

*This announcement contains inside information for the purposes of the UK Market Abuse Regulation.*

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## **Hipgnosis Songs Fund Limited ("Hipgnosis Songs Fund" or the "Company")**

***Hipgnosis Songs Fund agrees sale of 29 Catalogues to Hipgnosis Songs Capital to fund a share buy back programme and reduce debt as part of strategic proposals designed to narrow the discount and re-rate the Company's share price***

14 September 2023

The board of directors of Hipgnosis Songs Fund Limited (the "**Board**"), the first UK listed investment company offering investors a pure-play exposure to songs and associated intellectual property rights, and its investment adviser, Hipgnosis Song Management Limited ("**HSM**" or the "**Investment Adviser**"), are pleased to announce proposals which they believe will act as a catalyst for a re-rating of the Company's share price:

- Catalogue sales for aggregate gross consideration of **\$465** million;
- Share buy back programme of up to **\$180** million;
- Repayment of **\$250** million drawn under the Company's revolving credit facility ("**RCF**"); and
- Introduction of additional, lower investment advisory fee tiers.

These proposals are subject to, amongst other things, shareholder approval of all required resolutions at an Extraordinary General Meeting ("**Extraordinary General Meeting**" or "**EGM**") and the 2023 Annual General Meeting ("**2023 AGM**") which are both expected to be held no later than 25 October 2023.

### **Strategic rationale**

The Board and the Investment Adviser believe that, over the last 18 months, the Company's share price has not reflected the fundamental value of the Company.

A consultation with major shareholders in Spring 2023 confirmed that whilst shareholders continued to believe in the Company's significant long-term growth opportunity, a proactive approach to addressing the current share price, including a meaningful share buy back programme and reduction in the Company's revolving credit facility drawings, was important.

These disposals are of the smallest magnitude possible that would provide the required capital to execute on this strategy, whilst ensuring that the ongoing investment case for Hipgnosis Songs Fund remains intact by protecting the strength of the remaining portfolio.

The Board and the Investment Adviser continue to believe that the best way to maximise long-term shareholder value is to buy, hold and actively manage culturally important assets that will deliver income and capital growth over time. Furthermore, they believe that the Company's long-term value has yet to be fully realised.

This opportunity for growth was demonstrated in the financial year ended 31 March 2023 when the Company reported its best like-for-like income growth to date of 12.1% year-on-year. The Board and the Investment Adviser are confident of showing strong further growth as the Company benefits from the structural tailwinds of the continued monetisation of music consumption and the Investment Adviser adds value through active Song Management.

## **Proposed transactions**

### *First portfolio*

Firstly, the Company has agreed the sale of 29 music catalogues (the “**First Disposal Portfolio**”) for cash consideration of \$440 million, reflecting a multiple of 18.3x historical Net Publisher Share, to Hipgnosis Songs Capital, a partnership between Hipgnosis Song Management and funds managed and/or advised by Blackstone (the “**First Disposal**”). The First Disposal is expected to realise a total net return of 44% over a 3 year weighted average life of ownership.

- The First Disposal Portfolio was designed to protect the strength of the remaining portfolio after completion of the First Disposal, as follows:
  - Hipgnosis Songs Fund will retain 81% of its existing portfolio by Fair Value with an increased focus on older vintages (First Disposal Portfolio average vintage being 2008, compared to existing portfolio average of 2003);
  - The remaining portfolio is expected to deliver strong income growth over the medium term;
  - The remaining portfolio will have an increased concentration of culturally important and successful songs, with the Company retaining an interest in 47 of Rolling Stone’s 500 Greatest Songs of All Time (existing portfolio has 52 of these songs) and 85 Spotify Billions Club (existing portfolio at 12 September 2023 has 106/473); and
  - Hipgnosis Songs Fund will retain its ownership in seven of its ten largest catalogues.
- All catalogues would continue to be managed by Hipgnosis Song Management, maintaining the goodwill of Artists and Songwriters and enabling the Investment Adviser to maximise income by Song Management of the Company’s remaining portfolio.
- The First Disposal purchase price reflects:
  - A premium of 26% to acquisition price of the First Disposal Portfolio;
  - A premium of 51% to the valuation of the First Disposal Portfolio implied by the Company’s 30-day average market capitalisation up to 13 September 2023; and
  - A discount of 17.5% to the fair value of the First Disposal Portfolio as at 31 March 2023.
- The First Disposal is conditional upon, inter alia, the approval of the sale (the “**Asset Sale Resolution**”) by independent shareholders at the EGM and the approval by shareholders of the continuation resolution (the “Continuation Resolution”) at the Company’s 2023 AGM.

On the basis of the terms agreed with Hipgnosis Songs Capital, the Company expects to pay approximately \$6.7 million in corporation tax. By use of the Company’s tax losses, it has been

possible to mitigate the majority of the Corporation Tax which would otherwise have been payable on the accounting profit on the sale of these assets.

#### *Second portfolio*

Secondly, the Company has agreed in principle, subject to completion of legal documentation and the consent of the Company's lending banks, to sell a portfolio of non-core songs (the "**Second Disposal Portfolio**") for a consideration of approximately \$25 million (the "**Second Disposal**").

The Second Disposal Portfolio songs were acquired as part of Kobalt Fund One and their eventual sale was part of the Company's acquisition strategy, as they were considered non-core as the Company does not have perpetual ownership rights or the songs require ongoing accounting and reporting obligations that take up significant bandwidth which can be better focused on active Song Management.

