

**Hipgnosis Songs Fund Limited (“Hipgnosis” or the “Company”)****Additional Performance Disclosures**

The Board of Hipgnosis Songs Fund Limited, the first UK listed investment company offering investors a pure-play exposure to songs and associated intellectual property rights, and its Investment Adviser, The Family (Music) Limited, are pleased to announce additional performance disclosures. These will provide an additional lens to analyse the Company’s performance and financial prospects, complementing its annual and interim accounts prepared under IFRS.

**New Alternative Performance Measure - Pro-Forma Annual Revenue (PFAR)**

Due to the process of royalty collection, Hipgnosis is required under IFRS to accrue for a proportion of its revenue where revenue has been earned but where cash has not yet been received. These accruals are highly accurate due to the reliable and predictable nature of song income.

To support investors’ understanding of the underlying annual revenues of its current portfolio of songs, without the impact of timing of the addition of newly acquired portfolios, estimated IFRS revenue accruals and non-recurring contractual ‘Rights To Income’ (RTI) in relation to periods prior to acquisition, the Company will provide a Pro-Forma Annual Revenue (PFAR) which comprises revenue as per royalty statements received.

*Definition*

Pro-forma Annual Revenue (PFAR) is the royalty revenue earned in a calendar year by the portfolio of songs held by the Company at a specific date, based on royalty statements received, irrespective of whether the songs were owned by the Company over the period analysed. PFAR disclosures will therefore comprise a revenue year and a portfolio date in order to facilitate comparisons. PFAR does not include IFRS revenue accruals or RTI and uses constant FX rates to remove the impact of currency exchange movements. The PFAR is presented in US Dollars as 84% of the Company’s revenue is received in US Dollars<sup>1</sup>.

For the purpose of this initial statement of PFAR, for the portfolio of songs held by the Company on 31 December 2020, the Company has used royalty statements received in relation to the 2019 calendar year earnings. Royalty statements for the second half of the 2020 calendar year are expected to be received on or around 31 March 2021. Accordingly the Company will update the PFAR further around the time of its full year results.

*Pro-Forma Annual Revenue - PFAR*

The PFAR of the portfolio owned as at 31<sup>st</sup> December 2020 for the 2019 calendar year was **USD 111.7m** equal to **11.04 cents per ordinary share** in issue as at that date<sup>2</sup>.

**New Key Performance Indicator – Variance Against Forecast (VAF)**

As part of its due diligence prior to acquiring every catalogue, the Investment Adviser constructs a financial model which analyses the past performance of a catalogue, removes revenues that it deems to be non-recurring to establish its baseline earnings, and forecasts its future earnings. The key assumptions in the financial model are (1) expected market growth or decay from peak earnings (in the case of catalogues with a weighted average vintage of less than 10 years); (2) expected uplifts in revenue from bringing efficiencies to the collection of royalty payments; and (3) uplifts from active Song Management.

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<sup>1</sup> For the year ending 31 March 2020

<sup>2</sup> 1,011,456,797 ordinary shares were in issue as at 31 December 2020

Whilst administration efficiencies and Song Management are analysed individually for each catalogue based on its individual characteristics, the market growth and decay assumptions used in the Investment Adviser’s financial models are as follows:

- A. For catalogues with a weighted average vintage greater than 10 years, the Investment Adviser applies steady state market growth assumptions as follows:

Year	2021E	2022E	2023E	2024E	2025E
<b>YoY Change</b>					
Mechanical	(17%)	(17%)	(17%)	(15%)	(15%)
Performance	6%	6%	6%	6%	6%
Downloads	(20%)	(20%)	(20%)	(20%)	(20%)
Streaming	21%	18%	17%	16%	12%
Synchronisation	5%	5%	5%	3%	3%
Other	6%	6%	5%	5%	5%

Source: *The Investment Adviser, Goldman Sachs (2019)*

- B. For catalogues with a weighted average younger than 10 years, the Investment Adviser applies a decay matrix to estimate a songs steady state earnings, as shown below:

Year of Release (“R”)	1	R+1	R+2	R+3	R+4	R+5	R+6	R+7	R+8	R+9
<b>YoY change</b>										
Mechanical	25%	(51%)	(51%)	(44%)	(18%)	(22%)	(14%)	(17%)	(10%)	
Performance	(28%)	(51%)	(47%)	(18%)	(14%)	(8%)	(9%)	0%	0%	
Downloads	(64%)	(57%)	(44%)	(20%)	(8%)	(9%)	(10%)	(11%)	0%	
Streaming	(19%)	(19%)	(5%)	(2%)	5%	3%	5%	6%	6%	
Synchronisation	19%	(28%)	(23%)	(17%)	(15%)	(9%)	(7%)	(5%)	(3%)	
Other	19%	(28%)	(23%)	(17%)	(15%)	(9%)	(7%)	(5%)	(3%)	

Source: *Work specifically developed for Hipgnosis’ portfolio by one of its large, global independent music valuation advisers*

The Board and the Investment Adviser analyse the actual royalty statement performance of all catalogues against these forecasts on an ongoing basis. This analysis is measured on a like-for-like basis in line with the PFAR described above (i.e. excluding RTI, IFRS revenue accruals, and FX movements).

### Definition

Variance Against Forecast (VAF) is the difference between the total of the royalty statements received from each catalogue since acquisition, and the acquisition model forecast over the same period.

The VAF is expressed as a percentage point deviation from zero, where a positive number means that the actual performance of the portfolio is tracking ahead of the cumulative forecast. A negative number indicates that the portfolio is falling behind forecast.

### Variance Against Forecast (VAF)

VAF is relevant once the Company has owned the catalogue for at least one royalty statement period. The VAF therefore currently analyses all catalogues owned by the Company as at 30<sup>th</sup> September 2020.

The VAF for all catalogues owned as at the 30<sup>th</sup> September 2020 was **+0.4%**, meaning that royalty statement revenue is, in aggregate, higher than forecast at the time of acquisition.

**Merck Mercuriadis the Founder of Hipgnosis Songs Fund Limited and The Family (Music) Limited said:**

“As we approach our third annual report since launch in 2018, we are committed to providing additional disclosure to our shareholders which seeks to look through our rapid growth, and give a consistent basis to evaluate our performance and prospects.

Whilst we are working on providing new detailed analysis of our portfolio of songs and their performance, the additional performance disclosures announced today will offer rich analysis as we present like-for-like data points over time.

This work, led by our Chief Financial Officer, Chris Helm, Chief Operating Officer, Björn Lindvall and Commercial Finance Director, Samantha Garcia, represents an important step in our commitment to improving and delivering best in class market disclosures. This will be enhanced further in the future with the contribution of our new Executive Vice President Richard Rowe.”

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**NOTES TO EDITORS**

**About Hipgnosis Songs Fund Limited**  
([www.hipgnosissongs.com](http://www.hipgnosissongs.com))

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 £1.1 billion (gross equity capital) through its Initial Public Offering on 11 July 2018, and subsequent issues in April 2019, August 2019, October 2019, July 2020, September 2020 and February 2021. 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, and in March 2020 became a constituent of the FTSE 250 Index.

#### **About The Family (Music) Limited**

The Company's Investment Adviser is The Family (Music) Limited, which was founded by Merck Mercuriadis, manager or former manager of globally successful recording artists, such as Nile Rodgers, 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 A. Stewart, Bill Lebowitz, Ian Montone, Rodney Jerkins, Björn Lindvall and Chris Helm.