

# **HIPGNOSIS SONGS FUND**

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**Final results for the year ended 31 March 2023**

13 July 2023

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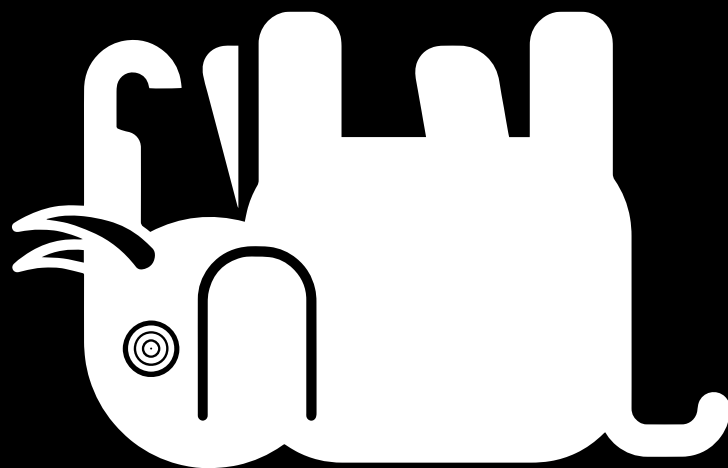
## Alternative Performance Measures

Throughout this Presentation, reference is made to adjusted measures which the Company considers to be alternative performance measures ("APMs"). APMs are used by the Company to analyse the business and financial performance, track the Company's progress and help develop long-term strategic plans and they also reflect more closely the cash flow of the Company. The Company believes that these APMs are used by investors, analysts and other interested parties as supplemental measures of performance and liquidity.



# Merck Mercuriadis

→ FOUNDER AND CHIEF EXECUTIVE OFFICER



**HIPGNOSIS SONGS FUND**

# Today's agenda



## Overview of results

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### **Merck Mercuriadis**

Founder Hipgnosis Songs Fund; Founder and Chief Executive Officer, Hipgnosis Song Management

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## Financial performance

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### **Chris Helm**

Hipgnosis Song Management; Chief Financial Officer for Hipgnosis Songs Fund

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## Song Management

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### **Ben Katovsky**

President and Chief Operating Officer, Hipgnosis Song Management

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## Q&A

# Financial Highlights



- Operative NAV per share increased 3.6% to \$1.9153, (Equivalent to 148.51p at Tuesday's exchange rates)
- Total \$ NAV return since IPO of 69.0%
- Gross revenue \$177.3 million
- Pro-forma Annual Revenue (PFAR) grew 12.1% to \$130.2 million for year to 31 December 2022
  - 9% full year increase in performance income as small first half decline more than off-set by a 41% increase in H2
  - Streaming income, with its utility like revenues, up 14.8% to \$52.1 million;
  - Synchronisation income, up 24.7% to \$19.4 million
- Total dividends declared of 5.25p per ordinary share were fully covered 1.08x by levered free cash flow

**BEST UNDERLYING PERFORMANCE SINCE IPO**

# Operational Highlights



- New RCF and IRS provide certainty over interest payment, a lower margin and greater operational flexibility
- Keynote Synchs include
  - Placing Blink-182's *All the Small Things* as the soundtrack to the iconic John Lewis Christmas Advert and
  - Rihanna performing 4 Hipgnosis Songs at Super Bowl
- Admin partnership with HSG, Sacem and peermusic boosted relevant income by 6.6% and speeds payments
- Trials of multi-territory live performance direct collection services delivering faster payments and lower costs
- US Copyright Royalty Board (CRB) confirmed substantial CRB III increases for mechanical streaming rates and accepted industry proposal supported by Hipgnosis' advocacy for additional increases for CRB IV

**DRIVING CHANGE TO CREATE VALUE**

# Our Unique Difference



## High quality Catalogue

- 23% of songs in Spotify's Billions Club (97/419)
- Over 10% of RollingStone's The 500 Greatest Songs of All Time (52/500)
- Almost half of YouTube's Most Viewed music videos of all time (13/30)

## Proactive Song Management

- Optimising revenue generation and collection
- Driving consumption, bringing Songs to new audiences
- Advocating for songwriters to get a fair deal

**DELIVERING SUPERIOR VALUE OVER THE MEDIUM TERM**



# Nile Rodgers Case Study



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**Artist in Residence for  
Apple Music**



