HIPGNOSIS SONGS FUND

SHOT TOWER CAPITAL

Hipgnosis Songs Fund Due Diligence Findings Valuation Conclusions

March 28, 2024

Summary

- **Shot Tower has delivered its final due diligence and valuation reports to the Board of Hipgnosis Songs Fund Limited (the "Fund").**
- **The due diligence review was conducted by Shot Tower in partnership with BDO (quality of earnings review) and Reed Smith (legal review). Key diligence findings are as follows:**
  - Hipgnosis Song Management (the "Investment Advisor" or "IA") applied revenue recognition policies and accrual estimates that resulted in materially overstated revenue and EBITDA;
  - Fund disclosures presented greater ownership and administration rights in music assets than the Fund actually held;
  - The financial analysis by the Investment Advisor in underwriting acquisitions was below music industry standards;
  - In multiple instances, the Investment Advisor failed to put in place adequate safeguards to ensure the collection of royalties where letters of direction could not be obtained;
  - The IA's calculation of Operating NAV reflected a double counting of accruals;
  - The September 25, 2023 presentation to investors describing the Hipgnosis Songs Capital ("HSC") offer to acquire 29 catalogs from the Fund presented a valuation that was higher than could have been expected at closing;
  - The assets selected for inclusion in the HSC transaction grew at a historically faster rate than the overall catalog.
- **The final valuation conclusion is $1.95 billion, representing a multiple of 16.0x Retained Net Revenue[1] as of June 30, 2023.**
  - Valuation methods applied to derive our valuation included: (i) a sum of the parts DCF valuation of each catalog acquired by the fund; (ii) a strategic investor returns analysis; (iii) a levered investor returns analysis; and (iv) a market multiple approach;
  - The discount rate at the midpoint of the full Hipgnosis Catalog valuation is 9.25%, with a discount rate of 9.63% derived from the sum of the parts analysis, reflecting higher financing costs and specific risk premiums associated with valuing catalogs on an individual basis;
  - The terminal exit multiple derived from our analysis and applied in the sum of the parts and investor returns analysis is 15.5x with a weighted average perpetuity growth rate of 2.22% applied using a Gordon Growth method.

1. Net revenue retained after paying third party royalty participants and the costs of administration.

Overview of the Hipgnosis Catalog

Valuation

- **The Fund's catalog (the "Catalog" or the "Hipgnosis Catalog") represents a high-quality mix of catalogs containing copyright and income streams derived from compositions performed by some of the top artists of the last 50 years.**
- **The Hipgnosis Catalog contains a mix of rights, vintages, artists, and genres.**
- **<u>Catalog Attributes:</u>**
  - Extremely long-duration of rights, with most works purchased directly from songwriters;
  - 39.1% of catalogs, representing 54.6% of net royalties, represent works associated with Legendary and Superstar artists in the Rock / Pop genre, resulting in a higher percentage of income from synchronization;
  - Although younger vintage catalogs have decayed significantly since acquisition, the decay trend is stabilizing, which has returned the overall Catalog to positive growth;
  - There are 20 catalogs with substantial control rights, and in many cases additional royalties, returning to the Fund upon the expiration of existing agreements with other publishers.
- **While an attribute of many catalogs assembled though acquisition, the Hipgnosis Catalog does have meaningful income generated by streams where the copyright is owned by another music company.**

Top Artist Catalogs

Red Hot Chili Peppers
Purchase Date: July 2021

Shakira
Purchase Date: December 2020

RedOne
Purchase Date: July 2020

Journey
Purchase Date: January 2020

50 Cent
Purchase Date: October 2020

The Chainsmokers
Purchase Date: March 2020

Richie Sambora
Purchase Date: March 2020

Christine McVie
Purchase Date: July 2021

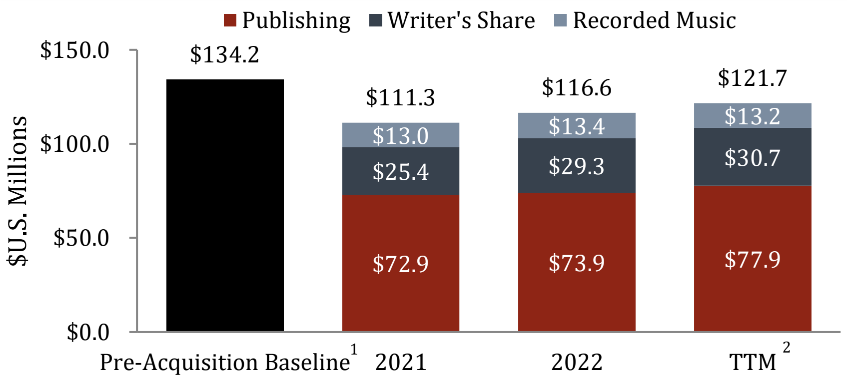
Steve Winwood
Purchase Date: September 2020

Lindsay Buckingham
Purchase Date: December 2020

Mark Ronson
Purchase Date: February 2020

Neil Young
Purchase Date: December 2020

Historic Growth Trends



1. Baseline reflects the IA's assumed pre-acquisition royalties prior to acquisition for the purposes of calculating the purchase multiple.
2. TTM reflects trailing twelve-month net revenue after reduction of third-party royalties and administration costs at June 30, 2023; the most recent period for which complete royalty statements are available.

Music Catalog Valuation Considerations

Valuation

Music catalogs comprised primarily of long-duration copyright ownership in works associated with legendary and superstar Rock / Pop artists trade at the highest valuations / multiples.

The Hipgnosis Catalog represents a very high-quality catalog, but has a meaningful portion of catalogs that contain only passive rights. As reflected on page 7, our valuation reflects a 3.1x multiple premium for catalogs representing significant copyright control.

Factors Impacting Catalog Values

	Nature of Control	Proximity to Source	Duration of Rights	Age of Repertoire	Genre
	Copyright:[1,2] *39%* ***Returning Rts.:*** *14%* ***PRO/WRS:***[2] *37%* ***Artist Share:*** *4%* ***Producer/NR:*** *6%*	***Direct:*** *25%* ***LOD:***[3] *70%* ***Individual/DACA:***[4] *5%*	***Life of Copyright and Perpetual Royalty Streams:*** *98%* ***Avg. Duration of U.S. Copyright:*** *30+ years*	***Income %:*** ***10+ yrs:*** *68%* ***>10 yrs:*** *32%*	***55% of Net Royalties Derived from Works Associated with Legendary & Superstar Artists***
Highest Value	**Full Control**	**Direct From Source**	**Long-Term**	**Stable Earnings**	**Mass Appeal**
	Copyright or Master Ownership	Direct from Source	Owned for Life of Copyright / Perpetual Income Stream	Vintage 7+ Years	Pop and Rock
	Co-Publishing	Direct Source (Co-Pub with Admin) From Copyright Owner (Co-Pub w/o Admin)	Long-Term Contractual Right to Exploit	Released 2-7 Years Ago (Past Initial Peak, but Still Decaying)	Latin and Hip-Hop (Stream Well, Fewer Synchs)
	Writer/Artist Share of Royalties (Approval)	From Copyright Owner (with Letter of Direction)[3] Direct Access Control Account (DACA)[4]	Owned Life of Copyright Nearing Reversion	Released <2 Years Ago (Experiencing Big Declines From Peak)	Country and Native Language
	Writer/Artist Share of Royalties (No Approval)	Writer/Artist/Producer (No LOD or DACA)	Short-Term Contractual Retention	Older Works Nearing Statutory Termination Dates	Christian, Classical/Jazz, and EDM
	Producer Share	Individuals Responsible for Paying Royalties	Short-Term Licensing or Administration Rights	Works Subject to Contractual Term (>15 years)	Production
Lowest Value	**Limited/No Control**	**From Individual (Writer, Artist, Producer)**	**Short-Term**	**Uncertain Earnings**	**Niche Appeal**