#### *Use of proceeds*

The Company intends to use the net proceeds of the disposals to establish a share buy back programme of up to \$180 million; repay \$250 million of the Company's drawings under its revolving credit facility; and enhance financial flexibility. Given the substantial share price discount to fundamental value in recent months, share buy backs enable the Company to invest further into the remaining portfolio at a material discount to its fundamental asset value.

#### *Investment Advisory Agreement*

In addition, the Company has agreed an amendment to the Investment Advisory Agreement in place between the Company and the Investment Adviser such that, subject to completion of the First Disposal to Hipgnosis Songs Capital, the calculation of the annual advisory fee payable by the Company to the Investment Adviser will be amended to include additional lower tiers, as are set out in the Amendment to Investment Advisory Agreement section below. This is expected to provide the Company with lower ongoing operating costs whilst maintaining the Investment Adviser's alignment with the Company's share price performance.

#### *Related party considerations*

The Investment Adviser is majority owned by funds managed and/or advised by Blackstone, which together also own the majority of interests in Hipgnosis Songs Capital, the proposed purchaser of the First Disposal Portfolio. The proposed sale of the First Disposal Portfolio to Hipgnosis Songs Capital therefore constitutes a related party transaction for the purposes of Listing Rule 11 and is conditional upon, among other things, the approval of the Company's independent shareholders at the EGM to be convened for that purpose.

Given that Hipgnosis Songs Capital and the Investment Adviser are under common control and, additionally, the Investment Adviser acts as investment adviser to Hipgnosis Songs Capital, the Board put in place appropriate governance arrangements and information barriers to ensure the continued availability to it of a segregated team of the Investment Adviser to consider and advise on the First Disposal, none of whom were available to or have any financial interest in Hipgnosis Songs Capital.

In addition, the Company notes that Mr Mercuriadis, and certain employees of Hipgnosis Song Management, have disclosed to the Board that they hold a minority interest in the share capital of Hipgnosis Songs Capital.

#### *Go-Shop provision*

The terms of the First Disposal include a “Go-Shop” provision, pursuant to which the Board is entitled to solicit alternative offers for the First Disposal Portfolio for a period of 40 days from the date of this announcement. Hipgnosis Songs Capital has the right to match any Superior Proposal (as defined below). The Company may terminate the agreement if it receives and settles the transaction documents in respect of a Superior Proposal and Hipgnosis Songs Capital does not match that proposal within 5 Business Days of having been notified by the Company. On any such termination a fee of \$6.6m will be payable by the Company to Hipgnosis Songs Capital. In determining whether to exercise any termination right the Board will act in the best interests of shareholders including considering whether any such Superior Proposal, if completed, would result in higher aggregate cash net proceeds and deliver greater long-term value to the Company’s shareholders.

Full details of the terms of the Go-Shop provision are set out in the Principal Terms of the First Disposal section below.

Shareholders will be notified via a Regulatory Information Service of the outcome of the Go-Shop process in due course and in any event before the EGM and 2023 AGM are held.

In the event a Superior Proposal is received during the Go-Shop period the Board expects it will be necessary to adjourn the EGM and 2023 AGM, no later than 30 November 2023.

#### *Background to the recommendation*

The Board and the Investment Adviser believe these proposals provide an attractive opportunity for the Company to re-rate its share price and strengthen its platform to deliver future income and capital growth.

The Board considers the proposals described in this announcement and the passing of the Asset Sale Resolution, the Continuation Resolution and each of the other resolutions to be proposed by the Board at the 2023 AGM to be in the best interests of the Company and its shareholders taken as a whole. Accordingly, the Board intends to unanimously recommend that shareholders vote in favour of these resolutions at the EGM and the 2023 AGM, as appropriate, in due course.

The Company intends to publish a circular which is expected to be posted to Company shareholders no later than 27 September 2023 which will include the notice convening the Extraordinary General Meeting, expected to be no later than 25 October 2023, to consider and, if thought fit, to pass, the Asset Sale Resolution. The circular will also contain a notice convening the 2023 AGM for the same date.

The Board and the Investment Adviser are committed to on-going engagement with shareholders on the Company’s future strategy, with a second Continuation Vote scheduled to be held at the Annual General Meeting in 2028.

J.P. Morgan Cazenove is acting as sponsor and financial adviser to Hipgnosis Songs Fund in respect of the First Disposal.

**Merck Mercuriadis, CEO and Founder of Hipgnosis Song Management and Founder of Hipgnosis Songs Fund said:**

"Earlier this year we initiated consultations with shareholders, in contemplation of the Continuation Vote and our concerns that the true value of our iconic songs was not being reflected in our share price. It was clear that shareholders shared our belief in the continuing long-term opportunity of Hipgnosis Songs Fund and wished to see a significant share buy back programme and reduction of our leverage in order to deliver a re-rating in the share price.

"The transactions announced today allow us to execute on that strategy and reflect our determination to deliver immediate shareholder value and enhance the Company's position to deliver long-term exceptional returns and capital growth through our investment strategy of 'buying, holding and actively managing' a major portfolio of iconic songs as they benefit from the continued growth of streaming.

"I'm delighted that through this transaction with Hipgnosis Songs Capital, not only are we able to execute the strategy of share buy backs and reducing leverage but also give clear transactional evidence, alongside other recent transactions in the market, of the current realisable value of the Company's catalogues to help investors understand and have confidence in the Company's asset value. The purchase price of the sale of catalogues to Hipgnosis Songs Capital realises a total return of 44%, which validates our investment strategy despite the current economic challenges.