**Face of Chanel  
eyewear**



**Soundtrack  
in Europe**



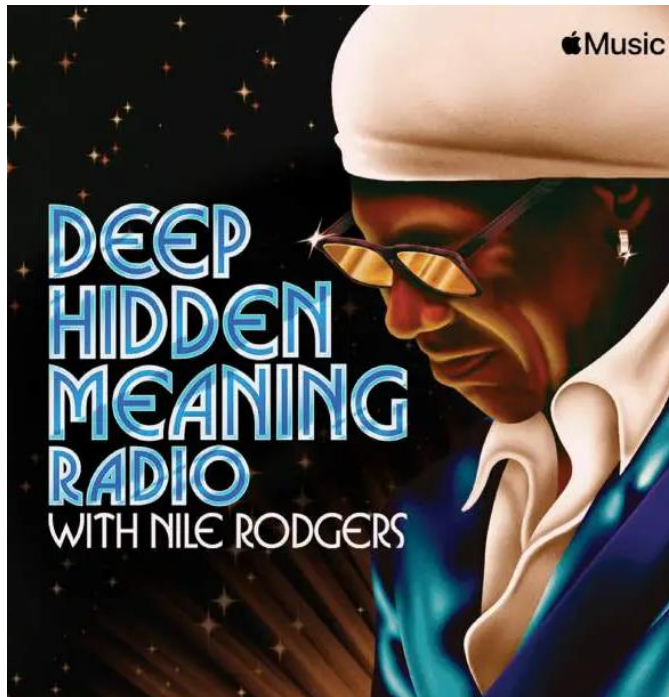
**DIRECTLY AND INDIRECTLY BENEFIT FROM BRAND ASSOCIATION**

# Nile Rodgers Case Study



HIPCNOSIS SONGS FUND

## Artist in Residence for Apple Music



## Face of Chanel eyewear



## Soundtrack in Europe



**DIRECTLY AND INDIRECTLY BENEFIT FROM BRAND ASSOCIATION**

# The Masked Singer



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**Prime Time ITV  
Entertainment format**



**Jacket Potato reached  
the semi final...**



**Reveal showed Richie Sambora,  
Bon Jovi's legendary guitarist**



**JACKET POTATO SANG FOUR HIPGNOSIS SONGS ON SHOW**



# The Superbowl



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**Close to 119 million viewers  
saw Kansas City Chiefs win...**



**...and Rihanna performs  
four Hipgnosis Songs...**



**...including three co-written  
by The-Dream**



**EACH SONG RECORDED GAINS OF 92-280% IN FOLLOWING WEEK**

# Song Management: Advocacy



CRB III delivers 44% increase in DSP payments to songwriters

- Appeal by some DSPs rejected H2 2022

CRB IV

- Joint industry approach leads to further increases in mechanical and physical through to 2027

Engagement with UK Legislators and Policy Makers

- Department of Culture Media and Sport industry working group on remuneration
- Intellectual Property Office action to improve meta-data

Litigation against Twitter for \$250 million

138% increase in Songwriter fees from concerts in US

**HIGHER ROYALTY RATES PAID TO SONGWRITERS AND INVESTORS**

# Impact of Artificial Intelligence

Music has shown how it adapts and benefits from new technologies

AI cannot replace the emotional connection we have to our iconic songs which are a part of the fabric of our society

Hipgnosis' portfolio of iconic Songs perfect for AI interpolations and covers

Revenue streams protected by existing copyright laws

**HIPGNOSIS WELL POSITIONED TO BENEFIT**



# Chris Helm

→ CHIEF FINANCIAL OFFICER FOR SONG

Hipgnosis Song Management,  
Investment Advisor to Hipgnosis Songs Fund LTD



HIPNOSIS SONGS FUND

# Financial Results

Final results for the year ended 31 March 2023



# Net Asset Value

	As at 31 Mar 2023	As at 31 Mar 2022	Change %
Operative NAV (\$'m)	2,316.0	2,239.6	3.4
Operative NAV per share (\$)	1.9153	1.8491	3.6
GBP Operative NAV per share (pence)	154.91	140.79	10.0

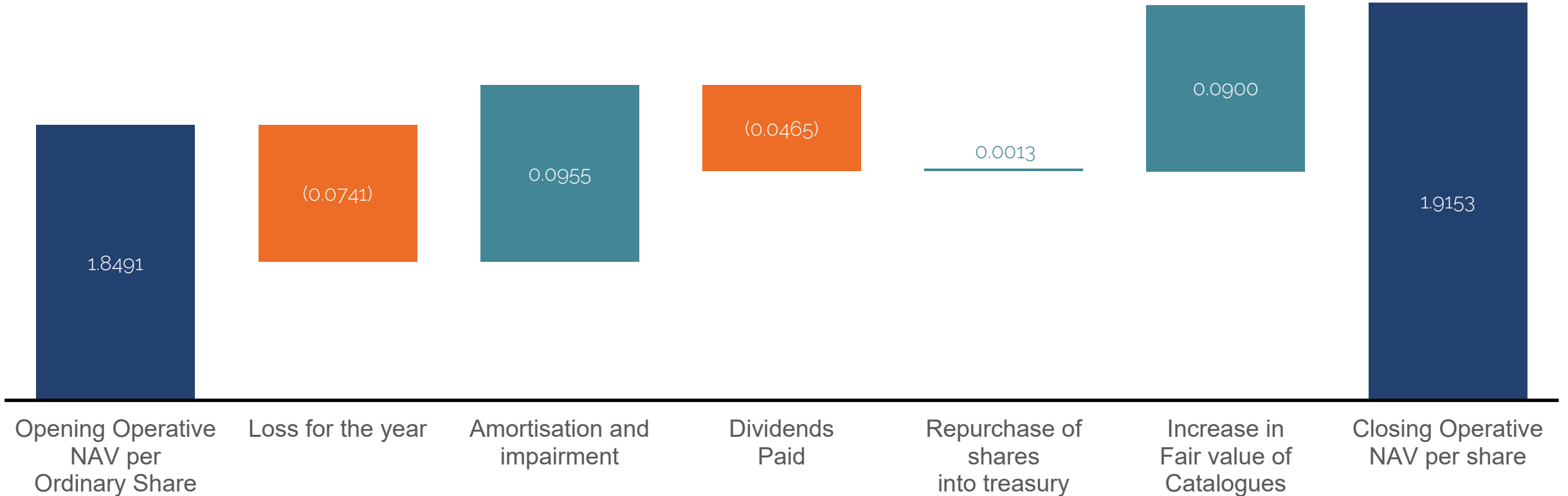
Based on GBP:USD of 1.2897 as at 11th July 2023, Operative NAV per share is 148.51p