1. Includes deminimus amount of master copyright.
2. Where Hipgnosis owns copyright and writer's share along with copyright, full interest is deemed copyright.
3. A letter of direction (LOD) is an instruction from a writer, artist, or producer to the copyright owner or party receiving payment to redirect that payment to the new owner of the income stream.
4. Where an LOD cannot be obtained, monies are paid in the writer/artist/producer's name to an account controlled by the new owner of the income stream known as a DACA.

Nature of Ownership

Valuation

In our valuation, we categorized catalogs into three categories for valuation purposes:

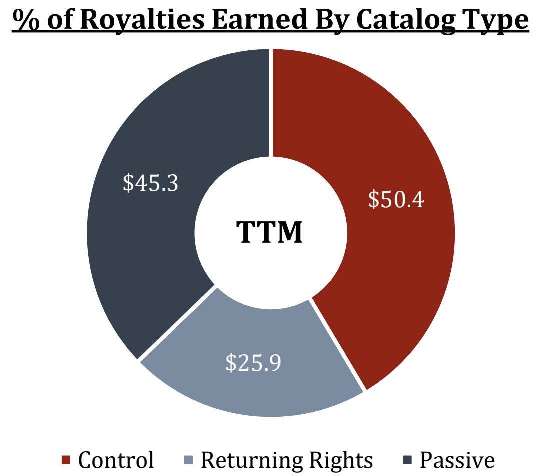
(i) Catalogs generating income primarily from copyright with control (Control Catalogs);

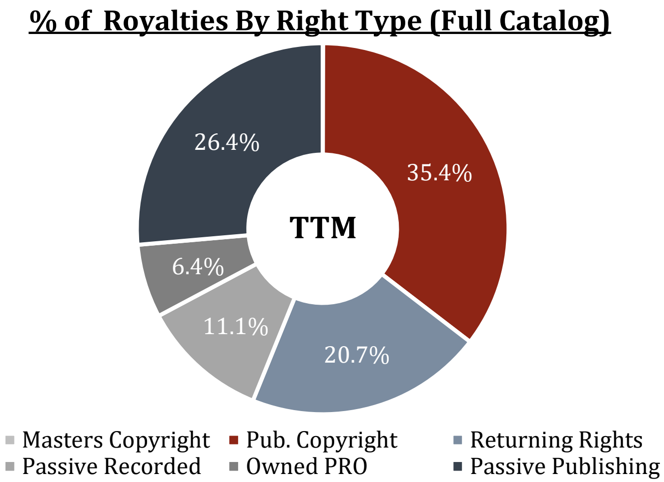
(ii) Catalogs where the control rights will return to the Fund by 2030 (Returning Rights); and

(iii) Catalogs comprised of income primarily generated from passive royalty streams (Passive Catalogs).

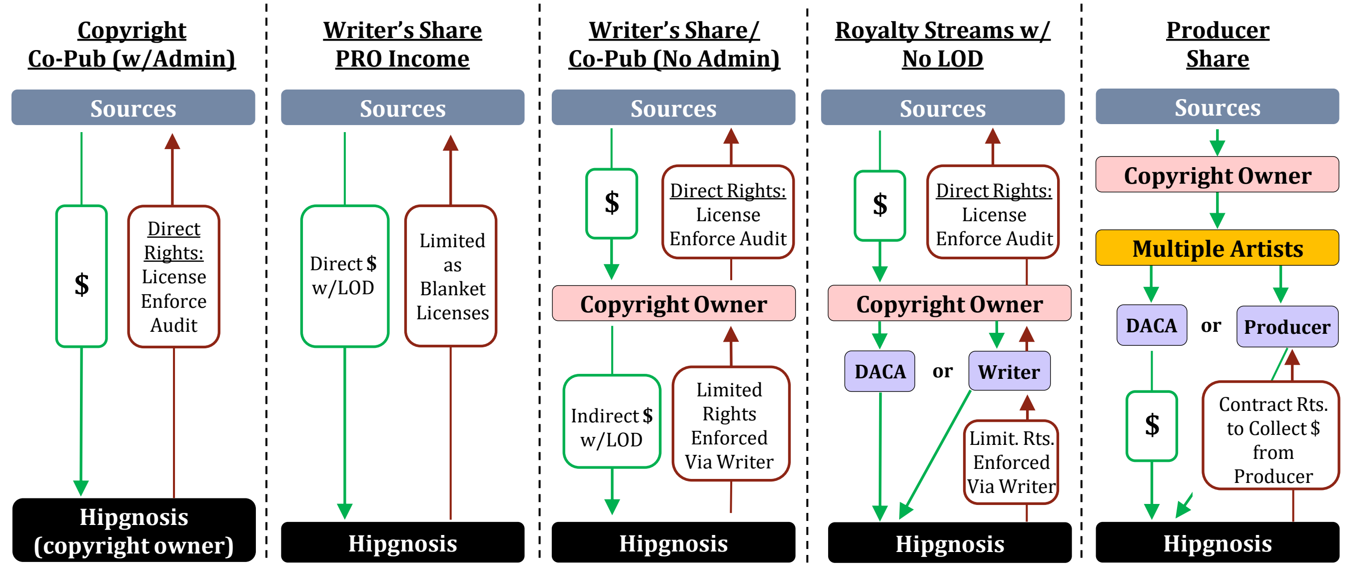
The diagram at the bottom of the page illustrates control rights and the income flows associated with different types of rights to illustrate the rationale for the premiums associated with copyright ownership.