"In transacting with Hipgnosis Songs Capital, and reflecting both my own and Hipgnosis Song Management's relationship with Hipgnosis Songs Fund and Hipgnosis Songs Capital, our responsibility and duty of care to Hipgnosis Songs Fund's shareholders has been of paramount importance. For that reason, our focus throughout has been to execute a strategy designed to re-rate the share price while protecting the quality of the remaining portfolio, which going forward will have a greater focus on older vintage songs and retain the majority of the Company's largest catalogues. An important part of that responsibility has been to include a "Go-Shop" provision which importantly Hipgnosis Songs Capital would have the right to match. This ensures the highest level of corporate governance and shareholder protection.

"Equally importantly, our Company's success has been built upon our ethos and commitment to Songwriters to be conscientious custodians of their songs. With these deals, Hipgnosis Song Management will continue its management of all our catalogues acquired from Songwriters, Producers and Artists by Hipgnosis Songs Fund ensuring we maintain our ethos and protect Hipgnosis' unique ability to work with Songwriters, Producers and Artists to maximise income and capital growth. The importance of this is understood and acknowledged by our shareholders.

"I believe these deals will deliver immediate value for shareholders through a re-rating of the shares and position Hipgnosis Songs Fund to deliver superior returns to shareholders over the medium and long-term.

"The Company recently delivered the best like-for-like results in its history and is in a perfect position to capitalise on the demonstrated pricing power of the DSPs, the successful passing of CRB III and CRB IV and songwriters being paid at the highest rates ever in the streaming era as

we see more than a billion paid subscribers to music streaming services in sight. All this gives us great confidence for the future.

“With the support of our shareholders in the continuation vote, Hipgnosis Songs Fund will move forward stronger than before with a portfolio of culturally significant, iconic songs that will be listened to for decades to come, providing long-term resilient income streams and the potential for significant capital growth.”

**Andrew Sutch, Chairman of Hipgnosis Songs Fund said:**

“As a Board, we have been clear for some time that the Company’s share price does not fully reflect the value of Hipgnosis Songs Fund’s Portfolio. Having consulted with many of our largest shareholders, considered a wide range of options and taken independent advice we are confident the proposals set out today provide a compelling opportunity to deliver immediate shareholder value whilst protecting our ability to deliver superior returns over the medium term.

“These proposals will enable the Company to instigate a substantial share buy back programme and reduce its debt whilst enhancing the quality of the remaining Portfolio and ensure we maintain the goodwill of Songwriters and Artists, helping the Investment Adviser maximise future shareholder value through Song Management.

“Importantly, whilst the Company has been consistent in its view that the best way to realise the long-term value from its assets is to hold in perpetuity, given the Company’s recent share price, the sales of a small proportion of the Company’s portfolio will enable the launch of a material share buy back programme which we believe will result in a significant re-rating of the Company’s share price and enables the Company to invest further into its remaining portfolio at a material discount to its fundamental asset value.

“With the sale price of the First Disposal, Hipgnosis Songs Fund would be realising a 44% total return for shareholders, highlighting the continuing opportunity of the remaining portfolio in the future.

“At every step, the Board has been focused on acting in the best interests of the Company’s shareholders. Therefore, noting the related party aspect of the proposals, we have ensured strong corporate governance controls and shareholder protections have been core to the First Disposal, including a Go-Shop Period to ensure that the Company realises the best available transaction for the First Disposal Portfolio, as well as these proposals being subject to shareholder approval alongside the forthcoming Continuation Resolution.

“We believe the proposals set out today provide the best way to balance immediate shareholder value with the exciting longer-term prospects for the Company. Therefore, the Board intends to unanimously recommend shareholders support these proposals and vote in favour of the resolutions at the Extraordinary General Meeting and the 2023 AGM.”

### *Expected Timetable*

Transaction announcement	14 September 2023
Latest date for posting of shareholder circular and Notice of EGM and AGM	No later than 27 September 2023
Announcement of the results of the Go-Shop	24 October 2023
Date of AGM and EGM (in the event no Superior Proposal is received pursuant to the Go-Shop)	No later than 25 October 2023
Date of AGM and EGM (in the event a Superior Proposal is received pursuant to the Go-Shop)	No later than 30 November 2023
Expected completion of First Disposal to Hipgnosis Songs Capital	T+ 13 business days from date of AGM and EGM

### *Analyst call*

Andrew Sutch (Chair of Hipgnosis Songs Fund), Merck Mercuriadis (CEO and Founder of Hipgnosis Song Management) and Chris Helm (CFO on behalf of Hipgnosis Songs Fund) will be holding a call for analysts at 1100 BST today.

To register to participate, please contact [hipgnosissongsfund@headlandconsultancy.com](mailto:hipgnosissongsfund@headlandconsultancy.com).

For further information please contact:

#### **For Hipgnosis Song Management**

Merck Mercuriadis  
Ben Katovsky  
Giles Croot

+44 (0)20 4542 1511

#### **Teneo – Financial PR to HSM**

James Macey White / Ed Cropley

+44 (0) 20 7353 4200

#### **For Hipgnosis Songs Fund**

Andrew Sutch  
Rufina Pavry (Investor Relations for Hipgnosis Songs)

+44 (0) 20 4542 1530

#### **Headland Consultancy – Financial PR to Hipgnosis Songs Fund**

Susanna Voyle / Del Jones / Charlie Twigg

+44 (0) 20 3805 4822

#### **The Outside Organisation**

Alan Edwards/ Nick Caley

+44 (0)7711 081843

#### **Fran DeFeo PR**

Fran DeFeo

+1 917 767 5255  
[frandefeo@gmail.com](mailto:frandefeo@gmail.com)

#### **J.P. Morgan Cazenove – Sponsor, Financial Adviser and Corporate Broker**

+44 (0)203 493 8000



William Simmonds / Jérémie Birnbaum (Corporate Finance)

