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FORENSIC ACCOUNTING & AUDITS

Revenue in the Evolving Music Market

By Cedar Boschan

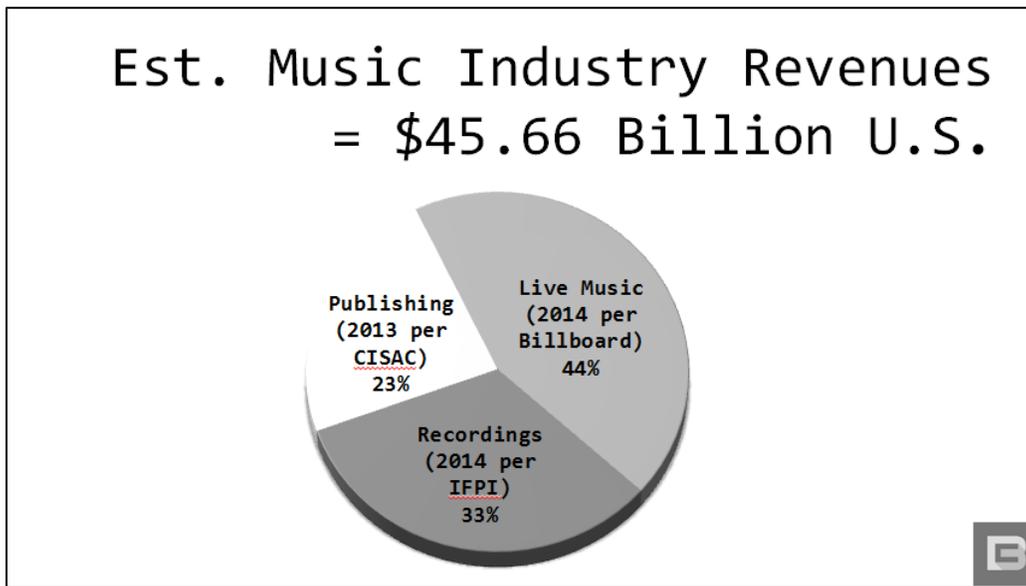
Founder, Boschan Corp.

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Music's Key Revenue Streams: A Top-Down View

Accurate information is very limited, but according to Boschan Corp.'s proprietary analysis of the most recent industry estimates available from trade groups and the media, the global music industry was roughly a \$46 billion business last year, including three basic revenue streams:

- Live Music
- Music Publishing
- Recorded Music



Note that the above chart excludes the billions of dollars invested in companies such as Pandora and Spotify, nor does it include all of the revenues collected by companies such as Apple, YouTube, Vevo and synch licensees (in certain cases it includes only the wholesale payments from such companies to record companies and publishers which have been specifically allocated to works). Also, the above chart does not include the below artist revenue streams, which can eclipse their music earnings:

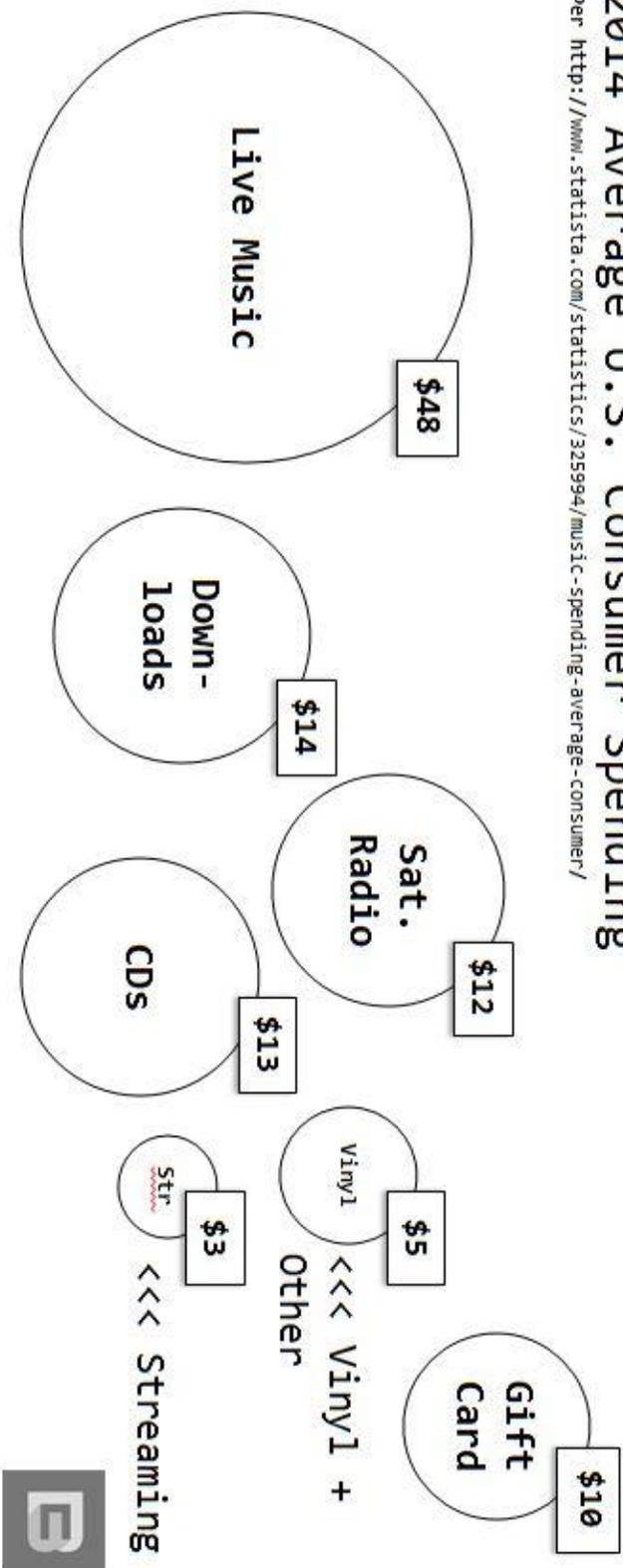
- Tour Sponsorship
- Music Video Sponsorship (Usually Funds Production)
- Endorsement Deals
- Paid Social Media Posts
- Reality Television (Competition Judge or Coach)
- Other TV or Film Appearance
- Consumer Products
- Other Ancillary Revenue Streams

Although media often measures musicians' success in terms of recorded music, as illustrated by the U.S. consumer spending per capita graphic below, it is difficult for talent to be a top industry earner without a successful tour:

\$105 Per Capita

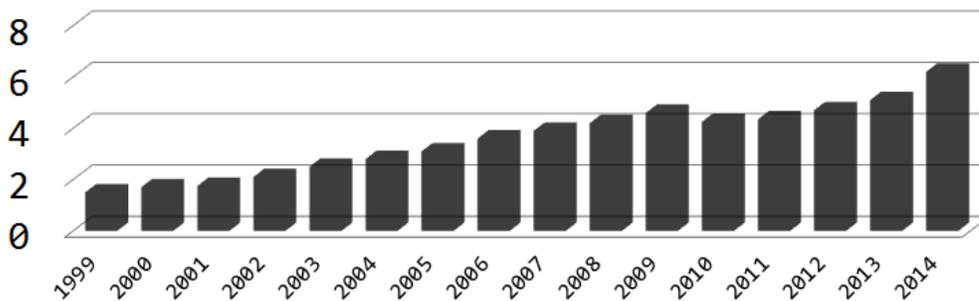
2014 Average U.S. Consumer Spending

Per <http://www.statista.com/statistics/325994/music-spending-average-consumer/>



#Live Music

**North American Concert Revenues
(In Billions Per Pollstar)**



Over the past few years, the live concert industry has had a good run, globally as well as in the US, as shown in the chart above.

Although it didn't used to be included in analysis of "music industry" revenues, live music has eclipsed publishing and recorded music to become the largest of the music industry's three major revenue streams, representing over 40%. (See charts on pages 2 and 11.)

Accordingly, nearly half of the money that the average U.S. consumer spends on music is for live music experiences. (See chart on page 3.)

Pollstar reported that North American concert revenues totaled \$6.2 billion in 2014 and 2015 may be another record-setting year for live music events, in terms of revenues, attendance and high ticket prices. Many credit such growth in live music to maturing audiences, as evidenced by trade publication [Pollstar's list of top five concert tours worldwide during the first half of 2015](#), which includes just one act with fewer than two decades of history (i.e., One Direction):

- | | | |
|------------------|-----------------------|-------------------|
| 1. One Direction | 3. The Rolling Stones | 5. Paul McCartney |
| 2. Fleetwood Mac | 4. Garth Brooks | |

There is clearly a risk that the live concert industry (and industries that depend on it, such as pro-audio equipment), will suffer sharp

declines as top-grossing entertainers and their audiences age out of the marketplace.

