

# Rights and returns

What to consider when selling your music catalog





The sale of music catalogs and recorded music has become fast and furious. So furious that Music Business Worldwide estimates over \$5 billion was spent on music acquisitions in 2021 alone.<sup>1</sup>

Some familiar artist sales:

- **Bruce Springsteen**—catalog sale for \$500+ million
- **Tina Turner**—sold partial rights estimated to be in the \$50 million range
- **Fleetwood Mac's Christine McVie**—sold her 115-song catalog for an undisclosed amount
- **The Weeknd, Drake, Justin Bieber**—sold several hit songs, price undisclosed

The trend continues in 2022. **David Bowie's estate** sold his music publishing rights to Warner Chappell Music for around \$250 million. **John Legend** sold BMG and KKR his songwriting catalog for an undisclosed fee.

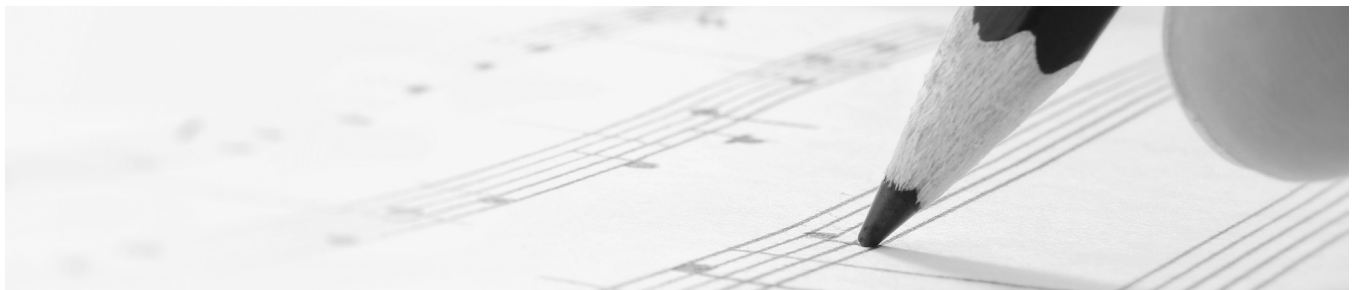
By selling all or some of their song rights, artists get an infusion of cash up front. The buyer receives the income stream from the royalties and the ability to use the songs in the marketplace to make their money back and turn a profit. Large company buyers like Sony, whose business stretches across movies, TV, music and video games, can use the purchased songs across their business platforms.

For example, when Sony buys Bruce Springsteen's catalog, they can use his music more easily in the movies and TV programs made by Sony Studios. Other artists on Sony labels can sample or cover his songs.

Buyers include music industry players (Sony, Warner Chappell Music), private equity groups (KKR) and relative newcomers like Concord Music, Primary Wave and, most notably, UK investment company Hipgnosis, which has spent over \$2.2 billion on music acquisitions since the company went public in July of 2018.<sup>2</sup>

The current music marketplace appears perfect for these deals. Music streaming platforms, like Spotify and Apple Music, make revenues easy to collect and value. Streaming and subscription service revenue is considered safe cash flow by institutional and private equity investors.

Baby boomer artists are aging and tired of touring and live performances. They're thinking about their legacy and planning for retirement. In addition, during the COVID-19 pandemic, live performance was essentially shut down, which is a major source of revenue for many musicians. These factors may make selling look attractive.



# When's the right time to sell?

## Financial Planning

Think about your overall financial life when considering a sale. Consider the following questions:

- Beyond getting a great deal in a hot market, what are **your financial objectives**?
- **Does it make sense** for you to receive a lump sum of money now or hold on to the music asset for the long term?
- Do you have **ongoing expenses** or a major purchase that can't be covered by current cash flow?
- Beyond your current cash flow, will **a lump sum payment** be enough to cover expenses for the rest of your life and beyond?

If you have ongoing expenses not covered by cash flow or are looking to make a major purchase, taking a lump sum now may make sense. Many artists have lost significant touring and live performance revenue because of the COVID pandemic. Selling income-producing assets like royalties to cover ongoing expenses may help relieve a burden on your budget or allow you to make large purchases.