**Singer Capital Markets – Corporate Broker**

+44 (0)20 7496 3000

James Moat / James Maxwell / Angus Campbell  
(Corporate Finance)

Alan Geeves / James Waterlow / Sam Greatrex (Sales)

**RBC Capital Markets –Corporate Broker**

+44 (0)20 7635 4000

Elliot Thomas / Max Avison (Corporate Finance)

Lisa Tugwell / Natalia Lipecka (Sales)

**For Blackstone**

+44 (0)7918 360372

Rebecca Flower/ Louis Clark

[Rebecca.flower@blackstone.com](mailto:Rebecca.flower@blackstone.com)

[Louis.clark@blackstone.com](mailto:Louis.clark@blackstone.com)

**Goldman Sachs International – Financial Adviser for  
Hipgnosis Songs Capital**

+44 (0) 20 7774 9451

Chris Emmerson / Michael Ryan-Southern

## **FURTHER INFORMATION**

### **Benefits of the proposals**

Hipgnosis Songs Fund was launched by Merck Mercuriadis in 2018, helping to establish music as a new asset class and providing the investment community with access to extraordinarily successful and culturally important songs. Since its initial public offering ("IPO"), the Company has built a portfolio of songs unrivalled for its extraordinary success and cultural importance. This has enabled the Company to provide shareholders with a stable dividend and an implied strong capital return based on the value of the Company's assets.

The core investment case remains unchanged from the Company's IPO: that the continuing long-term growth of revenue in the music industry and the ability of the Investment Adviser, to drive additional value through active Song Management of a portfolio of iconic songs, will deliver an attractive shareholder return. The latest Full Year Results were an important validation of this strategy, delivering the best like-for-like income growth in the Company's five-year history.

The Board and the Investment Adviser believe the Company's portfolio will continue to have opportunities for significant further income and capital growth. Music markets remain buoyant as they continue to benefit from the increased adoption and monetisation of paid for music streaming, whilst technological developments continue to deliver new revenue streams and legislative changes increase the share of Digital Service Providers (DSP) revenues going to owners of Songwriter rights. Despite this, the fundamental value and opportunity of the Company fails to be reflected in its current share price. Whilst recognising that this is partly due to economic conditions, as well as music and song catalogues being a relatively new asset class, the Board and the Investment Adviser are determined to take action to address the current share price.



As outlined in the Full Year Results published on 13 July 2023, the Board and the Investment Adviser have consulted with many of the Company's largest shareholders. These conversations confirmed that many shareholders share the view that Hipgnosis Songs Fund offers a strong long-term growth opportunity and that corporate activity which would enable a share buy back and partial repayment of debt should be undertaken.

As a result, the Company proposes to dispose of two portfolios of music catalogues. These disposals are of the smallest magnitude possible that would provide the required capital to execute on this strategy, whilst ensuring that the fundamental investment case for Hipgnosis Songs Fund remains intact by protecting the strength of the remaining portfolio.

Firstly, the Company has entered into an agreement, subject to, amongst other things, shareholder approval, to sell 29 music catalogues for an aggregate cash consideration of \$440 million to Hipgnosis Songs Capital, a partnership between Hipgnosis Song Management and funds managed and/or advised by Blackstone. Secondly, it has agreed in principle to sell a portfolio of non-core songs for a consideration of approximately \$25 million.

The prices achieved on these two disposals validate the Board and the Investment Adviser's view that the realisable value of the Company's assets, even in the current challenging market environment, is at a material premium to the value implied by the current share price.

The disposals will realise significant net proceeds that can be used to deliver immediate shareholder value by the Company acquiring its own shares through the establishment of a share buyback programme of up to \$180 million (subject to shareholder approval at the forthcoming 2023 AGM). In addition, the Company intends to materially reduce its drawings under its RCF by \$250 million.

The Board has agreed an amendment to the Investment Advisory Agreement with the Investment Adviser such that the calculation of the annual advisory fee payable by the Company to the Investment Adviser will be amended if the First Disposal is completed to Hipgnosis Songs Capital. The introduction of new tiers of reduced fees, calculated by reference to the Company's market capitalisation, is expected to provide the Company with lower ongoing operating costs whilst maintaining the Investment Adviser's alignment with the Company's share price performance.

### **Background to the First Disposal and relationship with Hipgnosis Songs Capital**

Prior to agreeing the terms of the First Disposal, the Board evaluated various options that might provide a catalyst to increase the share price. Considering the strategy of ensuring that the remaining Company was positioned more strongly than before, the Company approached Hipgnosis Songs Capital as it believed it would have an interest in protecting the long-term success of Hipgnosis Songs Fund given its relationship with Hipgnosis Song Management.

As a result, the Board have been able to negotiate a transaction which ensures an improvement in the remaining portfolio but also delivers what all parties believe reflects a fair market price in today's market conditions.

In agreeing a deal with Hipgnosis Songs Capital, the Board notes that the responsibility for management of these Songs will remain with the Investment Adviser. The Board believes that this will be welcomed by Songwriters and Artists whose songs remain with Hipgnosis Songs Fund and,

given the Company's ethos as a home that ensures that Songs are managed effectively and with respect, will ensure the continued goodwill of all Songwriters and Artists who have sold their Songs to the Company. This will enable the Investment Adviser to continue working closely with the Company's remaining Songwriters and Artists in order to maximise future value for shareholders through active Song Management

The Investment Adviser to the Company is majority owned by funds managed and/or advised by Blackstone, which together also own the majority of interests in Hipgnosis Songs Capital. The proposed sale of the First Disposal Portfolio therefore constitutes a related party transaction for the purposes of Listing Rule 11 and, accordingly, is conditional upon, inter alia, independent shareholder approval at the Extraordinary General Meeting. The First Disposal is also conditional on shareholder approval of the Continuation Resolution at the 2023 AGM.