**CONTINUED NAV GROWTH**

# Operative Net Asset Value Bridge



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**OPERATIVE NAV DRIVEN BY FAIR VALUE GROWTH**

# Portfolio Fair Value

	As at 31 Mar 2023	As at 31 Mar 2022	On Acquisition
Portfolio Fair Value (\$'bn)	2.80	2.69	2.24
Implied historic NPS multiple (15.93x on acquisition)	20.89x	20.08x	15.93x

Discount rate maintained at 8.5%

Growth driven by royalty statements received exceeding Citrin Cooperman's expectations, especially related to performance income and streaming income from older vintage catalogues.

**ROYALTY STATEMENTS EXCEED VALUERS EXPECTATIONS**

- Valuation ultimately responsibility of the Board; Citrin Cooperman appointed to perform this specialist work
  - Citrin Cooperman one of the largest valuers in the music transactions marketplace
  - Conducts the valuations of many music publishing and recorded music assets on behalf of buyers, sellers and lenders
- Fair value primarily driven by DCF using the following key assumptions:
  - Baseline earnings are determined using the prior year's royalty statement income, adjusted to remove any non-recurring Catalogue specific activity including synchs, settlements, audits etc.
  - Proprietary growth rates applied for 15 years on a per income type basis, depending on individual Catalogue or Songs' historical earning trends and expectations of decay
  - Terminal growth rate value applied in year 16
  - Music industry specific discount rate, which was maintained at 8.5%, applied
- DCF reconciled to recent comparable transaction multiples to ensure reasonableness

**APPRAISED OVER \$9bn OF CATALOGUES IN 2022**

# Transaction Multiples

This table sets out the transaction multiples for deals in 2022-2023 that Citrin Cooperman believe most closely resemble the Portfolio of the Company, in terms of the quality of the Songs and the genre mix.

Genre	Vintage	Simplified Vintage	Multiple
Rock	1960s, 1970s	Standards Music	24.15
Rock	1960s, 1970s, 1980s	Standards Music	23.97
Hip Hop, Pop	1990s	Standards Music	17.32
Latin, Pop	1990s, 2000s, 2010s	Standards Music	23.64
Country, Pop Rock	1990s, 2000s, 2010s	Standards Music	20.40
Country, Pop	1970s, 1980s, 1990s	Standards Music	24.58
Pop	2000s, 2010s	Standards Music	25.48
Rock, R&B	1960s, 2010s	Standards Music	18.76
Hip Pop	2010s, 2020s	Contemporary Music	24.67
Pop	1980s, 1990s	Standards Music	16.73
Country	1970s, 1980s, 1990s	Standards Music	21.39
Average Multiple			<b>21.92</b>

Source: Citrin Cooperman. Note: Standards Music is equivalent to Catalogues with a vintage >10 years and Contemporary Music is equivalent to those Catalogues with a vintage of <10 years

