

Hipgnosis Songs Fund Limited ("Hipgnosis" or the "Company")
Unaudited Net Asset Value and Trading Update

The Board of Hipgnosis Songs Fund Limited and its Investment Adviser, The Family (Music) Limited, are pleased to provide a trading update ahead of the Company's results for the year ended 31 March 2020, which are expected to be published in July 2020.

Highlights

- Transformational year for the Company:
 - First full financial year with NAV and revenue growth further validating the investment strategy
 - 42 Catalogues acquired for £560m taking the total Portfolio to 54 catalogues
 - £422.9m of new equity raised and fully deployed
 - Transfer from the Specialist Fund Segment to the Premium segment of the Main Market of the London Stock Exchange and admission to the Premium listing category of the Official List of the FCA
 - Inclusion in the FTSE 250 index
- Total NAV Return of 17.7% (unaudited¹)
- Operative NAV increased by 13.0% to 116.7p per Share (unaudited¹) since 31 March 2019 and by 14.3% since 10 January 2020
- Valuation uplift across the Portfolio of 11.4% since acquisition (8.6% on a constant currency basis)
- Catalogue revenues ahead of what were strong management expectations at £64.7m
- EPS, excluding the amortisation of Catalogues under IFRS, was 10.7p
- Full year target dividend of 5p per share² is fully covered by distributable earnings
- Net debt of £45.9m as at 31 March 2020

Merck Mercuriadis, Founder of Hipgnosis Songs Fund Limited and its Investment Adviser The Family (Music) Limited, said:

“We are very excited about these results and we are particularly proud that everything we have promised our investors over the last two years has either come to fruition or been exceeded. We have bought amongst the finest songs of all time against a backdrop of dramatic streaming growth and we are adding significant value by actively managing these great songs and bringing efficiencies to collection.

A core part of our thesis is that song revenues are uncorrelated as, whether in good times or challenged, music is always being consumed. While we would not have wished for a pandemic to demonstrate this it has indeed done exactly that and that has been reflected in our strong performance. We have become a FTSE 250 company in only 20 months, which I'm told is the fastest of any company ever on the index, and we are now the number 23 biggest yielder on the FTSE 250 meaning there are only 22 companies paying a bigger dividend than we are at a time when many have had to cancel their dividends altogether.

I would sincerely like to thank all of our investors for their belief in helping us to establish proven songs as arguably the strongest of new asset classes which is not only great news for all of us but the wider community of songwriters, artists and producers as a whole.”

Introduction

Hipgnosis was started by Merck Mercuriadis to give the investment community access to proven Songs, which due to their reliable, predictable and uncorrelated cash flows were highly investible. Furthermore, 15 years of technological disruption in the form of piracy had left these highly investible assets available at attractive prices at a time when the rapid adoption of paid music subscription services was starting to drive a rebound in industry revenues.

To take advantage of these structural growth drivers, the Investment Adviser looks to identify catalogues of culturally important proven hit Songs which offer significant value opportunities both from market growth and Active Management.

In order to generate the most attractive return for Shareholders, the Portfolio is mostly comprised of evergreen Songs. These Songs, which as 'catalogue' make up approximately 65% of consumption on streaming, have often been badly managed or neglected and produce highly reliable steady state income that will grow progressively with the continued adoption of streaming.

In addition, with streaming growth being the backbone of the Company's investment thesis, the Investment Adviser will also invest in a minority of newer 'hits' of extraordinary success that are at the heart, approximately 35%, of highly concentrated streaming consumption. The entire portfolio includes 8 of the 30 most streamed Songs of all time on Spotify and 4 out of the top 5 of Billboard's "Hot 100 Songs of 2010s" including the Number 1 song.

Operative NAV

The Board considers that the most relevant NAV for Shareholders is the 'Operative NAV', which reflects the fair value of the Company's Catalogues as valued by an Independent Valuer.

