**Why Golden Oldies Are A Hot Investment**
**Interview with**
**Paul Sweeting**

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KENNEALLY: The music industry may have started to wrestle with digital transformation in 1999 over Napster, but the pace of disruption has yet to settle down. In 2021, important business and creative changes tied to streaming have begun to attract new sources of capital and new financial players with data-driven insights for how value can be derived from music as well as movies and TV programs.

Welcome to Copyright Clearance Center's podcast series. I'm Christopher Kenneally for Velocity of Content. The entertainment industry transition to a streaming-based economy remains a work in progress, even after 20 years, says Paul Sweeting, a veteran business journalist and industry analyst specializing in the intersecting worlds of media, technology, and public policy. While the music industry experienced financial carnage in the first decade of digital disruption, Sweeting says, streaming has since restored the business to growth. Pandora and iTunes and Spotify upended the fortunes of many artists and recording companies, only to fortify those for many others.

The industry's current uptempo mood music has now led entrepreneurs and private equity firms to raise more than $2 billion to fund the purchase of music rights and the streaming royalties those rights can yield. The founder and principal of Concurrent Media Strategies, Paul Sweeting joins me now from Washington, DC, to explain why your favorite song is humming a happy tune all the way to the bank. Paul Sweeting, welcome to the program.

SWEETING: Good to be here, Chris.

KENNEALLY: We look forward to chatting with you, Paul. It is really interesting to see the tables turning here, because once, as you put it, a significant source of downside risk, digital is now adding value to music, rather than destroying it. And if I read things right, it comes down to one word – catalog.

SWEETING: Yeah, that's one of the surprising and sort of game-changing developments that's come out of the streaming revolution. It used to be that the music industry was all about the hits – the current hits – because that's what drove record and CD sales, and that's where most of the money came from. In the streaming context, that's sort of been turned on its head. It turns out that catalog product – that is, songs and records that are over 18 months or three years old – once you sort of understand why that's so, it makes sense. But I think it came as a surprise to a lot of people in the industry, and it's now where most of the streaming revenue is being created. It's from streams of older catalog releases, rather than the latest hits.

KENNEALLY: Paul, the value here is on several points of the music industry spectrum, if I can put it that way, right? So the value is to the listeners, to the artists, to the companies themselves, and particularly because the streaming services really need to have the rights to these songs for their continued availability to really be worth anything themselves.

SWEETING: That's exactly right. What streaming has really revealed is something that was always true, but invisible, about how people listen to music. In the past, in the days of physical CDs and LPs, people collected. They collected LPs. They collected CDs. And they might go out and buy the new hit or the new album from their favorite artist, but most of what they listened to was the collection they already owned. But there was no visibility into that. When a record company sold you a CD, they had no idea how often you played it. And all of those subsequent plays had no economic value to the record company or to the music publisher.

What streaming has done is it's done away with the need for people to amass their own collections, because every song, every album you could ever think of, pretty much, is available to you on demand from Spotify or Apple Music or any of the others. But in order to maintain that access, you have to keep paying the subscription fee. That has made manifest what was always true, but invisible, because you can now see or get data on, at least, what people are actually listening to. And just as before, it turns out what they're listening to primarily is the stuff that they love. But that so-called catalog product now is generating revenue for the record label and for the publisher and for the artist, because people are continuing to pay on an ongoing basis, and the services, in order to maintain that access, are paying ongoing licensing fees and ongoing royalties. So it's a sea change in how the business operates, but it's not a change in how people actually listen to their music.

KENNEALLY: Well, Paul Sweeting, let's talk about where the music is going in just a minute. But before we do, let's look at where it's not going, or at least where it won't be going in the future, and that is in A&R, in artist and repertoire, the development of new talent.

SWEETING: Yes. That will still happen, but one of the things that the record companies and publishers have realized is that since catalog has become their main source of revenue, the return on investment from artist development is not the sine qua non of the business. It's not what is driving their revenue. What's driving their revenue is their back catalog.

So at some point, particularly as traditional investment capital comes into the business, as it is, there's going to be pressure from the investors to put the capital toward the part of the business that generates the biggest return for them, and that's not going to be the A&R end of the business. It's going to be the catalog end of the business. Which is why you see money chasing after particularly publishing catalogs – that is, the songwriters' piece of the action – because that's where the investors are seeing the biggest return on their investment.

KENNEALLY: And the chasing of catalogs is well underway, and it is generating eye-popping headlines and eye-watering numbers here. For example, in December, Universal Music Group spent a reported $300 million and up to acquire Bob Dylan's entire catalog. Other big spends have made the news, too.

SWEETING: Yes. And there are now a number of dedicated investment companies, the biggest being a firm called Hipgnosis Songs Group. It was started by a man named Merck Mercuriadis, who was a former music manager. There's another large one called Round Hill Records – Round Hill Music, excuse me. They're both publicly traded. They've raised money in the public equities market. And they're now using that capital to invest in and to purchase songwriting catalogs, what the industry refers to as the publishing rights to songs.

KENNEALLY: Sorry, Paul. I was just looking up something, because I was going to ask you a question later, but we can pick this up here.

So describe a little bit more about this new economic paradigm of streaming. It amounts to essentially seeing these musical assets, the songs themselves, as a kind of annuity.

SWEETING: Yes. From the investors' perspective, that's how they value them, because they are licensed. They're exploited under license by the streaming services. And the streaming services generate a tremendous amount of data on the usage, and the licenses are essentially self-renewing, because in order to maintain access to those songs in their service, Spotify and the rest have to continue paying licensing fees, at least until the copyright on the songs ultimately expires, which these days, that can be 100 years.