**COMPARABLE TRANSACTIONS  
MULTIPLE OF 21.9x SUPPORTS FAIR VALUE**

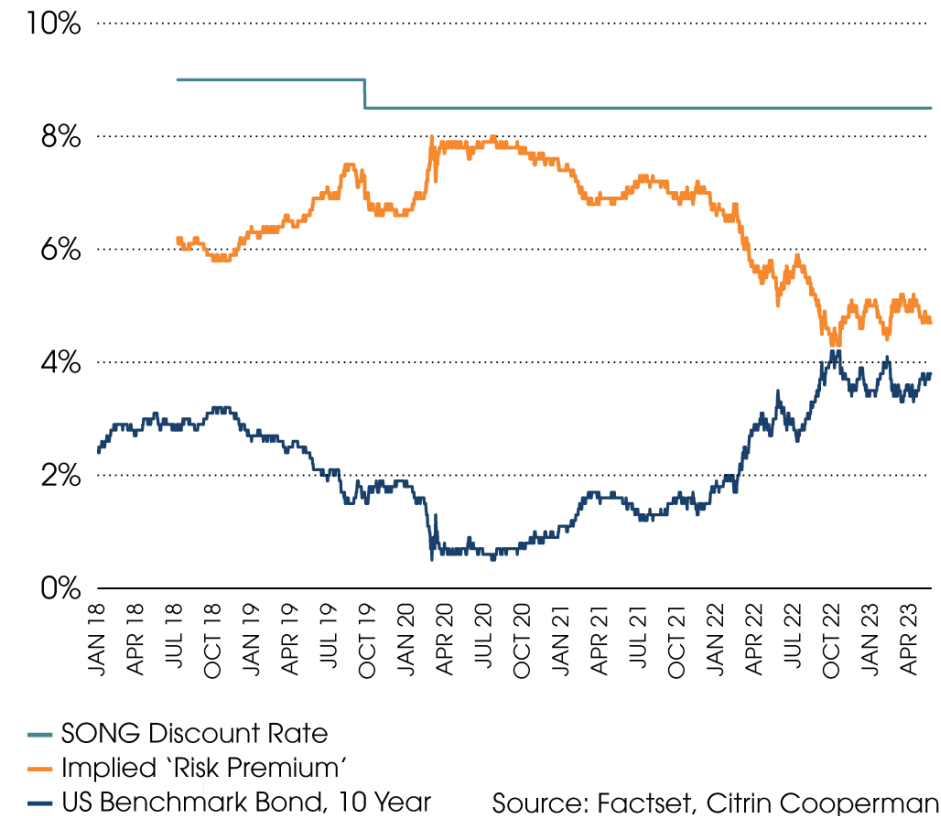
# Discount rate – Citrin Cooperman



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- Citrin Cooperman have consistently taken a long term view on key discount rate assumptions – notably interest rates
- Increasing proportion of utility-like revenue from Streaming services has improved quality of earnings and justifies a reducing risk premium
- Together, these resulted in a significant cushion built between launch and end of 2021 which has enabled discount rate to remain unchanged despite rising interest rates
- 10 year gilt yields fallen since 30 September 2022 resulting in no change to discount rate since interims

## Evolution of the Discount Rate



**DECREASE IN 10 YEAR YIELDS  
MAINTAINS DISCOUNT RATE SINCE INTERIMS**

# Discount rate – Kroll review

	As at 28 June 2023	As at 31 Mar 2022	As at 30 Sept 2022
Kroll discount rate range	9.00% - 9.50%	9.00% - 9.75%	8.25% - 9.00%

- Kroll engagement to consider and advise on the calculation of a discount rate applied in the valuation of the Portfolio continued
- At time of interims, Citrin Cooperman discount rate within the range identified by Kroll at that time
- In current period, Kroll range increased reflecting an increase in Equity Risk Premium and relative volatility of music peers relative to the overall market
- Since period end, Equity Risk Premium fallen back to previous level, whilst volatility remains elevated
- Key differences from input assumptions including, the selection of appropriate set of peer groups and the length of calculation period for market data when estimating the Equity Risk Premium, the beta and the risk-free rate

**KROLL PROVIDE COMPLIMENTARY CONTEXT ON DISCOUNT RATES**

# Valuation sensitivities

The sensitivity of the discount rate to the fair value of the Portfolio is as follows:

Discount Rate	8.00%	8.50%	9.00%
Portfolio Value (\$,000)	3,065,753	2,802,762	2,580,725
Variance to Fair Value (\$,000)	262,991	-	(222,037)
Variance to Fair Value (%)	9.4%	-	(7.9%)

The sensitivity of the terminal growth rate to the fair value of the Portfolio is as follows:

Sensitivity to the Terminal Value Growth Rate	-1.00%	Current	+1.00%
Portfolio Value (\$,000)	2,637,623	2,802,762	3,3035,424
Variance to Fair Value (\$,000)	(165,139)	-	232,662
Variance to Fair Value (%)	(5.9%)	-	8.3%

The sensitivity of the applied growth rate to the fair value of the Portfolio is as follows:

Growth Rate	-1.00%	Current	+1.00%
Portfolio Value (\$,000)	2,573,221	2,802,762	3,048,641
Variance to Fair Value (\$,000)	(229,541)	-	245,879
Variance to Fair Value (%)	(8.2%)	-	8.8%