% of Retained Net Revenue By Ownership Type





Proximity to Source and Control Based on Type of Right



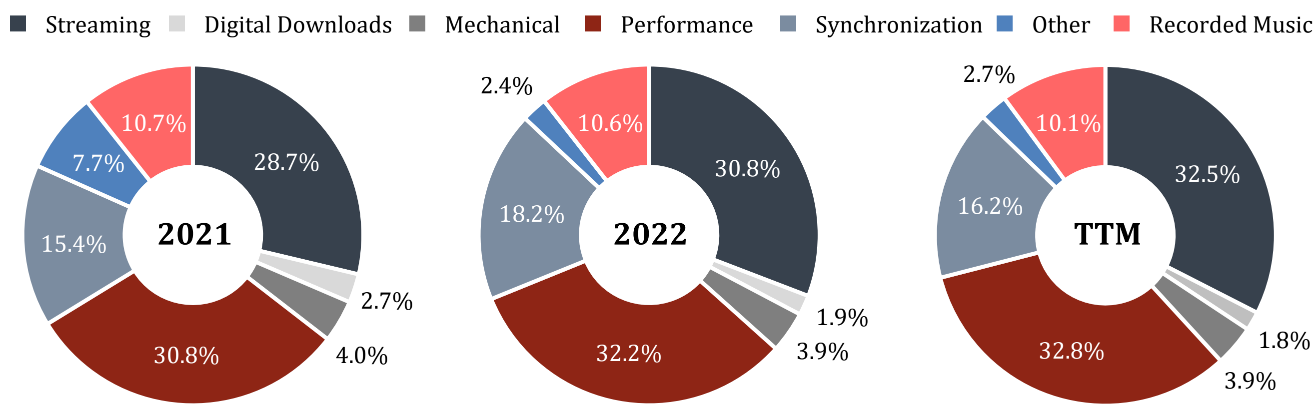
Royalty Mix and Vintage

Valuation

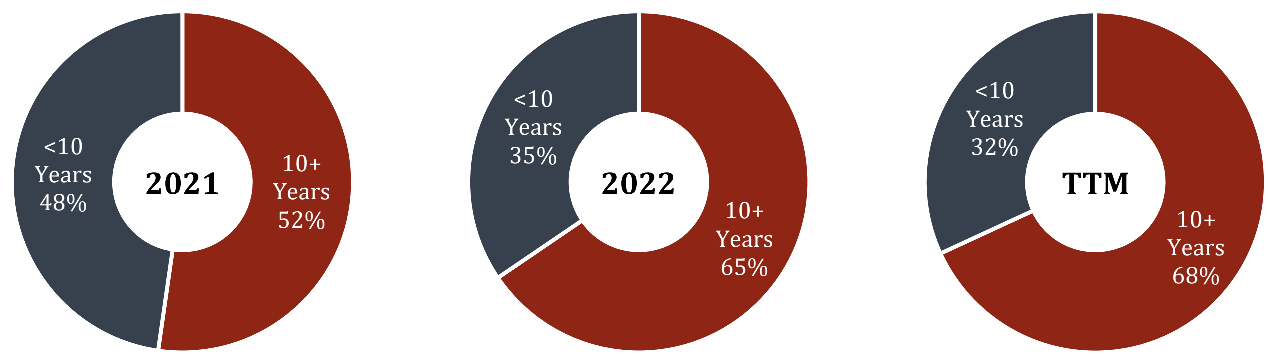
Streaming represents the fastest growing royalty stream and has the greatest impact on a Catalog's growth. This growth is reflected in the Catalog's income mix over the last three years.

The number of Hipgnosis catalogs with stable earnings is increasing, as more contemporary catalogs acquired by the Fund mature. While there were significant revenue declines in younger catalogs following purchase, the declines have slowed, and an increasing number of younger catalogs posted positive growth in the last year.

2021 – TTM Retained Net Revenue by Income Type



2021 – TTM Retained Net Revenue by Vintage



Hipgnosis Purchase Price vs. STC Valuations

Valuation

A comparison of purchase price and metrics at the time of purchase to the current Shot Tower valuation illustrates the following:

- **The valuation gap between the Hipgnosis purchase price and the Shot Tower valuation is primarily a function of cash flow declines and not multiples;**
- **Hipgnosis paid a 3.1x premium for control rights, consistent with Shot Tower's premium;**
- **Royalties from younger catalogs have declined significantly since Hipgnosis' purchase;**
- **Passive Catalogs grew significantly better than catalogs managed by the Investment Advisor.**

Implied Acquisitions Multiples by Vintage and Rights Type

$U.S. Thousands	@ Purchase			Current		
Rights Type	Price[1]	Royalties	Multiple	STC Val.	Royalties	Multiple
<10	$256,056	$19,219	13.3x	$155,257	$10,601	14.6x
10+	809,556	38,285	21.1x	708,964	39,790	17.8x
Control Catalogs	**$1,065,612**	**$57,505**	**18.5x**	**$864,220**	**$50,391**	**17.2x**
<10	$312,826	$23,896	13.1x	$285,753	$17,223	16.6x
10+	124,561	7,227	17.2x	157,822	8,717	18.1x
Returning Rts. Cats.	**$437,387**	**$31,123**	**14.1x**	**$443,576**	**$25,941**	**17.1x**
<10	$266,448	$22,822	11.7x	$205,997	$14,649	14.1x
10+	435,110	22,740	19.1x	434,210	30,620	14.2x
Passive Catalogs	**$701,559**	**$45,561**	**15.4x**	**$640,208**	**$45,269**	**14.1x**
Total	**$2,204,558**	**$134,190**	**16.4x**	**$1,948,004**	**$121,601[2]**	**16.0x**

Implied Acquisitions Multiples by Royalty Type and Rights Type

$U.S. Thousands	@ Purchase			Current		
Rights Type	Price[1]	Royalties	Multiple	STC Val.	Royalties	Multiple
Pub. (Ownership)	$1,059,113	$56,374	18.8x	$871,573	$50,401	17.3x
Pub. (Returning Rights)	514,158	36,160	14.2x	554,952	33,869	16.4x
Pub. (Passive)	275,568	18,880	14.6x	257,675	17,758	14.5x
PRO	151,664	11,511	13.2x	110,487	8,011	13.8x
Master (Ownership)	824	24	33.7x	586	38	15.4x
Recorded (Passive)	203,230	11,240	18.1x	152,730	11,524	13.3x
Total Rights	**$2,204,558**	**$134,190**	**16.4x**	**$1,948,004**	**$121,601[2]**	**16.0x**