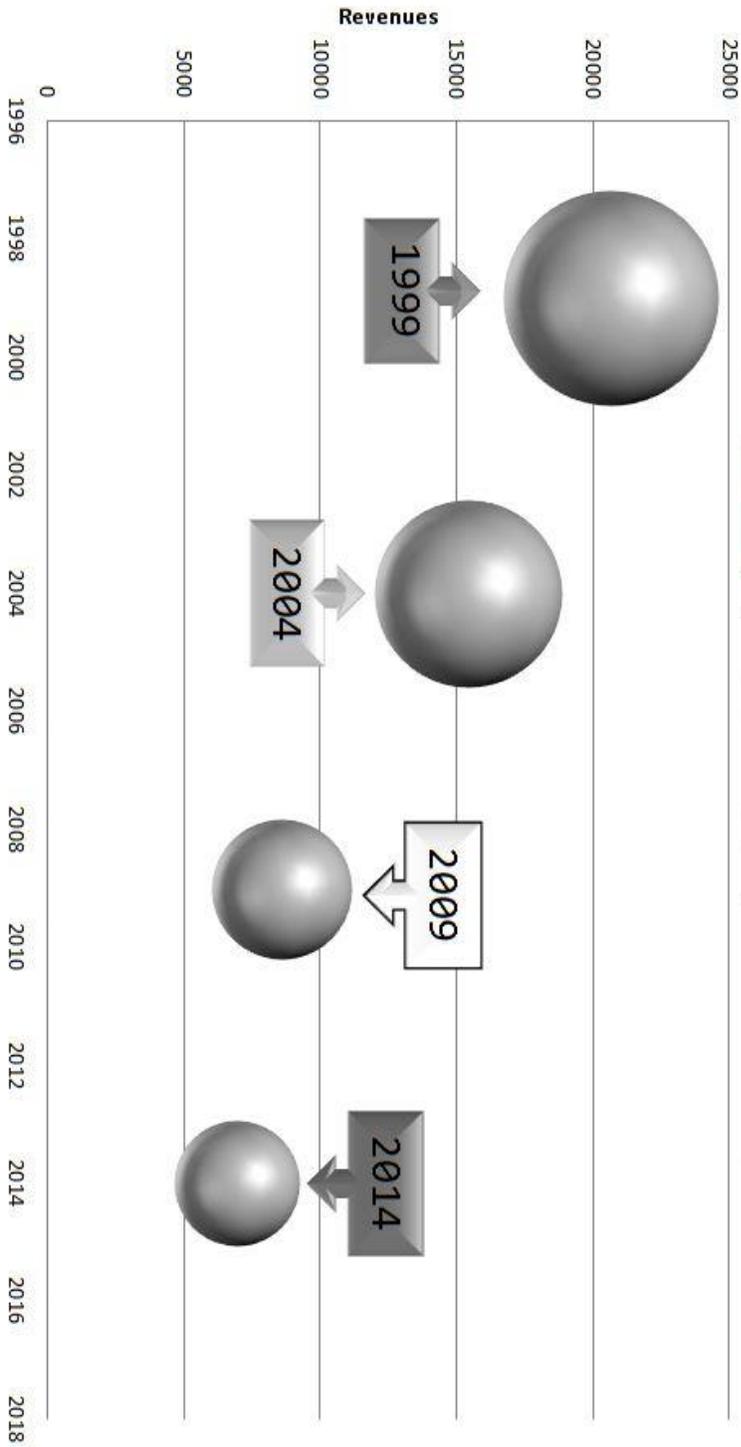
There is clearly a risk that the live concert industry (and industries that depend on it, such as pro-audio equipment), will suffer sharp declines as top-grossing entertainers and their audiences age out of the marketplace.

However, it is worth noting that the above list of top five concert tours during the first half of 2015 does not reflect the latest Taylor Swift tour. Also, it does not reflect non-tour related events such as festivals and electronic dance music events, all of which attract a younger demographic of consumers with lower discretionary income than the typical Fleetwood Mac or Paul McCartney concertgoer, but who are likely to continue to attend music events for decades to come.