Given that Hipgnosis Songs Capital and the Investment Adviser are under common control and, additionally, the Investment Adviser acts as investment adviser to Hipgnosis Songs Capital, the Board put in place appropriate governance arrangements and information barriers to ensure the continued availability to it of a segregated team of the Investment Adviser to consider and advise on the First Disposal, none of whom were available to or have any financial interest in Hipgnosis Songs Capital.

Furthermore, the terms of the First Disposal include a Go-Shop provision (as set out in the Principal Terms of the First Disposal below).

### **Information on the First Disposal**

The Company has entered into an agreement, subject to shareholder approval, to sell 29 catalogues for an aggregate cash consideration of \$440 million, reflecting a multiple of 18.3x historical Net Publisher Share.

The average vintage of these catalogues is 2008, compared to the Company's existing average vintage of 2003, meaning that the sale will reduce the Company's exposure to 'younger' catalogues.

The First Disposal Portfolio was designed to protect the strength of the remaining portfolio, and subject to completion of the First Disposal the remaining portfolio:

- Is expected to deliver strong income growth over the medium term;
- Will have an increased concentration of culturally important and successful songs, with the Company retaining an interest in 47 of Rolling Stone's 500 Greatest Songs of All Time (existing portfolio has 52 of these songs) and 85 Spotify Billions Club (existing portfolio at 12 September 2023 has 106/473); and
- Continued ownership in seven of its ten largest catalogues.

If the First Disposal to Hipgnosis Songs Capital completes, all catalogues would continue to be managed by Hipgnosis Song Management, maintaining the goodwill of Artists and Songwriters and enabling the Investment Adviser to maximise income by Song Management of the Company's remaining portfolio.

The First Disposal Portfolio, which is set out in the table below, accounted for 19% of the Company's Portfolio by value as of 31 March 2023 and 19% of Pro-Forma Annual Revenue ("PFAR") for the year ended 31 March 2023:

Catalogue	Vintage	Catalogue	Vintage	Catalogue	Vintage
Poo Bear	2015	Brian Kennedy	2009	Happy Perez	2012
Jon Bellion	2007	Brian Kennedy (Writer share)	2010	RedOne	2009
Martin Bresso	2014	Ian Kirkpatrick	2016	LA Reid	1990
Kaiser Chiefs	2007	Ari Levine	2012	Steve Robson	2011
Ed Drewett	2015	Joel Little	2016	Bob Rock	2003
Espionage	2010	Rico Love	2011	Shakira	2012
Sean Garrett	2011	Elliot Lurie	1971	Fraser T Smith	2011
Terius Gesteelde-Diamant	2010	Lyric Catalogue	1997	Eric Stewart	1977
Brian Higgins	2000	Barry Manilow	1989	Tricky Stewart (Masters)	2009
Rick James	1984	Nelly	2002		

The First Disposal purchase price reflects:

- A total net return of 44% over a 3 year weighted average life of ownership;
- A premium of 26% to acquisition price of the First Disposal Portfolio;
- A premium of 51% to the valuation of the First Disposal Portfolio implied by the Company's 30-day average market capitalisation up to 13 September 2023;
- A discount of 17.5% to the Fair Value of the First Disposal Portfolio as at 31 March 2023; and
- A premium of 39% to the IFRS book value as at 31 March 2023, under which the Company's investments in Catalogues are held at cost less amortisation and impairment.

On the basis of the terms agreed with Hipgnosis Songs Capital, the Company expects to make payments of approximately \$6.7 million in corporation tax and \$13.9 million in transaction fees. By use of the Company's tax losses, it has been possible to mitigate the majority of the Corporation Tax which would otherwise have been payable on the accounting profit on the sale of these assets. This announcement does not constitute or describe an updated Operative NAV of the Company. The Company will next produce an updated Operative NAV as at its interim reporting date, 30 September 2023, which will take into consideration, inter alia, the impact of these proposals.

## Principal Terms of the First Disposal

Under the terms of the Master Sale Agreement between the Company and Hipgnosis Songs Capital, (the "**Agreement**"), Hipgnosis Songs Capital will acquire the First Disposal Portfolio following satisfaction of, or waiver, of the completion conditions for a total consideration of \$440 million, payable in cash with at least 80% of the total consideration payable on completion. The remainder will be paid on a pro rata basis once acknowledgements of letters of direction in respect of payments for the royalties representing more than 80% of the anticipated revenue of the First Disposal Portfolio have been received from relevant counterparties. If such acknowledgements have not been received within 6 months of the completion date in respect of any catalogue, the Company will have the option to repurchase such catalogue on the same terms (provided that Hipgnosis Songs Capital shall not be required to provide warranties, representations, covenants or indemnification other than to the limited extent relating to the period between closing and the date of repurchase), subject to Hipgnosis Songs Capital's right to release the holdback amount in lieu of such repurchase.

As part of the First Disposal, the Company has agreed to assign to Hipgnosis Songs Capital ownership of all royalties and other compensation derived from the First Disposal Portfolio, including any royalties and other compensation received by Hipgnosis Songs Fund, from 1 January 2023 (the "**RTI Date**"), whenever they are received. This amount from 1 January 2023 to date is approximately \$15.3 million.