So these are very long-term assets that continue to produce revenue and a return at a fairly steady and predictable rate for a long period of time. And for certain kinds of investors, that's a very useful sort of asset – for pension funds, for instance, or for foundations that are investing their endowments. They're not necessarily looking for big, quick profits. They're looking for steady assets that return value over time.

From the investors' perspective, it's sort of like an annuity. Except in this case, the market is still growing, so an asset you buy today at one price within five or six years could double in value – the sort of base book value of the asset independent of the royalty revenue that it's yielding. So it's a good deal for investors right now.

KENNEALLY: It's a very good deal indeed, because in addition to yielding those royalties, the dollars, it also yields data, and that will help drive strategies for growth.

SWEETING: Yeah, data is essential to the financial business and financial community. Now, there's so much data available at a very granular level about the performance of song assets in the marketplace that you can make reasonable and fairly accurate long-term projections about the value – about the returns on those assets.

If you look at the traditional equities and bond markets, they are driven by data. That's what institutional investors look at. You didn't have that kind of data on intellectual property assets like songs in the past. Now, you have that data, and that makes it a lot easier for asset managers and institutional investors to put money into this class of assets, because they now have the data to support the case.

KENNEALLY: So that should calm some fears that there might be a bubble here. After all, these numbers in the hundreds of millions of dollars for several of these catalogs – not only Bob Dylan, but works by Neil Young, Stevie Nicks, and many other names we'd recognize – those numbers, as I say, would lead some to think, hmm, maybe there's a bubble here and want to step back. But you feel that that's probably not the case.

SWEETING: Well, it's an ongoing debate in the industry. I would say the jury is still out, although my personal feeling is it's probably not a bubble. But if you look at the multiples of earnings that song catalogs are trading at, it has been steadily increasing. A decade ago, a publishing rights catalog might have sold for 10 times trailing earnings. They're now trading at 17, 18, sometimes 20 times earnings. Whether that kind of growth is sustainable – as I said, I think the jury may still be out on that.

But there is still upside in the market, not just because of increasing adoption of streaming by music listeners, but there are a lot more industries that are looking to license music. The fitness industry has become a major user of music in their workout videos that companies like Peloton offer to their customers on a subscription basis. Those are all new licensing activities. The video game industry has become a huge user of music. There's still a little bit of tension between the music and gaming industry over how that should be licensed, but that will get worked out. That's an ordinary business dispute that'll eventually get worked out. So there are a lot more opportunities to generate revenue from song catalogs than there used to be.

KENNEALLY: There are a number of really interesting, even ironic twists in this story, Paul Sweeting. One of them I find really of fascination is how the money is really empowering artists today. Because in traditional streaming – which sounds itself like a contradiction in terms, as streaming only has been around for, really, just a few years – but in the traditional model, the money went to the intermediaries, to some of the record labels, and so forth. Here, the money will be more likely aligned with the interests of artists as well as investors.

SWEETING: Well, yes, although we're not there yet. The intermediaries still reap the largest share of the rewards from streaming. What I think is going to happen over time is that as outside, non-industry capital comes into the industry, those investors are going to see some of the intermediaries as a drag on their earnings. So in a sense, that aligns the interests of the investors with the interests of the artists, because the artist also loses earnings to the intermediaries. This is a long-term project. This isn't going to happen overnight. But the stars are aligning such that there's probably going to be a convergence of interests between investors who are buying up these song catalogs and the artists.

KENNEALLY: Tell us about where you expect this to lead in other adjacent media – in movies, in television – because as I understand, we're seeing some of the literary properties we would recognize, from Georges Simenon, John Creasey, some of the great writers of the 20th century, are being acquired for similar types of investment funds, presumably to lead to adaptations in film and television.

SWEETING: Yes, and podcasts and audiobooks and all sorts of new opportunities to exploit literary property. It's a phenomenon that's happening across – I don't want to say all, but a number of media verticals. It's happening in the film and television industry as well, because that business is also going – we saw what happened in 2020 due to COVID. There was a move to release films directly to digital platforms. The television business has already gone down that path.

In the past, those sorts of licensing deals tended to be long-term and static. That is, you licensed the rights to a movie or to a TV show for a period of time, and there were fixed payments due at a certain time. It wasn't a performance-driven licensing business, as it is on the music side. But now that streaming is becoming the dominant means by which consumers watch films and television, you're starting to see performance-based licensing arrangements – that is, dynamic licensing arrangements that are based on how well a film or TV show actually does on a streaming platform. So instead of a fixed schedule of flat fees, you're starting to see licensing deals structured so that the fee is based on how many times, essentially, a movie is watched. As that happens, you're going to see film and television catalogs looking to investors very much like song catalogs do already. I would expect over time – and again, this won't happen tomorrow, but over time, you're going to see investment capital flowing into that business as well.

KENNEALLY: Paul Sweeting, founder and principal of Concurrent Media Strategies and veteran industry analyst for the music business and the ways it intersects with media and technology, thank you so much for joining me today on the program.

SWEETING: My pleasure, Chris.

KENNEALLY: Our co-producer and recording engineer is Jeremy Brieske of Burst Marketing. You can subscribe to the program wherever you go for podcasts and follow us on Twitter and Facebook. I'm Christopher Kenneally. Thanks for listening and join us again soon for another Velocity of Content podcast from CCC.

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