# Tax considerations on asset sales



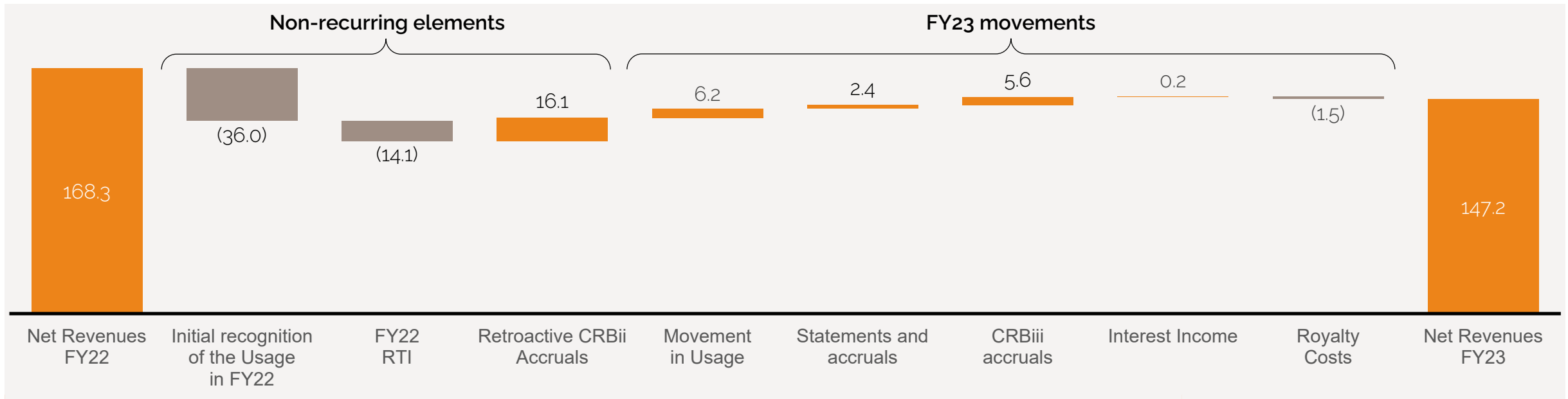
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- For UK corporation tax purposes music assets are considered intangible fixed assets and therefore unable to benefit from ITC exemptions on any potential direct sale of Catalogues
- The Company has estimated its tax liability, based on certain assumptions, that in the event a sale of all assets should occur, would be approximately \$245 million reflecting:
  - Amortisation of catalogues that has already provided a tax benefit in each year of ownership
  - Value gain since acquisition
- Could be reduced materially by utilising:
  - Brought forward tax losses
  - Structuring sales to reduce tax reduce tax charge
- Indirect sales may not result in greater value depending on attractiveness of such a transaction structure and other potential tax considerations

**TAX CHARGE MAY OCCUR ON ASSET SALES**

# Revenue

\$'m	12 months to Mar 2023	12 months to Mar 2022	Change %
Gross Revenue	177.3	200.4	(11.5)
Net Revenue	147.2	168.3	(12.5)



**UNDERLYING NET REVENUE INCREASED 10.9% YOY**

# Pro forma annual revenue (PFAR)

\$'m	12 months to Dec 2022	12 months to Jun 2022*	12 months to Dec 2021+	12 months to Jun 2021
PFAR for Catalogues owned as at 31 Mar 2023	130.2	122.2	116.2	115.9
<10 years	56.5	52.6	50.0	51.0
>10 years	73.7	69.6	66.2	64.9

\*Restated 1H22

+Restated

< 10 years Catalogues up 13.0% year-on-year , as any remaining decay profile is outpaced by growth

> 10 years Catalogues up 11.3% year-on-year due to Streaming and Synch growth

**STRONG 12.1% YoY GROWTH ACROSS ALL VINTAGES**

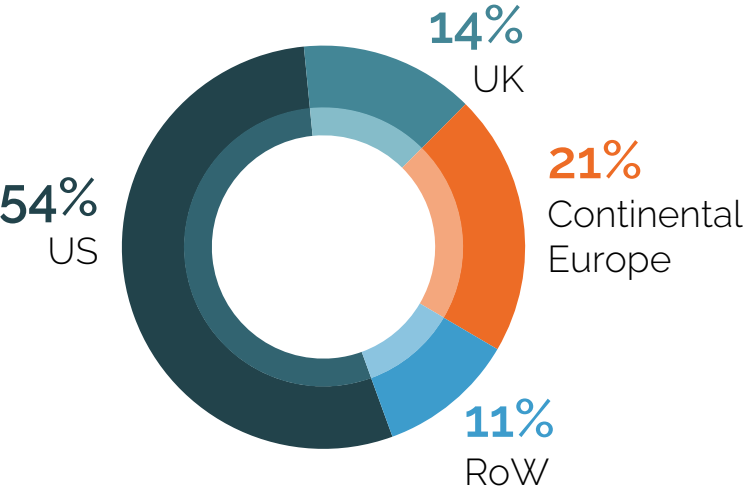
# Estimated currency impact

Limited direct impact with 85% of receipts received in US Dollars

Approximately 46% of source revenue is non-US Dollar denominated

Biggest non-US markets are UK (14%) and Eurozone (21%)

## Source income by geography



Hipgnosis Songs Fund Estimates

	Average 2022	Average 2021	Change %
Sterling: Dollar	1.233	1.375	(10.3)
Euro: Dollar	1.052	1.183	(11.1)
Yen: Dollar	0.00761	0.00911	(16.5)