The Company will retain responsibility for the payment of any bonus, earn-out or other contingent payments under the original acquisition agreements in respect of the First Disposal Portfolio, up to a cap of \$30 million. This liability is currently anticipated to be approximately \$5.5 million.

The First Disposal is conditional upon various conditions, including the satisfaction (or waiver, where applicable) of the following:

- The passing of the Asset Sale Resolution approving the disposal of the First Disposal to Hipgnosis Songs Capital by independent shareholders at the Extraordinary General Meeting;
- The passing of the scheduled Continuation Resolution by shareholders at the 2023 AGM;
- Any applicable waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976 (as amended) having expired or terminated;
- No event or change having occurred that would reasonably be expected to have a material adverse effect on the revenues to be received under the First Disposal Portfolio taken as a whole (subject to certain carve outs customary to a condition of this nature);
- Representations and warranties given by the sellers and the Company and Hipgnosis Songs Capital being true and correct (subject to certain materiality qualifiers);
- No governmental body having enacted or issued any law or order which prohibits or renders the First Disposal illegal and no action having been commenced by a governmental body that seeks to suspend or prohibit the First Disposal;

- A representation and warranties insurance policy being in full force and effect and the Company having paid all applicable fees and premiums associated with such policy;
- The Board of Hipgnosis Songs Fund not terminating the transaction following receipt of a Superior Proposal (as defined below); and
- Certain other matters including the perfection of title to certain of the First Disposal Assets, the release of encumbrances over the First Disposal Assets and the provision of certain further information from the Company to Hipgnosis Songs Capital.

The sale and purchase agreement contains certain warranties and indemnities given by the Company. Hipgnosis Songs Capital has procured, at the cost of the Company, a representation and warranty insurance policy and will use reasonable endeavours to claim against such insurance policy prior to making a claim against the Company in respect of warranties and indemnities covered by the insurance policy.

In addition, the Company has given an indemnity in respect of any reduction in the value of the rights transferred in the event that certain companies which have been dissolved are not restored to the register of companies in order that they can transfer certain rights.

The Company has the right, for a period of 40 days from the date of this announcement (the "**Go-Shop Period**"), to solicit alternative transactions in relation to the First Disposal Portfolio from third parties (the "**Go-Shop**"). If the Company receives and settles the transaction documents in respect of a Superior Proposal (as defined below) during the Go-Shop Period, and not to do so would be inconsistent with the Board's fiduciary and statutory duties (having consulted with its legal and financial advisers), the Board may withdraw its recommendation to Shareholders of the First Disposal and terminate the Agreement, provided that (i) Hipgnosis Songs Capital has the right, within 5 Business Days of notification of a Superior Proposal to Hipgnosis Songs Capital, to match the Superior Proposal; and (ii) the Company will pay to Hipgnosis Songs Capital a termination fee of \$6.6 million (the "**Termination Fee**"). If Hipgnosis Songs Capital matches the Superior Proposal, such transaction will be final and binding and the Company will not be permitted to have any further discussions or negotiations relating to a Superior Proposal or other alternative transaction with any person.

For the purposes of the Go-Shop, a "**Superior Proposal**" is a bona fide written alternative transaction proposal from an unaffiliated third party in respect of the First Disposal Assets (or a subset of the First Disposal Assets) which: (i) if completed would result in higher aggregate cash net proceeds payable to the Company as a whole compared to the First Disposal; and (ii) is on terms that the Board determines in good faith (after consultation with the Company's legal counsel and financial advisers) to be reasonably likely to be consummated in accordance with its terms. For the purposes of the definition of Superior Proposal, the aggregate cash net proceeds payable to the Company pursuant to the First Disposal or an alternative transaction shall be determined in accordance with the following principles:

- deducting any advisory fees and other third party costs (including taxes) payable by the Company and its affiliates;
- deducting the Termination Fee payable to Hipgnosis Songs Capital from any alternative proposal;

- any amounts of deferred consideration (other than holdback) not payable at closing shall be subject to a discount rate at 12.5% IRR from closing to the date on which such consideration is payable;
- any amounts in respect of holdback in relation to an alternative transaction shall be subject to a discount to such amount as is reasonably probable to actually be paid to the Company, as determined by the Board acting reasonably and in good faith, and in relation to both the First Disposal and an alternative transaction, a discount at a rate of 12.5% IRR from closing to the date on which such consideration is payable (as determined by the Board acting reasonably) shall be applied, provided that the holdback in respect of the First Disposal shall not be subject to a discount for probability;
- any other contingent consideration in an alternative transaction shall be subject to a discount to such amount as is reasonably probable to actually be paid to the Company, as determined by the Board acting reasonably and in good faith, and further to a discount at a rate of 12.5% IRR from closing to the date on which such consideration is payable (which date will be as is agreed in the alternate proposal, absent which it will be as determined by the Board acting reasonably);
- the revenue to be accounted for to the purchaser subsequent to the date on which ownership of all royalties and other compensation derived from the First Disposal Portfolio is assigned (being, in respect of the First Disposal, the RTI Date) shall be deducted;
- the Company's liabilities to pay contingent bonuses (being, in relation to the First Disposal, an amount estimated to be \$5.5 million) shall be deducted; and
- no deduction shall be made for any right to hold back any consideration at closing in respect of certain encumbered assets.