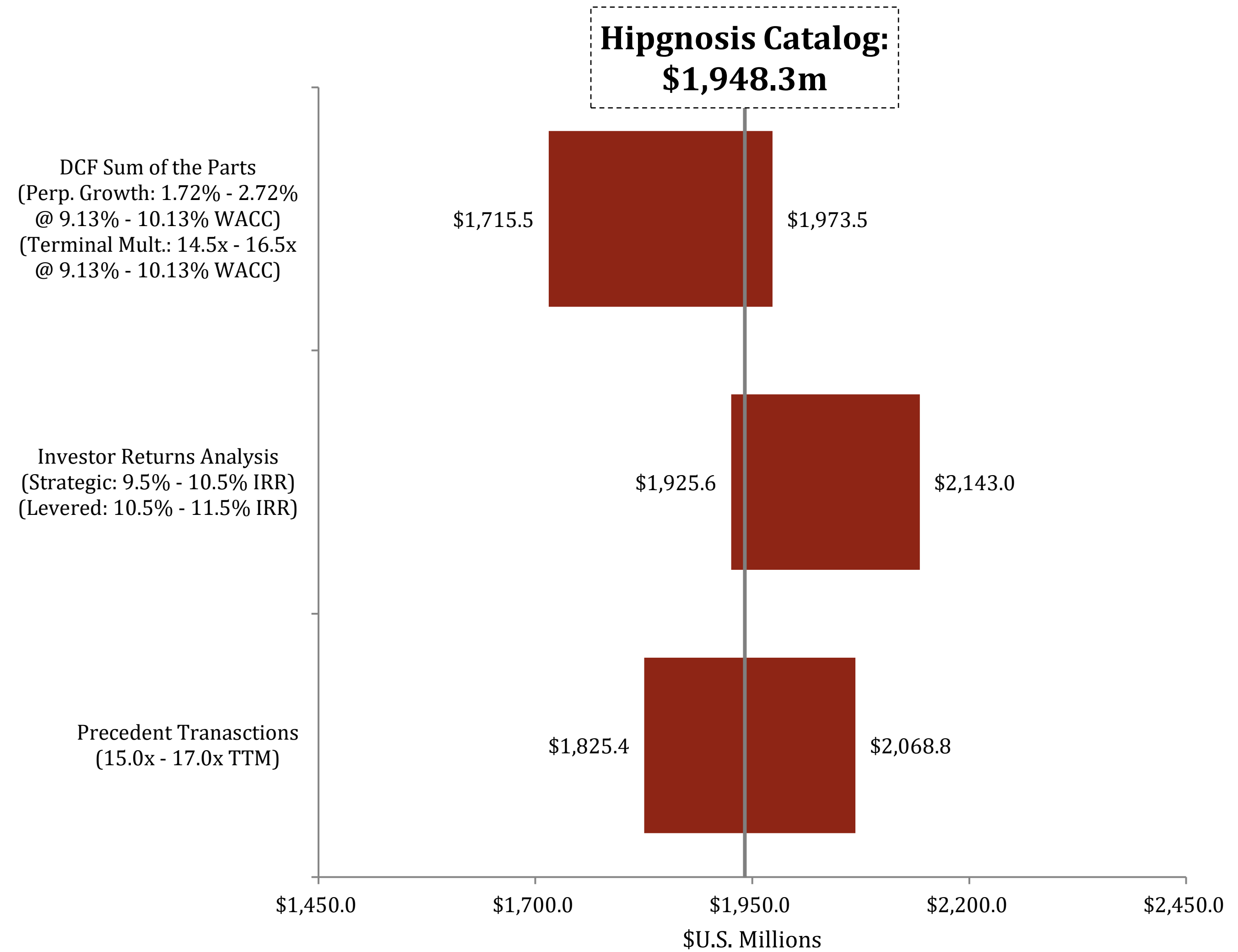
1. Price at purchase reflects the purchase price recognized in the Fund's financial statements reflecting purchase price inclusive of $66.8 million of "Right to Income." See page 18 below.
2. Excludes non-acquired "Non-Specific" and "Record Label" income.

Hipgnosis Catalog Concluded Value

Valuation

Based on our analysis, we have derived a value for the Hipgnosis Catalog of $<u>1.95 billion</u> and <u>$1.90 billion</u> after deducting expected remaining catalog bonuses of $54.8 million, the addition of CRB settlement monies of $6.0 million, and the estimated value of recoupable writer advances at HSG.

THE HIPGNOSIS CATALOG ENTERPRISE VALUE



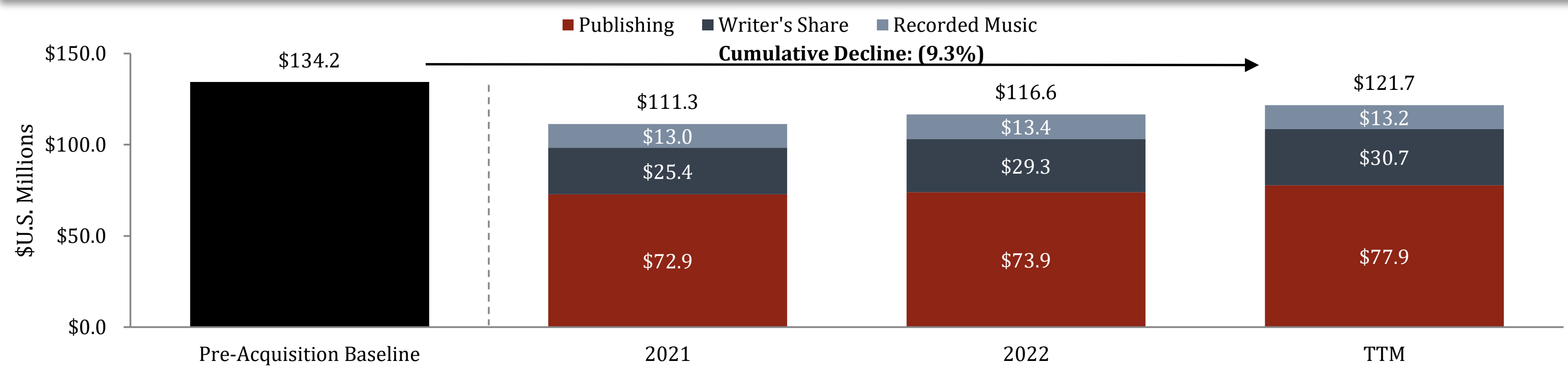
Valuation Assumptions	
Concl. Value Implied WACC	9.25%
Sum of Parts Derived WACC	9.63%
Tax Rate	25.0%
Exit Multiple	15.5x
Perpetuity Growth Rate	2.22%
Strategic Returns IRR	9.5% - 10.50%
Levered Returns IRR	10.5% - 11.5%

Historic Financials

Valuation

- Music catalogs are valued based on net publisher's share ("NPS") for compositions and net label share ("NLS") for sound recordings. The equivalent of NPS and NLS for the Hipgnosis Catalog is Retained Net Revenue. The use of Retained Net Revenue as the cash flow metric rather than EBITDA reflects the notion that a strategic buyer has the infrastructure in place to integrate new catalogs without significant incremental cost.
- Shot Tower's overall assessment is the Hipgnosis Catalog will experience growth over our projection period, with near-term growth driven by streaming price and royalty rate increases, cash flow returning to the Fund as rights with other publishers expire, and slowing decay in younger catalogs.
- The growth rates applied in our valuation were based on a combination of research analyst estimates, discussions with finance professionals at large music publishers, and catalog specific factors.
- Overall, Shot Tower expects the Hipgnosis Catalog to grow at a five-year compound annual growth rate ("CAGR") of 4.4%. This reflects decay in early vintage catalogs, a lack of growth from new releases (as it is a static catalog of rights), and limited revenue from non-English language markets (which represent the highest growth streaming markets). Refer to the Appendix (page 25) for a discussion of applied growth assumptions.