**ESTIMATE CURRENCY IMPACT CIRCA 6 PERCENTAGE POINTS**

# PFAR split by income type

\$'m	12 months to Mar 2023	12 months to Mar 2022	Change %
Streaming Income	52.1	45.4	14.8
Synchronisation Income	19.4	15.6	24.7
Performance Income	30.8	28.3	9.0
Mechanical Income	4.9	5.0	(2.8)
Digital Downloads Income	2.5	3.6	(30.4)
Other Publishing Income	3.9	2.2	76.4
Masters Income	16.6	16.1	3.3
	<b>130.2</b>	<b>116.2</b>	<b>12.1</b>

**STRONG GROWTH IN STREAMING AND SYNCH**

	12 months to Mar 2023	12 months to Mar 2022	Change
Adjusted operating costs, less interest expense (\$'m)	29.5	37.5	21.2%
On-going charges (as % age of the average NAV)	1.21	1.54	0.33bps

**ON GOING COMMITMENT TO CONTROL  
COSTS AND MAXIMISE RETURNS**

# Leverage

	12 months to Mar 2023	12 months to Mar 2022	Change %
Loan interest (\$'m)	33.7	20.4	(65.2)
Gross debt at 31 Mar (\$'m)	600.0	600.0	0
Net debt at 31 Mar (\$'m)	562.0	569.9	1.4
Debt as percentage of Operative NAV	24.3	25.4	1.1bps
Leveraged free cash flow (\$'m)	81.9	84.7	(3.3)

Interest costs driven by rise in LIBOR in 1H 2022

New 5-year, \$700 million Revolving Credit Facility with interest rate hedge agreed in September 2022

**NEW RCF PROVIDES CERTAINTY**

# Earnings per Share

	12 months to Mar 2023	12 months to Mar 2022	Change %
EPS (¢)	(7.41)	(1.65)	( 349.1%)
Adjusted EPS* (¢)	4.12	7.18	(42.6%)

\* adjusted for Amortisation, Impairment of Catalogues of Songs, Borrowing Cost extinguishment, Depreciation, Lease Liability interest, Catalogue bonus provision, HSG restructuring costs, Foreign exchange losses, Fair value gain on held for trading financial instruments and Movement in ECL provision for HSG advances

**REDUCTION IN EPS DUE TO RECOGNITION  
OF USAGE ACCRUAL & RTI IN PRIOR YEAR**



# Dividends

	As at Mar 2023	As at Mar 2022	Change %
Total dividend declared per share (pence)	5.25	5.25	n/a
Total dividend paid per share (pence)	3.9375	5.25	(25%)
Total NAV return since inception (%)	69.0%	59.1	n/a

Continue to target total annual dividend of 5.25p per share

Sterling: Dollar hedge put in place at an average all-in rate of \$1.138

Dividends declared in the year were covered 1.07x by Distributable Revenues recognised during the year

Dividends declared in the year were covered 1.08x by Levered Free Cashflow necessary to meet those dividends declared in the year

**DIVIDEND FULLY COVERED BY LEVERAGED FREE CASH FLOW**

# Strong Foundations



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Strongest revenue growth since IPO

Renegotiated debt facility

Hedging strategy provides certainty

Close management of costs

Dividend in line with target

**FINANCIAL PLATFORM TO TAKE THE COMPANY FORWARD**



# **Ben Katovsky**

→ PRESIDENT AND CHIEF OPERATING OFFICER



HIPNOSIS SONGS FUND

# Song Management

Adding value to the Portfolio

Adding value to the Songs and Recordings in our portfolio by growing their popularity and usage while capturing all revenues due, reducing collection costs and payment delays as well as negotiating and advocating for better returns.

## Rights & Revenue

Optimizing revenue generation, revenue collection and value by ensuring accurate registration and rights enforcement of the catalogue, optimized access to the music market as well as timely and accurate collection of revenue

## Consumption

Driving consumption and value through active marketing and pitching of the catalogue to individual listeners, music creators and business music users, as well as harnessing consumer platforms through which the catalogue can be showcased and consumed

## Advocacy

Changing the position of Songwriters in the economic equation by working with politicians, NGOs and the wider music community to build support for increased fairness in payments for Songwriters

# Rights administration and revenue collection



**Take Control**  
**Remove middlemen**



**Increase revenues**  
**Reduce Costs**  
**Speed Payments**  
**Increase transparency**

## Case Study: Route to market optimisation

Administration of 43 Hipgnosis Songs Fund Catalogues reverted to Sacem, peermusic and Hipgnosis Songs Group (HSG) in partnership launched summer 2022

- HSG has 'seat at the table' in key industry negotiations
- Cash received via Sacem as little as four months after consumption
- peermusic network of global offices including Latin America and Asia providing local support

