

# The Investment Podcast



## Episode 3: Investment in music copyrights? Now, that's music to my ears...

24 March 2021

**Riccardo** [00:00:34] Hello and welcome to The Investment Podcast. How do we find a special situation investment? What kind of work do we do before making an investment? What is our role once the investment is completed? In this podcast, I want to bring you inside the investment team and give you a front-row view of the investment process: from the investment idea, to the progressive refinements, to the decision on the next steps and exit. We will give you a sense of the highs and lows, the steps backwards and the steps forward of the investment process and all of the hard work that goes into it. My name is Riccardo Cumerlato and I am the Client Director of the Restructuring and Debt Solution team at M&G. Today, I will sit down with Andrew Amos. Andrew is the Co-Head head of the team and co-Fund Manager of our Distress and Special Situation Funds. My plan is to quiz Andrew on an investment he has led – the music copyrights platform called Seeker Music Group. Music copyright has become a popular investment class recently but, Andrew tells me that we have done things in a different way. Let's see what he has to say. Hello, Andrew. Thanks for joining me today. Let's start with the basics, what is Seeker Music Group?

**Andrew** [00:02:05] Thanks, Riccardo. The Seeker Music Group is a platform that M&G has built for buying and actively managing music copyrights. Music copyrights are a really interesting asset class for an investment manager like M&G because they provide a very stable income, from music sales and streaming, to radio and TV usage. It's our proprietary music copyrights platform.

**Riccardo** [00:02:40] Now, if I recall correctly, Seeker has already purchased a number of portfolios. Give me a sense of the kind of artists that they include.

**Andrew** [00:02:48] Sure. We started the project a few years ago, and the goal when we established the platform for building out the portfolio was to make sure that we had a diversified range of catalogues. These are diversified by genre, artist and with a focus on number one songs because these are the qualities that provide the stable income that we're looking for. So, in the pop genre, we've got artists like J Lo and Ariana Grande. In the R&B genre, we've got songs from Beyonce and Drake. In hip hop, we have some classic hip hop from artists like Tupac and Run The Jewels. We also have a large collection of country songs with number one artists like Sam Hunt and Luke Bryan.

**Riccardo** [00:03:48] Okay, I can recognise a few names there, which says a lot. Now, you are a former lawyer who has a restructuring and special situation team. How did you end up investing in Arianna Grande's songs?

**Andrew** [00:04:01] Well, in our team we've got a very broad mandate. We've got a special situations team that is always looking for higher yielding opportunities and investments in asset classes that provide returns that are not correlated to wider markets. Music copyrights really meet that criteria. We have regular introductions to experienced management teams across various sectors. We were given such an introduction to a management team in this case so, we embarked on a detailed research project with industry experts and discovered the current strategy that we're now implementing.

**Riccardo** [00:04:52] So, you're telling me that this didn't come as a fully formed idea, you had to test it and develop it before it became investable? Is that the case?

**Andrew** [00:05:02] That's right. That's often the case. So, when we're innovating like this and developing new investment platforms and opportunities to invest in new asset classes, it often just starts with an idea. We have to develop and evolve that idea. In this case, we got involved and conducted a three-month industry deep dive that helped us come up with a proposed strategy for the business, for the platform. We then took that proposed strategy and we recruited some independent experts to help us test that strategy. We took the strategy out to about 60 meetings with industry experts and got right into the detail of what the opportunity was and how we could position ourselves to create the best investment platform in the sector. Once we had that settled strategy, we then implemented it by recruiting the right executives for that strategy. What we landed on was a strategy that focused on acquiring smaller catalogues at a lower cost, at lower multiples, and then building a team that could actively manage those catalogues. Alongside that, we worked on creating our own creative licensing capability. So, this is a team of people that drive the usage of the music by creating new versions of songs and by promoting samples of our songs in new music. So far, the strategy is delivering on its promise.

**Riccardo** [00:07:01] OK, I think you have already given me an idea of the answer to what I am about to ask, but let's go into some additional detail. You mentioned that you are a restructuring specialist and your background is not in music. So, how did you manage to get comfortable with this investment in music? Which kind of tools did you use?