Historic Growth[1]



1. Excludes divested catalogs.

Catalog-by-Catalog Valuation Assumptions

Valuation

- **Each catalog was reviewed on an individual basis and assumptions were assigned based on catalog specific characteristics, including:**
  - Whether the rights in a particular catalog represent copyright ownership with control exploitation or passive income streams;
  - The average age of the works in a catalog and if the income streams have fully stabilized post-release;
  - The stature of the specific works and the performing artists associated with the works within a catalog;
  - Whether a catalog has complicated collection issues impacting the ability to leverage the catalog and the potential risk of royalty collections;
  - In all cases, we assumed a corporate tax rate of 25% and the ability of a buyer to shield tax through amortizing the purchase price allocated to the intellectual property rights.
- **Below are indicative assumptions applied in our catalog-by-catalog valuation analysis. The most favorable assumptions were applied to owned copyright and the least favorable to high-risk catalogs which could not be individually leveraged. Because we were valuing the sum of the parts, leverage and cost of debt assumptions used to derive the discount rate are based on current bank financing terms (versus the full Catalog level valuation methods which reflect securitized debt assumptions).**

Valuation Method	Applied Assumptions	Commentary
DCF - Discount Rate	(a) 8%-9%: Quality rights, stable (b) 9%-10.5%: Less quality, moderate decay (c) >10.5%+: Speculative, risk to income, decaying	For diversified, stable catalogs comprised primarily of copyright, we have seen buyers apply discount rates of +/- 9% in our sell-side transactions over the last 18 months.
DCF - Terminal Multiple (Publishing/Recorded)	(a) 17x+/14x+: Copyright, high quality (b) 12x+/11+: Passive, lesser quality (c) <12x/11x: Shorter duration / lower quality	Terminal multiples are applied to the final year of the 5-to-10-year projected cash flows and tend to reflect a discount to current market transaction multiples.
DCF - Perpetuity Growth	(a) 2.25%-2.75%: Strong long-term growth (b) 1.75%-2.25%: Normal (inflationary) (c) <1.75%: Fading long-term growth	Typical, long-term inflationary growth rate. As long-term measures do not reflect current market values, this method tends to derive the lowest value of all methods.

Other Methodologies and Assumptions

Valuation

- **In order to mitigate the reliance on a single methodology highly impacted by the applied discount rate and a subjective assessment of risk, we also considered alternative valuation methodologies based on current market assumptions as applied to the entire Hipgnosis Catalog, including:**
  - A strategic investor returns analysis based on a midpoint internal rate of return of 10%, with our assumption derived from discussions with industry buyers;
  - A levered investor returns analysis applicable to a wider range of strategic buyers based on a midpoint IRR of 11% and assuming a securitized debt structure;
  - A market approach applying recent comparable, precedent market multiples to Shot Tower's estimated full year 2023 Retained Net Revenue.

Valuation Method	Applied Assumptions	Commentary
Strategic Investor Returns	Range: 9.5% - 10.5%	Reflects current market based on STC discussions with strategic buyers.
Levered IRR (Securitized Terms)	Range: 10.5% - 11.5% (Rate: 6.65% / 60%+ LTV / Interest Coverage 1.4x)	Reflects current market based on STC discussions with strategic buyers and banks.
Market Multiple	Publishing Multiple: 16.3x Recorded Multiple: 12.9x **Hipgnosis Weighted Multiple:** 15.97x	Market data derived from public sources, discussions with strategic buyers, and internal Shot Tower data.

- **Based on a sum of the parts, individual catalog valuations were derived using both the terminal multiple and perpetuity growth rate methodologies, as well as the full Catalog valuation methodologies described above, we derive our conclusion of value by averaging all methods.**
- **Shot Tower's concluded value aligns with current market multiples and the 9.25% discount rate implied from the midpoint of our concluded valuation range is in line with our weighted average cost of capital calculation of 9.15%.**

Other Methodologies and Assumptions

Valuation

- **In addition to the assumptions applied in each methodology, Shot Tower also considered the following:**
  - Passive Catalogs: The high proportion of passive rights may impact the interest of some strategic buyers;
  - Match Right / Call Option: The Investment Advisor's match right / call option could impact the participation of some interested parties;
  - No Negative IA Transition Impact: The potential negative impact on royalty income that could result during the transition from the Investment Advisor to a new investment advisor;
  - Amortization of Purchase Price: The transaction can be structured in a manner that allows a buyer to amortize the full value of the Hipgnosis Catalog through a step-up;
  - U.S. Copyright Terminations: Based on a review of termination rights, we assumed an average remaining life of 32 years for the U.S. share copyrights interests;
  - Catalog Bonus Provisions: After recent payments, remaining catalog bonuses expected to be paid in the near term are $54.8 million. As these are contractual provisions associated with the acquisition agreements and unrelated to copyright or royalty income streams, we have deducted the aggregate amount expected to be paid after calculating the enterprise value based on the Catalog assets;
  - Non-Payment of Royalties: There are catalogs where income is not flowing as a result of disputes or issues preventing letters of direction from being honored. As many of the issues have been present for a number of years, we did not factor in the recovery of past royalties or future income streams from these sources. An arms-length buyer would be unlikely to provide upfront purchase price credit for these amounts and would likely factor any such amounts into an earnout to the extent they ultimately succeed in collecting these royalties; and
  - Writer Advances: HSG has made advances to new songwriters, which carry a value of approximately $16 million on the balance sheet. We have not included any value for these amounts as we are still analyzing recoverability, but given the speculative nature of advances, a purchaser would heavily discount this number in a purchase.

Due Diligence Findings

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Music Acquisitions and Management

Due Diligence Review

- **The Investment Advisor failed to perform to music publishing industry standards in three key areas: (i) advising the Fund on, and underwriting, catalog acquisitions and putting systems and people in place to manage the rights once acquired; (ii) providing investors with accurate financial statements and public disclosures; and (iii) managing conflicts between the IA and the Fund.**
- **While the Hipgnosis Catalog is of high quality and comprised of copyright and royalty interests associated with the top tier of Anglo-American music over the last 50 years, the Investment Advisor's diligence and underwriting standards resulted in the Fund overpaying for the majority of the catalogs it acquired:**
  - Our valuation analysis suggests a current value lower than the purchase price on 67 of 105 acquisitions;
  - Projections were aggressive, with 75% of the Fund's catalogs missing its growth forecasts by an average of 23% annually;
  - The financial analysis by the Investment Advisor in acquisition underwriting was below music industry standards, often relying on statements of expectation in lieu of actual analysis, with internal models based only on an IRR analysis with a base case assuming 100% of the growth forecast and an exit multiple equal to the entry multiple;
  - Legal acquisition documentation in some cases failed to include the entity receiving funds as a contracting party and in multiple instances the Investment Advisor: (i) did not obtain required third-party consents prior to closing a transaction; and (ii) failed to put in place post-acquisition structures to assure continued royalty collections.
- **The Investment Advisor failed to invest in systems and provide the services required to effectively manage a catalog of 40,000+ songs generating +$120 million of royalty income annually:**
  - While all royalty data flows to the Investment Advisor, six years since the inception of the Fund, it is still not tracking or managing the Hipgnosis Catalog at the song level, which is standard for the music publishing industry;
  - Data provided during the diligence process included multiple, inconsistent versions of the same financial information and, in other cases, data in the financial systems was completely different than information in public disclosures;
  - Acquisition files were missing key documents, including waivers of match rights and agreements related to chain of title, making it difficult to ascertain whether these items were not obtained or just unable to be located.