Uplift of 6.6% on relevant revenues

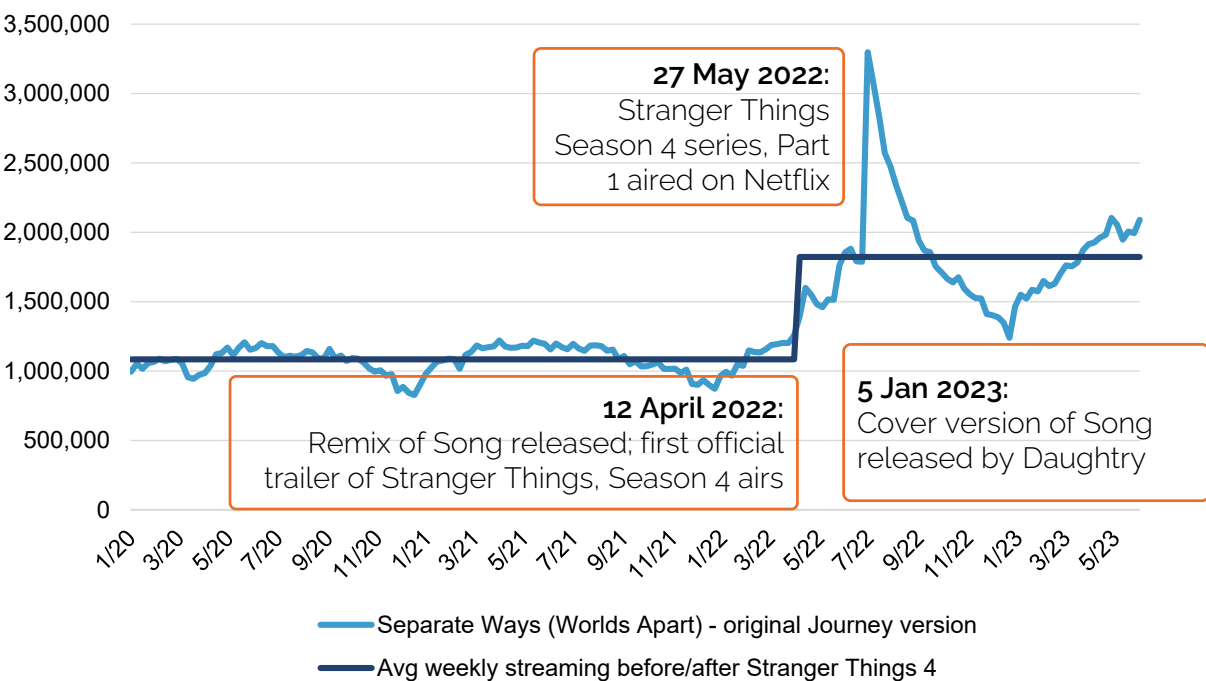
Potential for further 30 catalogues to go into partnership by 2030

**MAXIMISING VALUE AT EACH OPPORTUNITY**

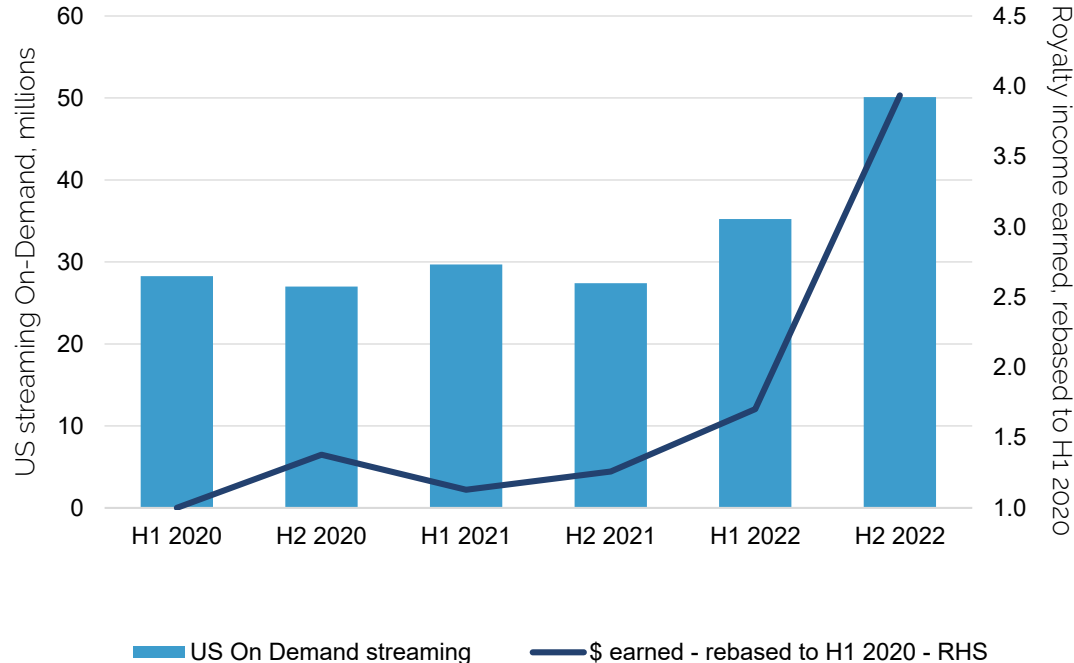
# Impact of a Synch

## Journey's Separate Ways (Worlds Apart) / Stranger Things (Netflix)

US Weekly Streaming for Journey's Separate Ways (Worlds Apart)



