiple that a company will be willing to pay. Bob Dylan, for example, demanded a multiple over 25 times the royalty profits his catalog returns annually from Universal Music Group.

## **Hipgnosis Song Fund Acquires Big Deal Music**

Hipgnosis is not only acquiring a substantial song catalog, it also acquired Big Deal Music in September 2020. The company is on track to make \$120 million in revenues for the 12-month period ending in March 2021. Big Deal Music has now been re-

branded Hipgnosis Songs Group and is headquartered in Los Angeles with Kenny MacPherson as CEO.

## **Music Catalog Marketplaces**

While these are not the only places to buy and sell music catalogs and rights, the two major players that we will cover below are Royalty Exchange and SongVest.

## **SongVest**

Before launching Royalty Exchange, the founders created SongVest in 2007, claiming to be the "first marketplace to sell fractional royalties as the ultimate in music memorabilia." The company is now re-launching as "a marketplace for selling music catalogs, record labels/master catalogs, and providing financing for catalog purchases."

SongVest founder Sean Peace explained his decision to re-launch SongVest as a marketplace for buying and selling music royalties for investors:

"In the last two months, I have had a flood of calls from both buyers and sellers looking for transactions. Although we will have a wide range of catalogs for sale, the main focus will be on



larger catalogs and masters with life of rights sales. In addition, we will be providing investors access to financing for catalog sales on any platform, not just ours.”

### **SongVest Records**

If you want to own a piece of a record label as an investment, you have the opportunity to do so with SongVest Records. The first fan-funded record label allows investors to start with as little as \$50.

However, as of April 2021, the company is in between investing windows, and you will have to exchange your email address in order to be alerted about the next window.

### **Royalty Exchange**

Royalty Exchange was launched in 2011 as a marketplace that allows the owners of entertainment royalties to sell a percentage of those royalties on an open market. Founder Sean Peace promoted the company, saying:

“Now you can own a revenue-producing piece of your favorite songs, television shows, movies, and more. These royalties provide reliable long-term income which have the potential to increase in value as songs are rediscovered or reused in a hit movie or other media.”

Once royalty rights have been purchased, owners can re-list their assets or hold them and continue to collect royalties. Certain assets have a set time frame, such as the royalty rights for a property over a 10-year period, rather than in perpetuity.

Royalty Exchange imagines that an open marketplace redirects the allocation of royalties toward creators and enhances the value of their creations.

The benefit to investors is access to a formerly unobtainable



asset, while the benefit to the creators is an ability to leverage new demand for their work. According to edm.com, “It should be no surprise that investing in music publishing is one of the hottest commodities on Wall Street and across the venture capital landscape.”

While the sales of major music catalogs such as Bob Dylan’s make for juicy headlines, most could never dream of buying anything for \$400 million. With Royalty Exchange, anyone can become a royalty investor.

It is hard not to agree with Royalty Exchange’s vision that an open marketplace for royalties enhances the value of those creations. As we have seen with NBA Top Shot or the stock market: when more people have access to an asset, demand increases, and the value of the assets increases in turn.

While the marketplaces for music catalogs and royalties have nothing to do with non-fungible tokens or the price of Bitcoin, it represents some of the same characteristics that make those assets so sought after.

With Bitcoin and NFT’s there is a fear of missing out, which helps to fuel the asset’s marketplace. This FOMO effect can be seen in the music catalog marketplace when Universal paid an obscene amount for Bob Dylan’s work.

But Universal Music Group knows what they’re doing. Universal is willing to pay that kind of money because they know that it is a sound investment. Bob Dylan’s rights are pure gold and will return predictable royalties as long as music can be played and heard.

But while only institutional investors and venture capitalists have access to this type of mega-deal, Royalty Exchange

provides a marketplace that can be accessed by anyone. Just as major investors in other markets help to assuage others into investing, the increase in music royalty sales at the higher end will have a trickle-down effect on marketplaces like Royalty Exchange.

The rise in music catalog monetization has the potential to become a normalized way of investing and earning passive income. As it becomes more accepted and more investors enter the marketplace, the returns on sales of music royalties and music catalogs will only continue to increase in value.





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