Financial Statements and Disclosures

Due Diligence Review

- **The Fund's public reports contain disclosures that imply greater ownership control over songs, higher revenue and EBITDA, stronger growth, and a greater net asset value ("NAV") than would have been the case if more accurate information was presented. Some examples include:**
  - Multiple reports present data showing the Fund with a 100% "Interest Ownership" in acquired catalogs, suggesting full ownership and control, when in fact a material number of catalogs represent only a fractional, non-controlling income stream in the compositions without any copyright ownership;[1]
  - While currently the HSG administration team secures synchronization licenses, there was no large Investment Advisor initiative focused on maximizing song performance, as illustrated by the fact that it is just now attempting to organize data at the song level;
  - Using the initial purchase price on the Fund's balance sheet, as well as a consistent pre-acquisition cash flow metric that reflects right to income in purchase price, increases the Fund's disclosed purchase multiple from 15.93x to 16.4x, and 18.1x if a consistent, one-year trailing net revenue metric is applied in the multiple calculation;
  - Right to Income ("RTI") as applied increased reported income by recognizing, in multiple instances, more than one year of royalties collected by a seller prior to Hipgnosis closing a transaction;
  - The FY2022 "Usage Accrual" was introduced at a time when RTI revenue was declining and the Fund could no longer raise capital for continued acquisitions. Without the Usage Accrual, BDO's quality of earnings analysis suggests the Fund would have breached its lender covenants and reported FY2022 revenue would have been $36 million lower;[2]
  - Accrual estimates appear to have over-estimated revenue 100% of the time, with only a single negative reconciling adjustment to date (CRB accrual), which we still believe to be over-accrued;
  - In contrast to the disclosed definition, Pro Forma Annual Revenue ("PFAR") actually includes revenue accruals and estimates to supplement actual royalty data. The impact of the period to which an accrual relates and the timing of recognition of an accrual can materially impact PFAR and the growth rate it implies (e.g., FY2023 PFAR = +11.0%, statement data = +6.2%);
  - The Investment Advisor presented a calculation of Operating NAV that reflected a double counting of accruals.

1. FY2021 Annual Report page 24; FY2022 Annual Report, page 18.
2. FY2022 Annual Report, page 39.

Managing Conflicts of Interest

Due Diligence Review

- **There are multiple areas where Fund expenses appear unrelated to the Fund and/or are excessive:**
  - $1.5 – $2.0 million per year was paid by the Fund for award shows and public relations, including significant payments to multiple music industry periodicals;
  - Aborted deal charges for calendar year 2023 through September 30th totaled $1.2 million, which is significant for a Fund which ceased pursuing acquisitions in 2021;[1]
  - The HSC offer will cost the Fund a total of $5.7 million for expenses associated with pursuing the transaction.
- **An analysis of the HSC offer also confirms the Investment Advisor's conflicted position in recommending the sale of 29 catalogs to Blackstone-backed HSC:**
  - The economics presented in the September 25, 2023 investor presentation recommending the transaction to shareholders suggests the net multiple after deducting RTI was 17.6x. The analysis based on information reviewed in due diligence, as set forth on page 22, suggests the multiple was closer to 14.9x;
  - HSC's offer represents a (10.5%) and (5.0%) discount to the high and midpoint of our valuation range and a +1.2% premium to the low end of our range;
  - Additionally, our analysis indicates that the weighted average historic growth rates for the selected catalogs are 5.9% versus 2.7% for the catalogs which were to be left with the Fund (excluding recently divested catalogs), with future growth projected to be 5.4% versus 4.3% for the catalogs which were to be left with the Fund (projected figures are based on the Shot Tower valuation model).

1. Expenses largely associated with an acquisition for which the IA committed the Fund without the Board's awareness.

Historic Financials

Due Diligence Review

- **The failure of the catalogs to meet the Investment Advisor's growth projections is the primary reason the value of the Hipgnosis Catalog has declined since purchase.**
- **The chart below shows a decrease in actual catalog revenue for contemporary catalogs of (35.6%) following the Fund's purchase versus the expectation of essentially no decay. While 10+ year catalogs achieved growth reflecting 65%+ of projected amounts, the growth was not sufficient enough to offset the substantial decay of younger catalogs.**

$U.S. Dollars Vintage	#	Gross Purchase Price	Purchase Mult. Close/Current	Net Rev. @ Close	TTM Net Rev.	(Decline)/ Increase
<10	48	$835,330,544	12.7x / 19.7x	$65,936,909	$42,472,678	(35.6%)
10+	57	1,369,227,568	20.1x / 17.3x	68,252,620	79,128,330	15.9%
Total	**105**	**$2,204,558,111**	**16.4x / 18.1x**	**$134,189,529**	**$121,601,008**	**(9.4%)**

- **The overall variance between actuals and forecast projections were missed by a wide margin every year, and on a cumulative basis, the shortfall is just over $70 million over the last four years.**

Variance Against Forecast [1,2]

$U.S. Dollars Year Acquired	Basis	2019	2020	2021	2022
2018	Actual	$7,099,065	$5,495,827	$5,888,176	$6,821,650
2019	Actual		34,991,518	30,930,086	31,582,361
2020	Actual			55,384,759	54,499,475
2021	Actual				19,635,205
	Total	**$7,099,065**	**$40,487,345**	**$92,203,021**	**$112,538,691**
Year Acquired	**Basis**	**2019**	**2020**	**2021**	**2022**
2018	IA Forecast	$9,682,191	$10,040,609	$11,306,270	$11,782,573
2019	IA Forecast		43,665,954	45,765,934	47,554,959
2020	IA Forecast			59,048,706	63,281,857
2021	IA Forecast				20,597,201
	Total	**$9,682,191**	**$53,706,563**	**$116,120,910**	**$143,216,589**
Variance		**($2,583,126)**	**($13,219,218)**	**($23,917,889)**	**($30,677,899)**

1. The Fund introduced the Variance Against Forecast metric in RNS 3842 on March 16, 2021, and discontinued the metric in September 2021 (Interim Report page 31).
2. Represents performance for 133 of 138 remaining catalogs and excludes catalog earnings for which no pre-acquisition model was provided, based on latest full year for which complete royalty statements are available.