Regardless, some analysts believe that, as the over-saturated market for festivals contracts, live music revenues may decline. Also, while electronic dance music has been a bright spot, notable EDM promoter SFX has struggled financially.

The bottom line is that few experts think the record growth in live music is sustainable in the long term.

U.S. Recorded Music Revenue
Per RIAA \$20.7 to \$7 Billion



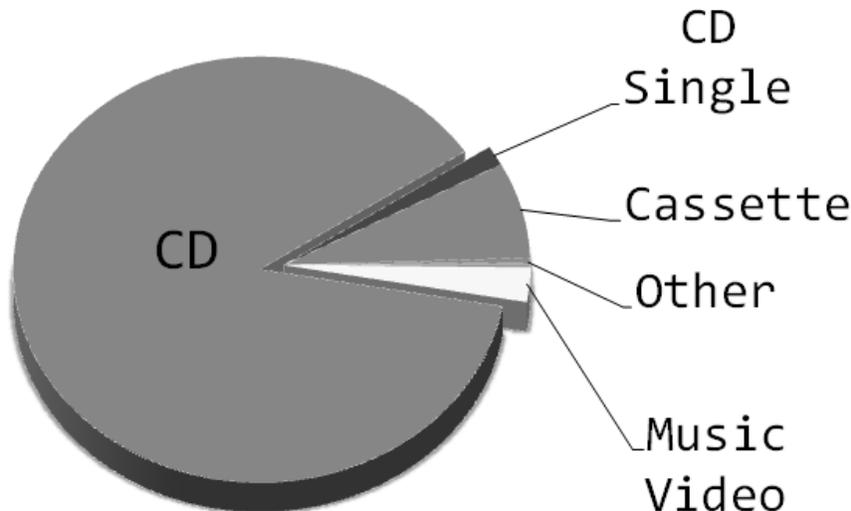
Data per Recording Industry Association of America (RIAA) Database by area (not diameter)



Recorded Music

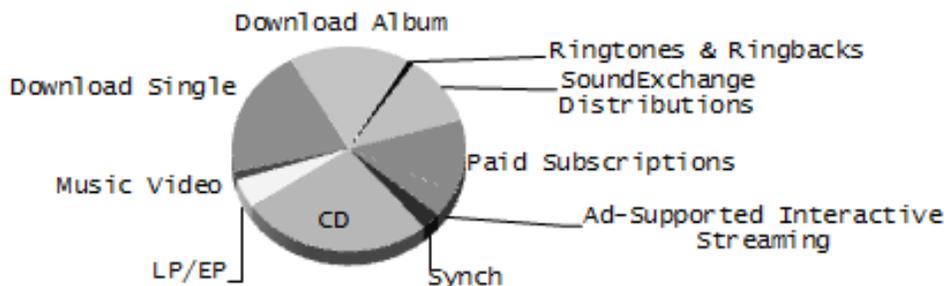
About fifteen years ago, CD sales fueled over 95% of U.S. record industry revenues.

**1999 RIAA Revenues
= \$20.7 Billion**



Today, physical distribution accounts for approximately one third of the recording-related revenues reported by the RIAA:

**2014 RIAA Revenues
= \$6.9 Billion**



Since 1999, the old "record business" (i.e., of manufacturing and distributing physical consumer products) has dropped over 70%. Record companies collectively lost control of music distribution, albums unbundled into tracks, and downloads have had their day (note: downloads are declining in market share at this point).

A small number of digital music services have seized control of music distribution; YouTube, Spotify, Amazon and Pandora compete with Apple to offer consumers better, faster and/or cheaper experiences, making streaming one of few recorded music market segments with strong growth. Losing control of distribution to digital companies has weighed heavily on music license fees, resulting in controversially low royalty rates, which are often based on subscriber or ad revenues. See Boschan Corp.'s estimates below of roughly how many digital downloads or streams are required to achieve \$1 Million in US recorded music revenue on many of the popular services:

= \$1 Million
U.S. Recorded Music Revenue

 iTunes
1.5 Million
Apple
Downloads

 > 500 Million
YouTube Artist
Channel Plays

 > 200 Million
Spotify
Plays

 > 700 Million
Pandora
Plays



Note that actual rates vary significantly based on the services deals with record companies and/or SoundExchange as well as the type of exploitation (e.g., subscriptions vs. ad-supported).