As at 31 March 2020, the unaudited¹ Operative NAV per Ordinary Share was 116.7p reflecting an increase of 13.0% since 31 March 2019 and 14.3% since the last published NAV per share of 102.2p as at 10 January 2020.

Including dividends paid, at 31 March 2020 Hipgnosis has produced a Total NAV Return of 17.7% since 31 March 2019, and 22.7% in less than two years since the IPO on 11 July 2018.

This growth in the Operative NAV is primarily a result of an 8.6% like for like³ increase in the Fair Value of the Portfolio since acquisition. Discount rates have remained constant during the period at 9% with the increase in value principally due to Catalogue revenues exceeding expectations. There has also been a reversal of the negative FX effect recognised in the Operative NAV as at 10 January 2020 as GBP:USD exchange rates have fallen back to the levels experienced at the beginning of the financial year.

Operative NAV Bridge from 1 April 2019 to 31 March 2020:

Opening Operative NAV per Ordinary Share	103.27p
Increase in Fair Value of Catalogues ⁴	9.50p
Net income	5.68p
Dividends paid	-2.96p
FX impact	3.07p
Share Issue Costs*	-1.83p
Closing Operative NAV per Ordinary Share	116.73p

*Share issue costs include the costs of the issue of C Shares on 22 October 2019, which were borne out of the gross proceeds of the issue.

Operative NAV Bridge from 11 January 2020 to 31 March 2020:

Opening Operative NAV per Ordinary Share	102.16p
Increase in Fair Value of Catalogues ⁴	8.16p
Net income	2.45p
Dividends paid	-0.79p
FX impact	4.75p

Closing Operative NAV per Ordinary Share	116.73p
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Portfolio

During the year, the Company has invested a further £560m through the acquisition of 42 Catalogues taking the total Portfolio to 54 Catalogues comprising 13,291 Songs. The Portfolio has been independently valued at £757m, representing an increase of 11.4% on the aggregate purchase price of £679m (of which approximately 93% has been acquired in US\$), and an increase of 8.6% on a constant currency basis. This value reflects a multiple of 15.0x historic annual earnings compared to the blended acquisition multiple of 13.9x. The increase in the acquisition multiple since 30 September 2019 reflects the acquisition of some of the finest vintage Catalogues of all time during the period including those of Journey, Richie Sambora, Timbaland, Brendan O' Brien, Tom Delonge (Blink 182), Brian Higgins, 10cc, Fraser T Smith, Al Jackson Jr and Mark Ronson. Song highlights include Amy Winehouse – 'Back To Black', Eurythmics - 'Sweet Dreams (Are Made Of This)', Justin Timberlake - 'SexyBack', Journey - 'Don't Stop Believin''; Cher - 'Believe', Al Green – 'Let's Stay Together', Adele – 'Set Fire To The Rain' and Bon Jovi - 'Livin' On A Prayer'.

In order to derive a Fair Value, the Independent Valuer, in line with market practice, values music publishing rights based on a DCF valuation. Discount rates have remained constant during the period at 9% with the like for like increase in the fair value of the catalogue driven by:

- Revenue statements exceeded expectations by 2% thereby increasing baseline revenues in valuation models; and
- Streaming growth rates increased in the Independent Valuer's assumptions.

The Board considers that there continues to be significant valuation upside in its Portfolio from:

- Paid streaming consumer numbers continuing to grow, particularly into markets where it has historically been difficult to monetise recorded music (for example in China and India)
- Adoption of new music consumption methods which are not currently included in the valuations (for example TikTok, Facebook video and Peloton)
- The Investment Adviser's active management which is increasing revenues from previously under-managed Songs
- Several music valuation experts have reduced their discount rates to reflect changing consumer behaviours towards streaming music rather than making discretionary music purchases. As proven hit Songs produce long-term cash flows (typically around 100 years⁵), any decrease in discount rates would have a significant impact on the Portfolio's valuation. For example, a 100 basis point decrease in the discount rate would increase the valuation of the Portfolio by 18%; likewise, a 100 basis point increase in the discount rate would decrease the valuation of the Portfolio by 15%.