Right to Income ("RTI")

Due Diligence Review

- **It is common in music catalog acquisitions to have an effective date that aligns with the start of a royalty accounting period to simplify the hand-off of royalty accounting from a seller to a buyer when a closing date occurs mid-cycle. Any cash received by the seller after the effective date and prior to closing is credited to the buyer via a purchase price adjustment at closing.**
- **While it appears Hipgnosis' early acquisitions in FY2019 and FY2020 reflected this typical concept, over time, the Investment Advisor began to negotiate effective dates that were multiple royalty periods prior to closing and, in its September 30, 2020 interim report, the Investment Advisor introduced "Right to Income" as a revenue recognition policy, where they would recognize this pre-closing income as Fund income on the closing date rather than realizing RTI as a price adjustment on the balance sheet.[1]**
- **Adoption of this accounting policy significantly increased income in the FY2021 and FY2022 financials, which presented financials with higher growth than would be reflected if the Fund applied the standard of other music publishers.**

$U.S. Dollars	FY2019	FY2020	FY2021	FY2022
Reported RTI	$0	$0	$22,700,000	$17,970,000
% of Deals with RTI Periods Over 1 Year	**0.0%**	**5.3%**	**43.9%**	**60.0%**
# of Deals with RTI Periods Over 1 Year	0	2	18	6
# Deals Closed in Period	16	38	41	10
$ Value of Period Acquisitions	$207,032,168	$656,242,951	$1,012,822,230	$261,685,887

- **Additionally, due diligence revealed specific negotiations where a purchase price was established and then the Investment Advisor negotiated an earlier effective date and an increase in purchase price on a dollar-for-dollar basis for "revenue purposes."**
- **KPMG is in the process of assessing the impact of removing RTI from current and prior year reported financials.**

1. September 30, 2020 Interim Report, pages 23 and 57.

Impact of Accruals

Due Diligence Review

- **Under IFRS 15, the Fund is required to recognize income in the period when it is earned rather than when cash is actually received. As a result, reported financial statements will recognize income in the period prior to the receipt of actual cash revenue under the notion that accrual reporting will provide a better view on the actual earnings of a business.**
- **While a significant portion of the Fund's early reported financials (prior to FY2021) appear to be based on accrual estimates rather than cash collections and concerns were raised about the risk of these estimates[1] there was no specific evidence in these earlier periods that estimates were specifically used to increase reported revenue.**
- **In FY2022, when the Fund was no longer able to raise additional capital for acquisitions, the Investment Advisor introduced the "Usage Accrual," which increased the Fund's reported revenue by $36 million just as RTI was tailing off. The stated reason for the Usage Accrual is:**

  "In order to present comparable accounts with listed major music companies, the Company has optimised its accrual process to also more accurately recognise earnings based on expected usage (where appropriate), rather than when earnings were paid to, and being processed by, collection societies, publishers and administrators."[2]
- **Without the introduction of Usage Accrual, based on the BDO quality of earnings analysis, it appears the Fund may have breached its loan covenants as RTI decreased. The impact of the FY2022 accruals are visible in BDO's bridge on page 20.**
- **The magnitude of Hipgnosis' Copyright Royalty Board Accrual of $21.7 million also raised questions when it was first reported, as it was a significant estimate relative to the market share of the Catalog's streaming earnings. While Universal Music Group may have under-accrued the settlement, the Fund's initial estimate was 1/3rd of the amount accrued by Universal, which generates 25x-30x more mechanical streaming revenue than the Hipgnosis Catalog annually. As illustrated on BDO's bridge on page 20, prior to readjustment, this accrual had a significant impact on the reported revenue of the Fund in FY2023.[3,4]**

1. Stifel Research Report, January 7, 2021, page 3.
2. FY2022 Annual Report, pages 39 and 169.
3. FY2023 Annual Report, page 37.
4. Universal Music Group Reported Financials for the nine months ended September 30, 2023, reflecting a €71 million CRB accrual.

Bridge from Reported Net Revenue to Adjusted Net Revenue

Due Diligence Review

The BDO Bridge from reported net revenue to actual net revenue shows the impact of RTI and accruals on the Fund's reported financials.

The table to the right illustrates the magnitude of the impact of RTI and the Usage Accrual in FY2022, FY2023, and TTM.

BDO Bridge – Reported Net Revenue to Actual Net Revenue[1]

$U.S. Thousands	FY2022	FY2023	TTM2024
Reported Net Revenue	**$168,348**	**$147,233**	**$124,296**
CRB III Normalization	2,489	(19,230)	9,472
Right to Income Revenue	(22,358)	(8,817)	(3,228)
Missing LOD Revenue Accrual	(731)	(228)	(1,022)
Out of Period Revenue	(15,769)	0	0
HSG Rent Expense	261	0	0
Interest Income	(5)	(237)	(460)
Royalty Revenue Over Accrual	NQ	NQ	NQ
Adjusted Net Revenue (+/- NQ)	**$132,234**	**$118,721**	**$129,058**
Discontinued Catalogues	(3,212)	(8,765)	(8,582)
Pro Forma Adjusted Net Revenue (+/- NQ)	**$129,022**	**$109,956**	**$120,475**
Change in Adjusted Accrued Revenue	(13,024)	3,399	(7,728)
Change in Royalties Payable	(1,565)	1,796	6,697
PF Adjusted Net Revenue	**$114,433**	**$115,152**	**$119,444**

1. Reconciliation provided by BDO. Differences between BDO Net Revenue and Shot Tower Retained Net Revenue relate primarily to timing differences, and BDO's figures are presented on a fiscal year basis versus Shot Tower's figures being presented on a calendar year basis.

Pro Forma Adjusted Revenue ("PFAR")

Due Diligence Review

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- **The Fund introduced PFAR to provide investors with a picture of royalty based organic catalog growth, excluding IFRS accruals or RTI.[1]**
- **Despite its definition, the Investment Advisor's calculation of the PFAR metric includes accrual estimates of income that is/was expected to be received in the period.**
- **We analyzed PFAR based on actual statement data available when the September 30th report was published and again based on data available as of early March 2024 to determine the current over-accrual (+$3 million).**
- **Based on our analysis, in recent periods, PFAR presents a picture of organic growth that is higher than growth suggested by the statement data.**
- **We also note that neither Shot Tower nor BDO were able to reconcile PFAR in the aggregate or at the individual catalog level.[4]**
- **The conclusion of Shot Tower, as confirmed by BDO, is PFAR is not calculated on a consistent basis with its definition and is not a metric that should be relied upon by investors.**

PFAR Compared to Statement Income

$U.S. Thousands	PFAR in Disclosures[2]	Statement Income[3]	Variance:
Interim September 2021	$52,780	$55,654	*(5.2%)*
Interim March 2022	61,469	60,999	*0.8%*
Fiscal Year March 2022	$114,249	$116,653	*(2.1%)*
Interim September 2022	$59,033	$58,203	*1.4%*
YoY Growth %	***11.8%***	***4.6%***	
Interim March 2023	$67,759	$65,677	*3.2%*
YoY Growth %	***10.2%***	***7.7%***	
Fiscal Year March 2023	**$126,792**	**$123,880**	***2.4%***
YoY Growth %	***11.0%***	***6.2%***	
Interim September 2023	$64,912	$51,351	*26.4%*
YoY Growth %	***10.0%***	***(11.8%)***	
Updated September 2023	$64,912	$61,958	*4.8%*
YoY Growth %	***10.0%***	***6.5%***	

Current Definition of PFAR

"Pro Forma Annual Revenue" or "PFAR" – Pro Forma Annual Revenue (PFAR) is a non IFRS measure and shows the royalty statements received or receivable within the reporting period. This is unlike IFRS 15 revenue which is accounted for from acquisition date and PFAR doesn't include any revenue accruals as these are accounted for under IFRS." [5]

1. RNS 3842, March 16, 2021. September 30, 2023 Interim Report, pages 13 and 61.
2. September 30, 2023 Interim Report, page 9.
3. Data derived from provided royalty statement data.
4. For example, Nettwerk PFAR for the six months ended September 30, 2023 is presented as $4.27 million where actual statement data reflects $1.72 million of gross and $0.50 million of net revenue for the period.
5. September 30, 2023 Interim Report, page 61.