Save for the Go-Shop, the Company has agreed not to initiate, assist, solicit, facilitate or encourage the submission of any inquiries regarding or the making of any proposal or offer that constitutes, or could reasonably be expected to lead to, any type of transaction relating to the Company or its securities or any of the First Disposal Portfolio, or any other assets of the Company solely to the extent that such a transaction in relation to such other assets of the Company could reasonably be expected to require the Company to abandon or terminate, or prejudice its ability to, consummate the First Disposal or breach the agreements relating to the First Disposal. The Company will not be required to comply with such restrictions in relation to a proposal in relation to an offer for the entire issued share capital of the Company that was not solicited, initiated or encouraged by or on behalf of Company, to the extent that compliance would otherwise be inconsistent with the fiduciary duties of the Board (a "**Takeover Proposal**"). If the Board determines in response to a Takeover Proposal or otherwise, that not to change its recommendation that shareholders vote in favour of the resolutions to approve the First Disposal at the General Meeting would be inconsistent with the Board's fiduciary duties (having consulted with its legal and financial advisers) and shareholders subsequently do not approve the First Disposal, the Company will be required to pay the Termination Fee to Hipgnosis Songs Capital.

The Agreement may be terminated (subject to payment of the Termination Fee, where relevant) by:

- mutual written consent of Hipgnosis Songs Capital and the Company;
- either Hipgnosis Songs Capital or the Company if an order from a governmental body makes consummation of the First Disposal illegal or otherwise prohibited;
- either Hipgnosis Songs Capital or the Company if the resolution to approve the First Disposal at the Extraordinary General Meeting or the Continuation Resolution is put to shareholders and not passed;
- by the Company in the circumstances described above where a Superior Proposal has been received; and
- either Hipgnosis Songs Capital or the Company if the First Disposal has not been consummated within 180 days of the date of the Agreement.

In the event a Superior Proposal is received during the Go-Shop period and Hipgnosis Songs Capital exercises its matching right, the Board expects it will be necessary to adjourn the Extraordinary General Meeting and 2023 AGM to a later date to allow for the posting of a further shareholder circular setting out the amendments to the terms of the First Disposal. Assuming it is not terminated in favour of a Superior Proposal, the First Disposal is expected to complete approximately 13 business days following satisfaction or waiver of all conditions, which is expected to be shortly after the date of the EGM and the 2023 AGM.

### **Related Party Transaction**

Funds managed by Blackstone hold the majority of interests in both Hipgnosis Songs Capital and the Investment Adviser. In addition, the Investment Adviser acts as investment adviser to both the Company and Hipgnosis Songs Capital. In light of the Investment Adviser and Hipgnosis Songs Capital having the same majority owners, Hipgnosis Songs Capital is a related party of the Company for the purposes of the Listing Rules. The First Disposal is therefore a related party transaction under the Listing Rules and is conditional upon the approval of independent shareholders at the Extraordinary General Meeting.

The Company intends to publish a circular which will be posted to Company shareholders no later than 27 September 2023 which will include the notice convening the Extraordinary General Meeting to consider and, if thought fit, to pass, the Asset Sale Resolution. The circular will also contain a notice convening the 2023 AGM for the same date.

In addition, the Company notes that Mr Mercuriadis and certain employees of Hipgnosis Song Management have disclosed to the Board that they hold a minority interest in the share capital of Hipgnosis Songs Capital.

Hipgnosis Songs Capital is the trading name for all entities within the partnership between Hipgnosis Song Management and fund managed and advised by Blackstone.



## Recommendation in respect of the First Disposal

The Board considers the proposals described in this announcement, the passing of the Asset Sale Resolution at the Extraordinary General Meeting and the passing of the Continuation Resolution and each of the other resolutions to be proposed at the 2023 AGM to be in the best interests of the Company and its shareholders taken as a whole. Accordingly, the Board intends to unanimously recommend that shareholders vote in favour of the Asset Sale Resolution to be proposed at the Extraordinary General Meeting and each of the resolutions to be proposed at the 2023 AGM.

## Information on the Second Disposal

Following a competitive process, the Board has agreed in principle, subject to completion of legal documentation and the consent of the Company's lending banks, to sell a portfolio of non-core songs for a consideration of approximately \$25 million.

The Second Disposal Portfolio songs were acquired as part of Kobalt Fund One and their eventual sale was part of the Company's acquisition strategy, as they were considered non-core, as the Company does not have perpetual ownership rights or the songs require ongoing accounting and reporting obligations that take up significant bandwidth which can be better focused on active Song Management.

## Information on the Company's continuing portfolio

Following the First Disposal, the continuing portfolio will comprise 117 Catalogues with an older average vintage of 2002 (assessed as of 31 March 2023) and will have an increased concentration of culturally important and successful songs, with the Company retaining an interest in 47 of Rolling Stone's 500 Greatest Songs of All Time (existing portfolio has 52 of these songs) and 85 Spotify Billions Club (existing portfolio has 106/473).

KPI	Current Portfolio	Portfolio post First Disposal
Number of Catalogues	146	117
Average vintage	2003	2002
Quality KPIs	106 of 473 of Spotify's Billions Club (as at 12 September 2023) 52 of Rolling Stone's The 500 Greatest Songs 13 of YouTube's 30 Most Viewed Music Videos	85 of 473 of Spotify's Billions Club 47 of Rolling Stone's The 500 Greatest Songs 8 of YouTube's 30 Most Viewed Music Videos
Rights type	Publishing: 86%	Publishing: 86%

	Recording: 14%	Recording: 14%
Fair value	\$2.80 billion	\$2.27 billion
2022 PFAR	\$130.2 million	\$106.1 million
2022 PFAR by income type	Streaming: 54% Synchronisation: 8% Performance: 31% Other: 7%	Streaming: 51% Synchronisation: 9% Performance: 30% Other: 10%

Following both the First Disposal and Second Disposal, the Company's annual income per song will increase by over 75% from \$1,990 to \$3,500. This smaller focused portfolio of higher earning songs can be more effectively actively managed to deliver the strong synch and revenue growth the Company's recent financial results have proven possible.