The Portfolio is built around proven hit songs, which produce predictable and reliable income that is uncorrelated to equity markets and global economic performance. Accordingly, the Company has acquired 1,810 Songs that have held Number 1 positions in global charts, 7,013 Songs that have held Top 10 positions in global charts and 49 Grammy award winning Songs. This provides not only significant diversification with a multitude of highly predictable revenue streams, but also provides significant opportunities to extract value through the Investment Adviser's Active Management capabilities.

These proven hit songs are further highly diversified by vintage, genre, and recording artist as set out below:

Selected Globally successful original recording artists:

Eurythmics, Al Green, Diana Ross, Cher, Beyoncé, Rihanna, Adele, Justin Timberlake, Madonna, Britney Spears, Jay Z, Bruno Mars, Journey, Chic, Sister Sledge, Booker T & The MG's, Rudimental, Jess Glynne, One Direction, Mick Jagger, Tom Petty & The Heartbreakers, 10cc, Little Mix, Justin Bieber, The Chainsmokers, Sugarhill Gang, Camilla Cabello, Mariah Carey, Mary J. Blige, No Doubt,

Gwen Stefani, Sia, David Guetta, Shawn Mendes, Maroon 5, Stormzy, John Newman, James Morrison, Jason Aldean, Ariana Grande, Ed Sheeran, Taylor Swift, Mark Ronson, Kanye West, Pearl Jam, Bruce Springsteen, Red Hot Chilli Peppers, Harry Styles, Rick Ross, Rage Against The Machine, Panic At The Disco, TLC, Michael Jackson, Robbie Williams, Amy Winehouse, Bon Jovi, Lana Del Rey, Miley Cyrus, Dua Lipa, Diplo, A\$AP Rocky, Rod Stewart, Miguel, Paul McCartney, Fun, AC /DC, Kylie Minogue, Duran Duran and Santana, Timbaland, Blink 182.

Breakdown of portfolio by genre (based on Fair Value):

Genre	FY 18/19	FY 19/20
Christian	0.0%	1.7%
Country	0.0%	1.7%
Dance	17.6%	6.0%
Disco	7.4%	1.4%
Hip-Hop	1.9%	3.8%
Latin Rock	2.8%	0.7%
Pop	49.6%	45.2%
R&B	15.8%	9.6%
Rock	4.8%	29.1%
Soul	0.0%	0.9%

Breakdown of portfolio by age (based on Fair Value)

Age (Years)	FY 18/19	FY 19/20
0-3	13.5%	9.0%
3-10	76.3%	58.5%
10+	10.2%	32.5%

Financial highlights for the year ended 31 March 2020

In the year to 31 March 2020, Catalogue revenue increased to £64.7m with cash receipts from royalty statements on average 2% higher than expected at the time of Catalogue acquisitions.

Excluding Catalogues where the Company had predicted decay in earnings at the time of acquisition, royalties grew by 6% year on year. This growth was primarily driven by streaming revenues, which grew by 51% in these Catalogues.

Our newer Catalogues, comprised of only extraordinarily successful Songs, which have been strategically purchased for their position at the heart of what is 35% of all streaming consumption, have also performed well during the year exceeding management's expectations by 3%.