Hipgnosis Songs Capital – Actual Economics

Due Diligence Review

- **The September 25, 2023 investor presentation describing the HSC proposal was presented as a more attractive deal than the numbers suggest.[1]**
- **Updating the royalty data generated by the 29 catalogs to be included in the HSC deal and calculating the RTI discount through the earliest possible closing date reduces the multiple from 17.6x to 14.9x:**
  - The presented multiple is based on a calendar year 2022 "PFAR" figure of $24.1 million[2] when actual June 30, 2023 trailing twelve-month royalties are $28.0 million[3] which is more reflective of what actual cash flows would have been as of calendar year end closing (we assume November 1st);
  - The presented RTI discount is an estimate as of August 2023, which pre-dates the date an actual transaction could have closed by two months, given the date of the shareholder vote was October 26, 2023.[4]
- **The chart to the right compares the multiple presented in the investor presentation with the multiple reflected based on the June 30, 2023 trailing twelve-month royalties and RTI assuming a November 1st closing date.[5]**

Presentation of HSC Offer

$U.S. Millions	Disclosed[2]	Revised
Gross Purchase Price	$440.0	$440.0
RTI	(15.3)	(23.3)
Price Net of RTI	**$424.7**	**$416.7**
Less: Transaction Fees	(13.9)	(13.9)
Less: Estimated Tax	(6.7)	(6.6)
Net Proceeds	**$404.1**	**$396.2**
Retained Net Revenue	$24.1	$28.0
Gross Multiple	**18.3x**	**15.7x**
Multiple Net of RTI	**17.6x**	**14.9x**
HSC Value		**$416.7**
Shot Tower Value		**$438.6**
Discount to Fair Market Value		*(5.0%)*

1. The prior Board of the Fund approved the HSC offer, including the "PFAR" figure used as the basis to calculate the multiple presented in the September 25, 2023 Investor Presentation.
2. September 25, 2023 Investor Presentation, pages 6, 7, 11.
3. Derived from IA provided royalty statement data for the twelve months ended June 30, 2023.
4. September 25, 2023 Investor Presentation, page 6.
5. RNS 4269R, Results of Annual Meeting and Extraordinary General Meeting, October 26, 2023.

HSC Selected Catalogs

Due Diligence Review

The HSC transaction catalog selection also suggests higher growth catalogs were targeted, as the HSC-selected portfolio exceeds the growth of the overall Catalog in every measure.

The 29 catalogs represented 21% of all catalogs and 23% of total Retained Net Revenue as of June 30th but included a high proportion of catalogs with rights returning to the Fund (30% of total and 50% of returning rights catalogs as measured by cash flow).

Due to the returning income on these catalogs, they have much higher expected growth than any other assets in the Catalog.

HSC Catalogs Growth Comparison

$U.S. Millions	HSC	Remaining	Total
# of Catalogs	29	109	138
% of Total	*21.0%*	*79.0%*	*100.0%*
H1 2023 TTM Retained Net Revenue	$28.0	$93.7	$121.7
% of Total	*23.0%*	*77.0%*	*100.0%*
STC Value (Midpoint)	$438.6	$1,509.7	$1,948.3
% of Total	*22.5%*	*77.5%*	*100.0%*
Raw Historic Growth	***3.6%***	*(1.6%)*	*(0.2%)*
Weighted Historic Growth	***5.9%***	*2.7%*	*3.4%*
Raw Forecast Projections[1]	***4.2%***	*2.6%*	*3.0%*
Weighted Forecast Projections[1]	***5.4%***	*4.3%*	*4.5%*

Returning Rights Catalogs

$U.S. Millions	HSC	Remaining	Total
# of Catalogs	6	14	20
% of Total	*30.0%*	*70.0%*	*100.0%*
H1 2023 TTM Retained Net Revenue	$12.8	$13.2	$25.9
% of Total	*49.3%*	*50.7%*	*100.0%*
Raw Projected Growth[1]	***6.5%***	*5.0%*	*5.3%*
Weighted Projected Growth[1]	***6.7%***	*5.5%*	*6.1%*

1. Projected growth rates are based on Shot Tower's valuation model and may differ from growth rates assumed by HSC.

Appendix A: Detailed Growth Assumptions Rationale

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Appendix A: Detailed Growth Assumptions Rationale

- **The information below outlines the adjustments and methodology used to develop our baseline growth projections based on Goldman Sachs' forecast and discussions with industry executives:[1]**
  - *Streaming Royalties:* Our projections assume streaming growth on music publishing catalog assets equal to 50% of Goldman Sachs' recorded music streaming growth rate. The 50% discount was applied to reflect the static nature of the Hipgnosis Catalog and was based on a historical comparison of recorded music growth for high-quality, vintage recorded music catalog as compared to the IFPI report of actual recorded music growth from 2016 – 2021. Our analysis suggests static, iconic catalogs grew at 47% of the overall global industry growth rate. Applying a 50% discount to Goldman projections resulted in catalog growth for streaming for 2023 – 2025 of 6.4% per annum. Based on discussions with publishing industry CFOs, we increased our growth rate to 11.0% in these years based on expectations of MLC benefits and the payment of CRB settlement monies in late 2024, as well as to reflect recent price increases by streaming services.;
  - *Downloads / Physical Royalties:* We relied on Goldman Sachs' growth estimate for physical and download royalties, adjusted for the recent 2024 IFPI report. We also confirmed the validity of these assumptions through discussions with industry executives;
  - *Performance Royalties:* Represents traditional performance from radio, television, bars and restaurants, and live performances. With the COVID recovery and resurgence now behind us and music executives concerned about slowing royalty growth in traditional broadcast, we used a 3% growth rate, which was confirmed as reasonable through our industry discussions;
  - *Synchronization Income:* Goldman Sachs projected synch growth of 7% in 2023, declining to 5% thereafter. We talked to two industry executives with responsibility for synch at large music publishers, with one stating a target of 5% growth and the other 6%. Based on the Goldman report and our discussions, we assumed 6% in 2023, and use the Goldman projections in later periods. We note synch tends to align well with Anglo-American and deep catalog, so we did not discount the Goldman projections in later years. We did, however, adjust our assumption downwards in 2023, reflecting the writers' and actors' strikes, which impacted synch licensing in film, television, and streaming programming;
  - *Writer's Share of Performance:* Represents the portion of performance royalties paid directly to songwriters through Performance Rights Organizations ("PROs"). We have assumed writer's share of performance growth mirrors that of publishing performance growth at 3% per year, which was confirmed as reasonable through our industry discussions;
  - *Owned Masters and Artist Royalties:* Reflects Goldman overall industry growth, adjusted for our 50% catalog growth reduction;
  - *Producer Royalties:* Same projections as owned masters and artist royalties, but excluding licensing income;
  - *Neighboring Rights Royalties:* Assumes a mix of growth rates associated with performance and digital performance income.

1. Goldman Sachs "Music in the Air," June 28, 2023.

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