Journey's Separate Ways (Worlds Apart): analysing the Recorded Music Royalties



Source: Luminate

**PROACTIVELY PLACED SYNCHS DRIVE CONSUMPTION INCOME**

# Interpolation of the catalogue

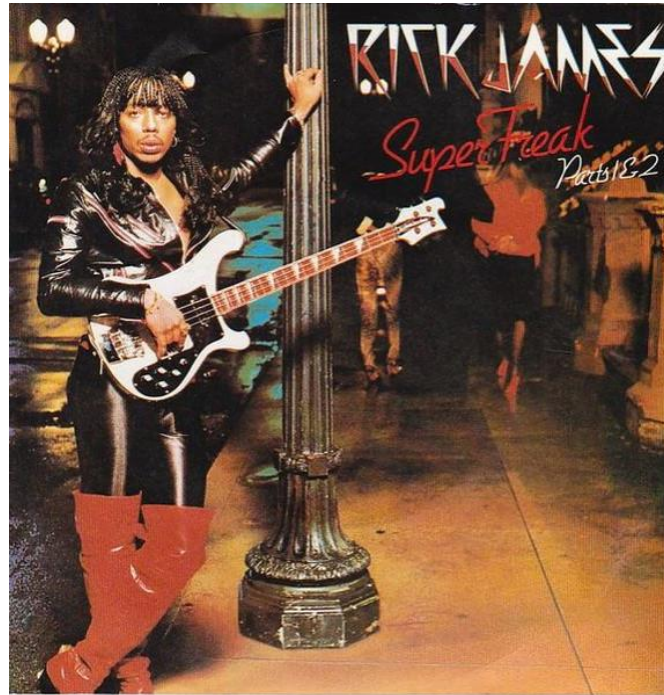


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**Number 1 2022**



**70%+ uplift for  
Rick James tracks**



**Grammy winner**



**\$350k+ ADDITIONAL REVENUE POST INTERPOLATION RELEASE**



# Proactive synch placement



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*All the Small Things* –  
cowritten by Tom Delonge



Pitched for John Lewis'  
Christmas advert



Postmodern Jukebox cover  
used as soundtrack



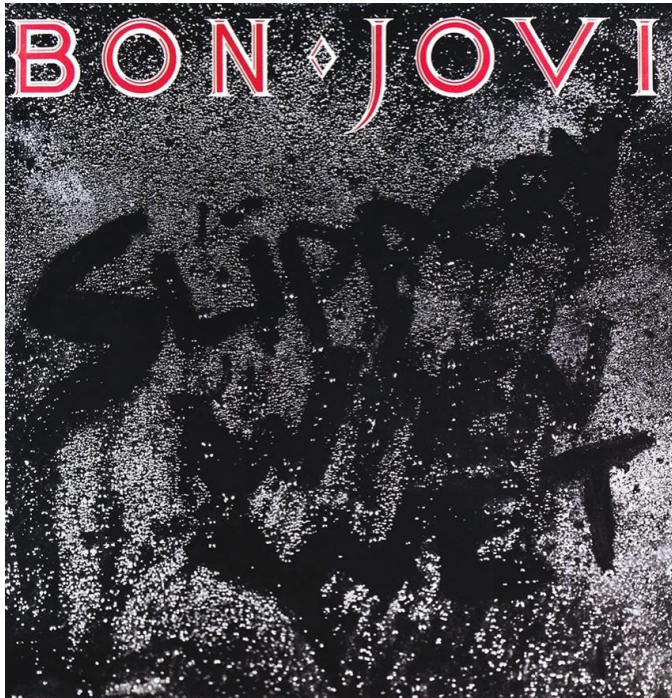
**SYNCH FEE + 15% INCREASE IN AVERAGE WEEKLY CONSUMPTION**

# Creating proprietary cover versions



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Richie Sambora co-wrote  
*Wanted Dead or Alive*



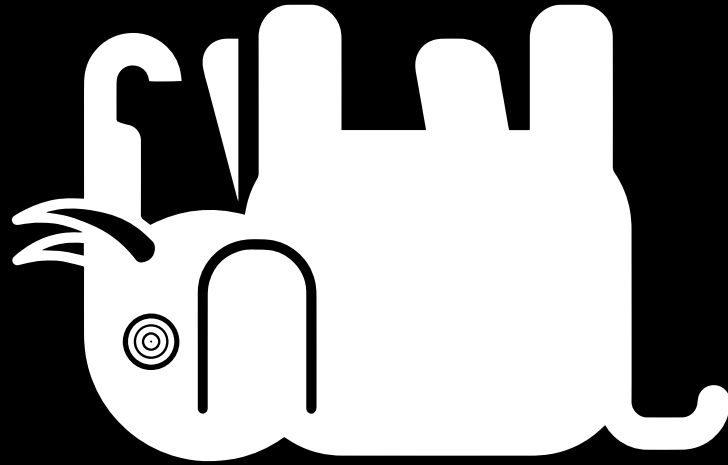
HSM record female cover  
to target synch market



Trailer soundtrack for  
major gaming release



**CREATIVE COVER RECORDING UNLOCKS NEW OPPORTUNITY**



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