The Portfolio has been built around Catalogues positioned to benefit most as recorded music and Song publishing revenues grow dramatically through the continual uptake of paid streaming. Music is fast becoming a utility rather than luxury purchase. Accordingly, a significant proportion of royalty income is received from streaming. Streaming accounts for 75% of Digital income and 1/3 of total Catalogue revenue, as seen below in the breakdown of the sources of Catalogue revenue during the year:

INCOME SOURCE	Revenue (£'000)	%
Mechanical	£5,905	9%
Performance	£22,804	35%
Digital	£28,824	45%
Synchronization	£5,925	9%

Other	£1,237	2%
TOTAL	£64,695	

The Company, through its Investment Adviser, continues to actively manage Songs to increase their monetisation. During the period, the Investment Adviser secured more than 1,000 synchronisation deals with highlights including: Bernard Edwards' 'Good Times', 'Le Freak' and 'We Are Family'; Journey's 'Don't Stop Believin'; Eurythmic's 'Sweet Dreams (Are Made Of This)'; Al Jackson's 'Green Onions' and 'Let's Stay Together'; Richie Sambora's 'Wanted Dead Or Alive'; Brian Higgins' 'Believe'; Tom Delonge's 'All The Little Things'; Jack Antonoff's 'We Are Young'; The-Dream's many songs with Beyoncé; and Sam Hollander's 'High Hopes', which was arguably the most synced song of 2019. Following the placement of a Song it is typical to see an increase in consumption of that Song through all other channels. Due to the inherent time lag with the receipt of royalties, the revenue and valuation impact of these placements will continue to feed into next year's revenues and valuations.

In addition, the Investment Adviser moved seven Catalogues to the preferred portfolio administrator securing more attractive pricing.

During the period adjusted Operating Costs⁶ were £10.0m. Accordingly, the ongoing charges⁷ decreased as a percentage of the weighted average Operative NAV, from 1.70% to 1.52%, reflecting the increased scale of the Company. The Board believes that Operating Costs as a percentage of NAV will continue to fall, in particular once costs related to acquisitions decrease when the Company reaches stabilisation/steady state.

Profit before Tax, excluding amortisation of Catalogues under IFRS, was £51.6m. EPS, excluding the amortisation of Catalogues, was 10.7p, representing over 2x cover on our full year dividend target² of 5p per share.

As at 31 March 2020, net debt was £45.9m, with facility headroom of £39.5m. Post year end the Company entered into an agreement to increase its RCF to £150m (and may request a further increase of £50 million subject to certain conditions).

In addition, on 29 May 2020, the Company announced that it was seeking shareholder support to increase the Company's current borrowing limit of 20% of its Operative NAV to a maximum of 30% of its Operative NAV.

COVID-19 Impact

2020 has not been the year expected with the world feeling the devastating effects of COVID-19, not only on the global economy, but also with the tragic loss of lives.

At this difficult time, people have looked to music for a sense of positivity and normality. This is being seen most evidently with streaming where there has been a surge in listening to vintage songs.

Spotify's first quarter 2020 results showed a 5% quarterly increase in paid streaming subscribers, which was at the top end of their expectations set before the onset of COVID-19. In addition, Neilson's report, 'COVID-19: Tracking the Impact on the Entertainment Landscape - Release 3', highlighted that streaming subscriptions in the first two weeks of April were higher than the previous 8 weeks as consumers looked to stay entertained through lockdown. Importantly for Hipgnosis, consumers are re-discovering 'older hits' during this time with 84% of music consumers listening to 'music that they currently listen to' and 62% listening to 'music they used to listen to but have not heard in a while'.

There will be reductions in Public Performance and Live Income as the lockdown impacts the leisure and live entertainment industry. Whilst it is too early to quantify this impact, the Company's Portfolio of vintage Catalogues have a low weighting to these sectors with Live Income representing approximately 3% and Public Performance 13% of Catalogue revenues.

In addition, whilst advertising budgets are being cut and film releases are being paused, the Company has not seen a decrease in the demand for Song placements and synchronisations.

Hipgnosis' investment strategy of building a portfolio with a core of vintage proven hit Songs, which have a high exposure to streaming and low exposure to live music, leaves it well positioned in the COVID-19 world. Overall, the Board expects that the income growth from streaming will exceed any lost earnings from Public Performance and Live Income.