**Andrew** [00:07:22] So once we've been through that industry deep dive and we've evolved and settled the strategy and we have built the expert executive team to go off and execute, we also stand up an independent board. So, between the board of non-executive directors, the investment committee that is created within that board and the experts that we have in the executive team, we have a lot of industry experience. It's not the case that we as an asset manager suddenly become experts in music, creative licensing and the active management of music copyrights, we just build the best team of industry experts that we can. In the case of the executive team, the CEO, CFO and CEO are all industry veterans with 20 plus years of experience. In turn, they have gone onto hire a specialist team, people that are very experienced in sourcing and acquiring catalogues. This is a team that's very experienced with the active management of catalogues and makes sure that we're collecting all the royalties and all the revenue that's available from the assets. They then build a creative licensing capability, which we have already touched on.

**Riccardo** [00:08:54] OK, thanks, Andrew. It is much clearer how you got comfortable with the investment. You mention all the work you've done before. Now Seeker is up and running, is there anything else for you to do or, can you just sit back, relax and wait for the cash to come in?

**Andrew** [00:09:14] No, M&G continues to be very actively involved in the strategy and we're involved on a number of different levels. Primarily, we provide direct support to the executive team and we make sure that the administration of the business itself is industry-leading. We make sure that they've got top of market financial control and we make sure that they're recruiting the best people and retaining the best people that they can. We also bring all of our experience within those business functions to the enterprise and are represented on the board. There are M&G employees on the board and on the investment committee who make sure that the independent board of directors and the executive are following the very strict investment process that we've built for the business. We also continue to support the business and monitor its financial performance as well. We make sure that all the forecasted revenue that would be generated from the asset is being generated and collected efficiently. Finally, we're involved in developing the long-term strategy for the business. Working together with the board and the executive – we look at portfolio composition, M&G's opportunities for the platform and optimizing the financing of the platform as well. So, there's very close contact and ongoing involvement with Seeker.

**Riccardo** [00:10:54] OK, that's clear. Thank you. Now, one of the reasons why we are having this conversation, apart from the fact that it is a very interesting investment in my opinion is also because of the fact that music copyright is quite popular right now. I was checking the BBC News website the other day and there was news about Neil Young selling his catalogues. Clearly, there are a lot of investors looking at this asset class. Is Seeker trying to do things any differently than the others?

**Andrew** [00:11:27] Yeah, I think that when we did our analysis of the sector, we saw that high level of institutional interest in the asset class that you're talking about. There has been a lot of capital coming in from large institutional investors over the last five years in particular. What those investors tend to do, is focus on much larger catalogues. So, they're looking to buy consolidated, diversified catalogues of one hundred million dollars plus and that's because they're running primarily passive scale businesses. The approach that we've taken and the real opportunity we saw, was looking into much smaller catalogues where there's no real Institutional bid. So, we built a team that's full of, as I've said, industry veterans with lots of contacts and direct relationships with writers, creatives and artists. We are focused on the part of the market where we can buy a single songwriter catalogue with values in the few million or less than 10 million – where there is no Institutional bid for the assets. It means that we can buy at much lower multiples and at much more attractive prices. Our plan over time is to roll-up all of those smaller catalogues and single songwriter catalogues, into a much larger diversified portfolio of assets.

**Andrew** [00:13:10] So, through that process, we're going to get that uplift in value and we can build something that might be of interest to Institutional investors. Seeker is also different because it is really set up for active management of the assets. Each time the executive proposes an investment, they also have to present to the board on what the specific creative plan is for those songs. They also need to be able to illustrate that we can generate acquisition through active management and incremental revenue so that we are able to generate a return around the 15 percent range over the life of the investment. That is all driven from the active management of the assets. The final element is the creative licensing part that we've touched on a couple of times. This is a team of writers within Seeker who come up with innovative and creative ways to use existing songs in new ways and generate new revenue from those songs. This is through creating covers, versions that can be used in film and TV and promoting the use of samples from old songs and new songs. This drives a lot of incremental revenue and this element, in particular, is a strategy that can only be implemented if you've built your own creative licensing team as Seeker has.

**Riccardo** [00:14:52] So, you've made a few references to the value add of the team and the proposition. So, let's go back to the boring basics of investments. Can you just summarize how you make money out of this idea – in a few sentences?