A financial plan can help you answer some of the questions above.





## Breaking it down

Let's look at a specific, although simplified, example. Assume we have an artist living in a state with no income tax, filing federal taxes as a single filer. She has:

- an annual royalty stream of \$600,000 on her music catalog, and
- an offer to buy her catalog for \$9,000,000.

Her music royalties are subject to ordinary income tax at the maximum federal income tax bracket of 37%.

The sale of her music catalog is treated as a long-term capital gain and is subject to the more favorable capital gains tax rate, which maxes out at the federal level at 20%.

She is considering these two options:

1. Retain the royalty stream, continue to pay ordinary income tax or
2. Sell now, pay the capital gain tax.

If we assume she invests all of her after-tax proceeds in either situation in a moderately aggressive investment portfolio estimated to return 6.06% annually, her after-tax growth in 20 years is projected:

1. Don't sell and retain royalty and invest after-tax income

Estimated growth at end of 2041 = **\$14,627,888**

2. Sell and invest after-tax proceeds

Estimated growth at end of 2041 = **\$16,862,794**

In our example, she would have \$2,234,906 more at the end of 20 years if she sells now. In the real world there are many other factors to consider when thinking about a sale such as:

- Her other sources of income
- The effect of state income taxes on either scenario
- Ordinary and extraordinary expenses
- Age and longevity of the artist



## Managing risk

**It's important to think about asset diversification.**

If most of your income is from music and the music industry, a sale may allow you to invest in other areas of the market and spread out investment risk across different industries and asset classes. Rather than relying on the music industry and the specific appeal of your music to sustain yourself financially, diversification into other asset classes like the stock market, bond market, real estate and other asset classes may help you spread out your investment risk over a broad set of industries.

If we look back at our example above and assume the same royalty stream lost value at around 2% a year for 20 years (possibly due to a loss of interest in our artist's particular music catalog or a decrease in profits from the music industry in general), the growth in the assets at the end of 2041 is projected at \$12,523,591, more than 25% less than if the asset was sold and invested in a diversified investment portfolio in 2022.



## Loss of Control

Selling comes with potential non-financial costs. Recently, **Neil Young** made headlines for pulling his music from Spotify in protest against Spotify's support of a controversial podcast. But, notably, Young did not actually have the legal right to leave the platform. He signed away those rights to Warner Music Group, and had to ask Warner to pull the music as a personal favor to him.

**David Crosby** reportedly wants to follow Young's example and remove his music from Spotify, but is having a more difficult time convincing Iconic Artists Group, the company he sold his music to in March of 2021, to take a stand that may hit their bottom line.

If where your music ends up and how it is used is important to you, consider the loss of control that goes along with selling the rights to your music.



## The value of having a team

If you do pursue a sale, **get a great team** around you to support you through the process. This should include a lawyer, CPA, a valuation expert and a financial advisor. Seek advisors with experience in music transactions. Most often, you will be selling to folks with much more experience in this area than you. Ensuring you are properly represented by experts who can advocate for you is important so you understand the details around the transaction and get the best deal for you.

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### About the author

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Melissa is a Wealth Planning Strategist at UBS, providing Financial Advisors and their high net worth clients with advanced planning strategies, design and implementation. As an advanced financial planner, she offers expertise in areas such as retirement income and cash flow analysis, estate and multigenerational planning, and business continuity and succession planning. Melissa's background is in estate planning law, and she is a Certified Exit Planning Advisor (CEPA) and a Certified Trust and Financial Advisor (CTFA).

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<sup>1</sup> [musicbusinessworldwide.com/at-least-5-billion-was-spent-on-music-catalog-acquisitions-in-2021-could-2022-be-even-bigger/](https://musicbusinessworldwide.com/at-least-5-billion-was-spent-on-music-catalog-acquisitions-in-2021-could-2022-be-even-bigger/)

<sup>2</sup> Hipgnosis Interim company report, September 2021.

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