Feel good hits, such as 'Sweet Dreams (Are Made Of This)' and 'Livin' On A Prayer', have performed particularly strongly during the pandemic where consumers have sought comfort in these Songs. Some selected examples of this include:

- 'Don't Stop Believin', by Journey, which entered the Top 200 most streamed weekly songs on Spotify at the start of lockdown and has steadily risen since up to No. 147 with 362k streams per week
- 'Something Just Like This', by The Chainsmokers featuring Coldplay, which re-entered the Global Top 200 chart at the beginning of April
- 'Shallow', performed by Lady Gaga and co-written by Mark Ronson, which has consistently remained within Spotify's Top 100 most streamed weekly songs throughout the pandemic
- 'Thinking of You', by Sister Sledge and co-written by Bernard Edwards, which has experienced over 500% growth in synchronisation income since the pandemic

Outlook

Over the past 20 months, the Company has acquired a Portfolio comprising 54 Catalogues of proven hit Songs. The Board is delighted that the performance of these Catalogues to date has been ahead of both management's high expectations and the performance targets set at the time of IPO.

The uncorrelated and reliable nature of these assets leaves the Company well positioned to outperform during and after the global COVID-19 crisis.

As the current crisis has more than ever highlighted the need for investors of uncorrelated and reliable income, the investment proposition's attractiveness continues to grow.

There are significant opportunities for further revenue and NAV growth from the increase in adoption of streaming, from new technologies providing additional monetisation possibilities and from the Active Management of the Portfolio by the Investment Adviser.

The Investment Adviser continues to see attractive pricing on Catalogues of the finest quality and is in active discussions on a pipeline with an acquisition value of over £1bn.

Footnotes

¹ *The audit of the Financial Statements for the year ended 31 March 2020 has not been concluded and the financial information in this announcement is therefore unaudited.*

² *This is a target only and there can be no assurance that the target can or will be met and should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.*

³ *Assuming constant currency*

⁴ *Including any right to income on acquisition of Catalogues.*

⁵ *Assumption based on the income streams protection by copyright law. For example in the UK, copyright in written, dramatic and musical work endures for 70 years after the death of the last co-songwriter, and copyright in a sound and music recording endures for 70 years from first production.*

⁶ *Operating Costs are adjusted to exclude amortisation of Catalogues under IFRS, FX losses/gains on investments, loan interest costs and exceptional expenses relating to the Migration to the Premium Segment of the London Stock Exchange.*

⁷ *Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition/disposal of investments, performance fees, financing charges*

and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs.

Note: This announcement contains inside information for the purposes of Article 7 of Regulation 596/2014 (MAR).

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NOTES TO EDITORS

About Hipgnosis Songs Fund Limited

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Hipgnosis, which was founded by Merck Mercuriadis, is a Guernsey registered investment company established to offer investors a pure-play exposure to songs and associated musical intellectual property rights. The Company has raised a total of over £625 million (gross equity capital) through its Initial Public Offering on 11 July 2018, and subsequent issues in April 2019, August 2019 and October 2019. In September 2019, Hipgnosis transferred its entire issued share capital to the Premium listing segment of the Official List of the FCA and to the London Stock Exchange's Premium segment of the Main Market.

About The Family (Music) Limited

The Company's Investment Adviser is The Family (Music) Limited, which was founded by Merck Mercuriadis, former manager of globally successful recording artists, such as Elton John, Guns N' Roses, Morrissey, Iron Maiden and Beyoncé, and hit songwriters such as Diane Warren, Justin Tranter and The-Dream, and former CEO of The Sanctuary Group plc. The Investment Adviser has assembled an Advisory Board of highly successful music industry experts which include award winning members of the artist, songwriter, publishing, legal, financial, recorded music and music management communities, all with in-depth knowledge of music publishing. Members of The Family (Music) Limited Advisory Board include Nile Rodgers, The-Dream, Giorgio Tuinfort, Starrah, Nick Jarjour, David Stewart, Bill Leibowitz, Ian Montone, and Jason Flom.