**Andrew** [00:15:11] We're generating value and generating returns for our investors through three basic elements. First of all, it's the cash yield or the revenue that's generated from the use of the music. Each year we generate about eight percent of the

catalogue's value or an eight percent return just from the physical sales of songs, song downloads, radio use, passive streaming and the revenue that's generated from an active stream like Spotify. This is also from the synchronization or the licensing of songs or film, television and online media. So, there's a very attractive cash yield that comes to the assets and it is a very stable cash flow from the copyrights. In addition to that, we're generating capital appreciation, which comes from that portfolio effect that I described earlier. This is where we buy much smaller catalogues, catalogues that are under 10 million in value, which tend to trade at about 10- or 12-times historic earnings. We then roll those up over time into a much more diversified portfolio and the target is to get to one hundred million of assets by the end of this year. Once you're at that hundred million size, recent transactions in the market have illustrated that the portfolio starts trading at 18 to 20 times. So, you can see that value or multiple pick up that you get from building a diversified, much larger portfolio from very small individual catalogues. Finally, the third element that generates value for our investors is through the management company itself. So, the creation of Seeker, the creation of a new business with industry experts, creatives, people who are sourcing and actively managing music. This in itself is a valuable thing - once you've proven that it can deliver the returns that we're targeting. With those three elements together, we feel that we can provide a really interesting return for investors.

**Riccardo** [00:17:40] That is very helpful. I have a much clearer idea on how the values deliver to investors. You mentioned earlier about strategic planning for the strategy or long-term planning. We mentioned the fact that Seeker has already purchased a few catalogues and I know that there are a few additional purchases in the pipeline. What is the long-term strategy for Seeker?

**Andrew** [00:18:08] Well, there are two approaches that you can take to the long-term strategy here. There's the roll-up of the smaller catalogues into a much larger diversified portfolio which we have spoken about. Then, there's the long-term management of the diversified portfolio with its very stable cash flows. These two approaches give you options for future growth. So, with the case of the roll-up and creating diversified portfolios, you can run a process of rolling out portfolio one, selling that portfolio into the market and then repeating the process. You are then getting that value creation and that multiple uplift by building a much larger portfolio and selling it onto institutional investors, you then just start the process again, using your management team to build up another portfolio. You can also create long-term growth opportunities for the strategy if you decide to focus on the long-term management of the assets. So, we might choose to roll-up a range of much larger portfolios, and rather than sell those into the market, we could retain them and manage them for a stable income. This is an asset class that can provide very regular dividends to investors. So, we've got both of those options when it comes to long-term growth.

**Riccardo** [00:19:47] OK, last question and this is the one where you have to be really honest with me. I will be honest with you first. If I had to invest in music, I would need to enlist the help of my daughter because otherwise the portfolio would be made only of Bruce Springsteen songs. So, the question is, do you ask for final sign off from your kids before making an investment?

**Andrew** [00:20:10] No, I mean, I understand your point, it is hard to stay in touch with what's cool in music but that's not something we do. We've got a very experienced executive, a creative team that brings a career's worth of experience and the industry to target the assets, evaluate the assets and decide what's appropriate for the portfolio. In addition, we can rely on the board and the investment committee, which again, is full of very, very experienced industry people. The other element here is that Seeker really focuses on older, more evergreen songs that can provide a stable income. So, it's not so much about picking the songs that are going to be popular or chart successes necessarily but the old number ones from five, 10, 15, 20 years ago where income is very, very stable. An interesting point that is worth mentioning is the sampling of songs. So, we have a lot of songs in the catalogue which are iconic R&B and hip-hop songs where samples are used in new versions and new songs are released. There have been a number of examples in Seeker's history, where those samples have found themselves in new chart hits, in really contemporary new songs, and when that happens, my kids do think that it is pretty cool.

**Riccardo** [00:22:06] My daughter probably would as well. So, listen, Andrew, thank you for your time. This was very insightful and very interesting. Thanks again and have a good day.