Also, it is important to note that while recorded music revenues have dropped, so have costs (e.g., for physical product), and that record companies have a multitude of other income streams that they classify as "investment" or other types of income or offsets to costs. As a result of these and other factors, the profitability picture is not quite as grim as it appears when we focus solely on revenues of the recorded music sector.

Recorded Music - What Constitutes a Hit? According to [Nielsen's Year End Music Report for the United States](#), the biggest mainstream recorded music hits of 2014 were:

1. FROZEN by various artists
2. 1989 by Taylor Swift
3. IN THE LONELY HOUR by Sam Smith
4. MY EVERYTHING by Ariana Grande
5. PRISM by Katy Perry

While only three artists last year achieved album sales in excess of one million units according to review of Nielsen's report, there are more metrics of mainstream success than ever. For example, Nielsen reports that Sam Smith's recordings were streamed on demand over 285 million times, while Taylor Swift's recordings were streamed only about 26 million times. (Swift earned her spot on the list primarily via digital and physical album sales.)

Strategically, those record companies, artists and advisors who are focused on achieving mainstream success may increase their odds by giving careful consideration to the following:

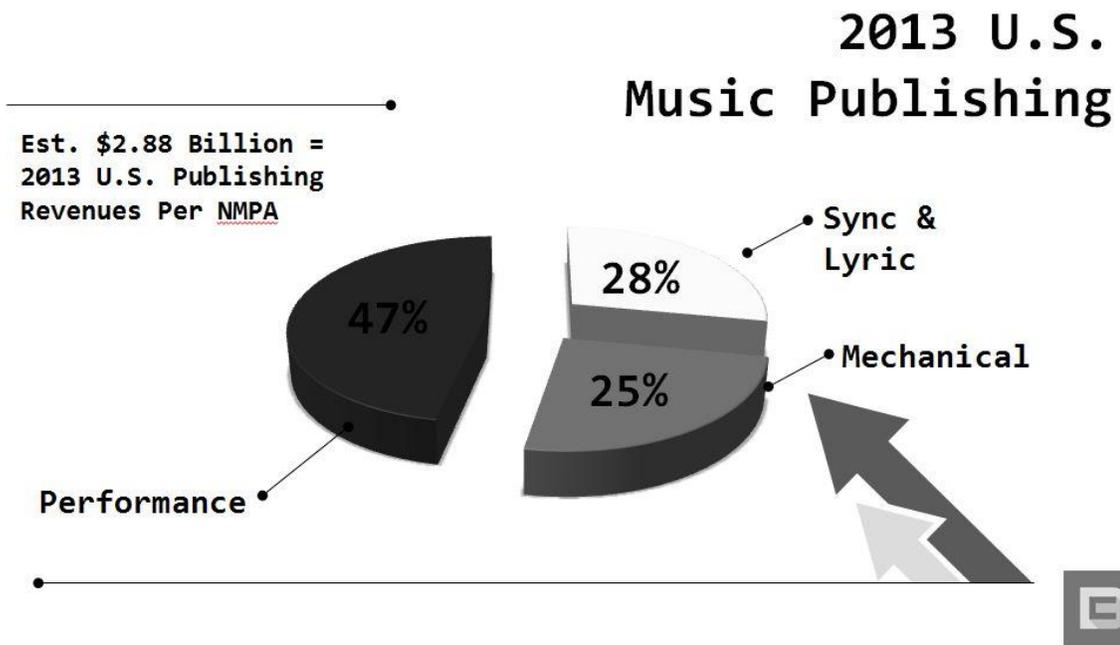
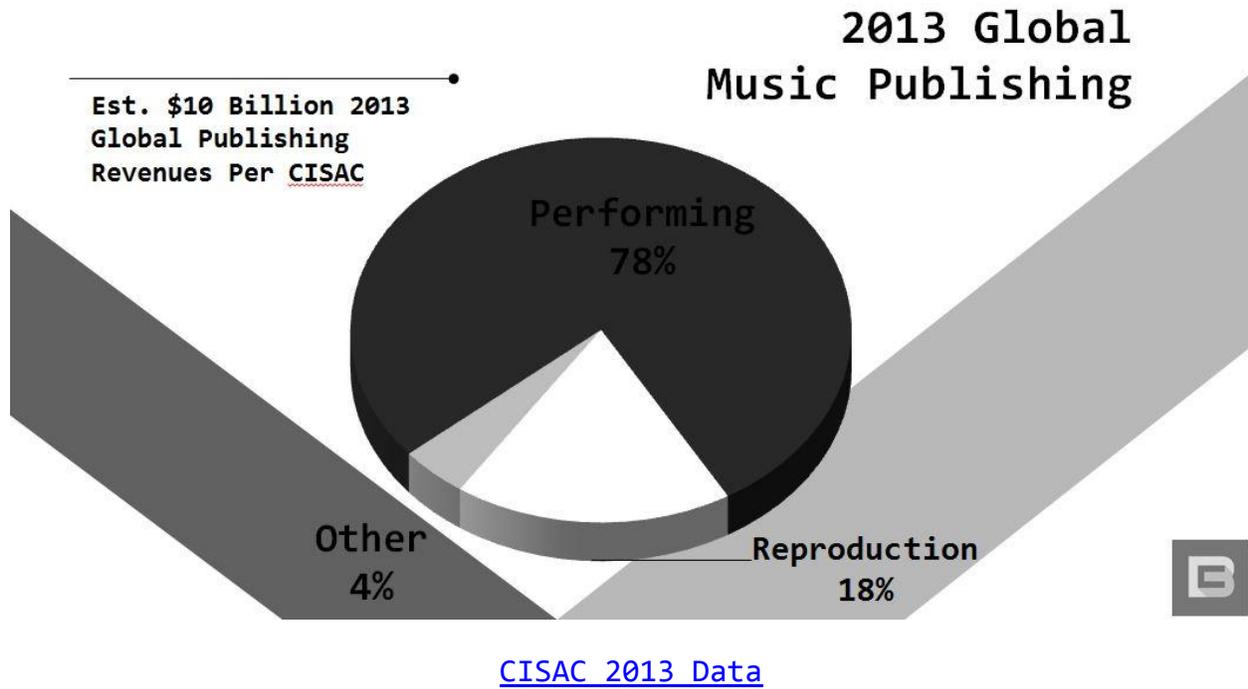
Genre Matters - According to Nielsen, most of the music consumed in 2014 was:

- Rock
- Hip Hop
- Pop
- Country

It is challenging to achieve US or international hit in less mainstream genres, such as Latin, Jazz, Holiday, EDM, Classical, Christian or Children's recordings. Also, hits in certain genres are likely to be more profitable than other genres (e.g., country recordings tend to have higher album sales and a higher profit margin than hip hop, which sells more individual digital tracks)

YouTube is the Gateway to Recorded Music Revenue - It may now be impossible to be a mainstream hit without being a hit on YouTube. Viacom published the results of its 2014 study (see <http://blog.viacom.com/2014/08/consumer-insights-the-music-experience-in-2014/>), which disclosed that among respondents, "91% listen to the song/watch the video on YouTube prior to purchasing."

Vinyl is Almost Mainstream - Like streaming, the vinyl format grew over 50% last year and now represents over 6% of physical album sales per Nielsen's report.



Boschan Corp. Analysis of National Music Publisher Association 2013 Data

Music Publishing Continued

In response to its many new rate court opponents, the approximately \$3.0 billion U.S. music publishing industry is trying to gain leverage by lobbying to repeal - and adapting around - government regulation of royalty rates in an effort to freely negotiate fair market royalty rates with labels, digital music services and other music users.

While we do not predict that music publishing will achieve parity with the recorded music segment's revenues anytime soon, should some of the following possible changes in the marketplace transpire, Boschan Corp.'s forecasts that such changes are likely to result in increased prospective music publishing revenues and/or rights consolidation:

- New US Copyright Act
- Repeal or modification of consent decrees under which performance rights societies ASCAP and BMI operate
- Passage of Songwriter Equity Act of 2015
- Favorable statutory rate setting and/or adoption of free market rates

Ultimately, over the next decade, we forecast that publishing's share of the music revenue pie is likely to increase somewhat compared to recorded and/or live music. (See chart below reflecting most recent estimates available from Billboard, CISAC and IFPI.

Music Industry Revenues = \$45.66 Billion U.S.