### **Use of Proceeds**

The combined net proceeds of the First Disposal and Second Disposal will be used to establish a share buy back programme (subject to shareholder approval at the 2023 AGM), reduce drawings under the RCF and to enhance financial flexibility as follows:

#### *Share buy back programme*

Following the completion of the First Disposal, the Board intends to establish an on-market share buy back programme under which the Company may apply up to \$180 million to repurchase the Company's Ordinary Shares in issue. No maximum price payable for each Ordinary Share purchased under the share buy back programme has been determined, however all purchases will be subject to the maximum price permitted to be paid pursuant to Listing Rule 12.4.1 and within the limits set out in the share buy back authority to be proposed at the 2023 AGM.

Insofar as the Company's shares continue to trade materially below the Company's fundamental asset value, share buy backs enable the Company to invest further into the remaining Portfolio at a material discount to its fundamental asset value.

The share buy back programme will require the customary approval of shareholders at the Company's forthcoming AGM, which would authorise the Company to repurchase up to 14.99% of its issued share capital. Should this authority be fully utilised, the Board would seek shareholder approval to renew this authority for further share buy backs should the Board believe they are in the best interests of shareholders at that time.

#### *Reduce indebtedness*

The Company intends to use part of the net proceeds of the First Disposal and Second Disposal to repay \$250 million of amounts drawn under the Company's RCF with the expectation of reducing the Company's net indebtedness to below 20% of proforma Operative NAV.

Given the increase in interest rates, the cost of the Company's debt has risen significantly since initial draw down, reducing the financial benefits of leverage to the Company's revenues. As a

result, the Board believes that it is in the best interests of shareholders to reduce leverage in order to improve security over the target dividend.

#### *Financial flexibility*

The Company intends to use any remaining proceeds to enhance general financial flexibility.

#### **Amendment to Investment Advisory Agreement**

Subject to, and immediately following completion of the First Disposal to Hipgnosis Songs Capital, the terms of the Investment Advisory Agreement will be amended such that the calculation of the annual advisory fee payable by the Company to the Investment Adviser will be amended to include additional lower tiers. Following the amendment, the advisory fee will be calculated as follows:

- i. 1 per cent. per annum of the Average Market Capitalisation up to, and including, £250 million, which is unchanged;
- ii. 0.90 per cent. per annum of the Average Market Capitalisation in excess of £250 million and up to, and including, £500 million, which is unchanged;
- iii. 0.80 per cent. per annum of the Average Market Capitalisation in excess of £500 million and up to, and including, £750 million, which is unchanged;
- iv. 0.70 per cent. per annum of the Average Market Capitalisation in excess of £750 million and up to, and including, £1 billion, which is new; and
- v. 0.60 per cent. per annum of the Average Market Capitalisation in excess of £1 billion, which is new.

Where Average Market Capitalisation means, in relation to each month during the relevant Accounting Period where the Advisory Fee is payable, ("A" multiplied by "B") where:

"A" is the average of the middle market quotations of the Ordinary Shares for the five day period ending on the last Business Day of the relevant month in that Accounting Period (adjusted as appropriate to exclude any dividend where the Ordinary Shares are quoted ex such dividend at any time during that five day period);

"B" is weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during the relevant month in that Accounting Period.

As at close of trading on 13 September 2023, being the last trading day prior to the date of this announcement, the Company's current market capitalisation was approximately £1,125 million, representing a 40% discount to the Operative NAV of £1,873 million as at 31 March 2023. For illustrative purposes, if the Company's share price were to increase to the level of the Operative NAV, this proposal would amount to an annualised saving of £2 million.

All other terms of the Investment Advisory Agreement will remain unchanged.

#### **Recommendation**

The Board considers the proposals described in this announcement and the passing of the Asset Sale Resolution to be proposed at the Extraordinary General Meeting and the passing of the

Continuation Resolution and each of the other resolutions to be proposed at the 2023 AGM to be in the best interests of the Company and its shareholders taken as a whole. Accordingly, the Board intends to recommend unanimously that shareholders vote in favour of these resolutions in due course.

The person responsible for making this notification is Andrew Sutch, Chairman of Hipgnosis Songs Fund Limited.

## **Notes to Editors**

### **About Hipgnosis Songs Fund:**

Hipgnosis Songs Fund, 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. In March 2020 the Company became a constituent of the FTSE 250 Index. The Company is recognised as an investment trust under applicable HMRC regulations.

### **About Hipgnosis Song Management Limited:**

Hipgnosis Song Management Limited is the Investment Adviser for Hipgnosis Songs Fund Ltd (SONG) and Hipgnosis Songs Capital. Hipgnosis Song Management 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. 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 Hipgnosis Song Management Ltd Advisory Board include Nile Rodgers, The-Dream, Giorgio Tuinfort, Starrah, David A. Stewart, Poo Bear, Bill Leibowitz, Ian Montone and Rodney Jerkins.

### **About Blackstone:**

Blackstone is the world's largest alternative asset manager. We seek to create positive economic impact and long-term value for our investors, the companies we invest in, and the communities in which we work. We do this by using extraordinary people and flexible capital to help companies solve problems. Our \$1 trillion in assets under management include investment vehicles focused on private equity, real estate, public debt and equity, infrastructure, life sciences, growth equity, opportunistic, non-investment grade credit, real assets and secondary funds, all on a global basis. Further information is available at [www.blackstone.com](http://www.blackstone.com). Follow @blackstone on LinkedIn, Twitter and Instagram.

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