**For Investment Professionals only.** Not for onward distribution. No other persons should rely on any information contained within. This guide reflects M&G's present opinions reflecting current market conditions. They are subject to change without notice and involve a number of assumptions which may not prove valid. The distribution of this guide does not constitute an offer of, or solicitation for, a purchase or sale of any investment product or class of investment products, or to provide discretionary investment management services. These materials are not, and under no circumstances are to be construed as, an advertisement or a public offering of any securities or a solicitation of any offer to buy securities. It has been written for informational and educational purposes only and should not be considered as investment advice, a forecast or guarantee of future results, or as a recommendation of any security, strategy or investment product. Reference in this document to individual companies is included solely for the purpose of illustration and should not be construed as a recommendation to buy or sell the same. Information is derived from proprietary and non-proprietary sources which have not been independently verified for accuracy or completeness. While M&G Investments believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and management's view as of the time of these statements.

Accordingly, such statements are inherently speculative as they are based on assumptions which may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements. All forms of investments carry risks. Such investments may not be suitable for everyone. **United States:** M&G Investment Management Limited is registered as an investment adviser with the Securities and Exchange Commission of the United States of America under US laws, which differ from UK and FCA laws. **Canada:** upon receipt of these materials, each Canadian recipient will be deemed to have represented to M&G Investment Management Limited, that the investor is a 'permitted client' as such term is defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. **Australia:** M&G Investment Management Limited (MAGIM) and M&G Alternatives Investment Management Limited (MAGAIM) have received notification from the Australian Securities & Investments Commission that they can rely on the ASIC Class Order [CO 03/1099] exemption and are therefore permitted to market their investment strategies (including the offering and provision of discretionary investment management services) to wholesale clients in Australia without the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth). MAGIM and MAGAIM are authorised and regulated by the Financial Conduct Authority under laws of the United Kingdom, which differ from Australian laws.

**Singapore:** For Institutional Investors and Accredited Investors only. In Singapore, this financial promotion is issued by M&G Real Estate Asia Pte. Ltd. (Co. Reg. No. 200610218G) and/or M&G Investments (Singapore) Pte. Ltd. (Co. Reg. No. 201131425R), both regulated by the Monetary Authority of Singapore. **Hong Kong:** For Professional Investors only. In Hong Kong, this financial promotion is issued by M&G Investments (Hong Kong) Limited. Office: Unit 1002, LHT Tower, 31 Queen's Road Central, Hong Kong. **South Korea:** For Qualified Professional Investors. **China:** on a cross-border basis only. **Japan:** **M&G Investments Japan Co., Ltd., Investment Management Business Operator, Investment Advisory and Agency Business Operator, Type II Financial Instruments Business Operator, Director-General of the Kanto Local Finance Bureau (Kinsho) No. 2942, Membership to Associations: Japan Investment Advisers Association, Type II Financial Instruments Firms Association.**

This document is provided to you for the purpose of providing information with respect to investment management by Company's offshore group affiliates and neither provided for the purpose of solicitation of any securities nor intended for such solicitation of any securities. Pursuant to such the registrations above, the Company may: (1) provide agency and intermediary services for clients to enter into a discretionary investment management agreement or investment advisory agreement with any of the Offshore Group Affiliates; (2) directly enter into a discretionary investment management agreement with clients; or (3) solicit clients for investment into offshore collective investment scheme(s) managed by the Offshore Group Affiliate. Please refer to materials separately provided to you for specific risks and any fees relating to the discretionary investment management agreement and the investment into the offshore collective investment scheme(s). The Company will not charge any fees to clients with respect to '(1) and '(3) above. M&G Investments is a direct subsidiary of M&G plc, a company incorporated in the United Kingdom. M&G plc and its affiliated companies are not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America or Prudential Plc, an international group incorporated in the United Kingdom. This financial promotion is issued by M&G International Investments S.A. in the EU and M&G Investment Management Limited elsewhere (unless otherwise stated). The registered office of M&G International Investments S.A. is 16, boulevard Royal, L-2449, Luxembourg. M&G Investment Management Limited is registered in England and Wales under number 936683, registered office 10 Fenchurch Avenue, London EC3M 5AG. M&G Investment Management Limited is authorised and regulated by the Financial Conduct Authority. M&G Real Estate Limited is registered in England and Wales under number 3852763 and is not authorised or regulated by the Financial Conduct Authority. M&G Real Estate Limited forms part of the M&G Group of companies.