
MUSIC CAPITAL MARKET®

WHITEPAPER

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Glossary:

- 1. Introduction:** Explaining the concept of a 'Music Capital Market' and why its emergence is important for the music industry.
- 2. The Current State of the Music Industry:** Providing an overview of the current state of the music industry, including key players, revenue streams, and discussing the limitations of the current financing options available to artists and labels.
- 3. The Intersection of Fintech and Music – The Emergence of a Music Capital Market:** Describing the different innovations brought by fintech within the music industry and describing the vision for a 'Music Capital Marketplace'/Market Structure, including the key players, processes involved, how the market would function, and what benefits it would offer to artists, labels, and investors.
- 4. Key Components of a Music Capital Market:** Breaking down the different components of a 'Music Capital Market', including music rights, investment vehicles, and platforms for trading and liquidity.
- 5. Potential Challenges and Risks:** Acknowledging the potential challenges and risks associated with the emergence of a 'Music Capital Market', including regulatory hurdles, pricing mechanisms, and the potential for speculative bubbles.

6. **Future Outlook and Conclusion:** A Summary of the potential impact of a 'Music Capital Market' on the music industry and providing a future outlook for the market structures at large.

Introduction

In recent years, the music industry has seen a dramatic shift in the way music is created, distributed, and consumed. As technology continues to advance, the music industry is seeing significant changes. While streaming platforms have made it easier than ever for artists to get their music in front of a global audience, the financing options available to them remain limited. Traditional financing mechanisms such as label advances and bank loans have high barriers to entry and are often insufficient to fund the creation and distribution of music at scale.

Enter the 'Music Capital Market' – a financial markets system subset of the music industry that could provide a new way for artists, labels, and investors to finance and profit from music creation and distribution. In this whitepaper, we will explore the emergence of a 'Music Capital Market' and its potential impact on the music industry.

In the following sections, we will examine the current state of the music industry, the innovations of fintech being used within the music industry, the vision for a music capital market, its key components, potential challenges and risks, and future outlook. By the end of this whitepaper, we hope to provide a proof of concept for a music capital market that could drive innovation and growth in the music industry.

The Current State of the Music Industry

Overview:

The music industry is constantly evolving, and the past few years have been marked by significant changes. Technological advancements, streaming services, and social media have all had a significant impact on the industry, shaping how artists and labels create, distribute, and monetize music.

Key players:

The music industry has a range of key players, including record labels, music publishers, streaming services, and artists. Major labels like Universal Music Group, Sony Music, and Warner Music Group dominate the industry, accounting for over 60% of the global music market share. Streaming services like Spotify, Apple Music, and Amazon Music have also become major players, with over 443 million paid subscribers globally as of 2021. Independent artists and labels have also gained significant traction, leveraging social media platforms to build fanbases and distribute music.

Revenue streams:

The music industry generates revenue through a variety of sources, including streaming, downloads, physical sales, licensing, merchandise, and live performances. Streaming is the most significant revenue stream, accounting for 56.1% of total global recorded music revenue in 2020. The decline of physical sales has been offset by the growth of streaming, which has experienced double-digit growth over the past few years.

Limitations of current financing options:

Despite the growth of the music industry, financing options for artists and labels remain limited. Major labels still dominate the industry and often dictate the terms of deals, taking a significant cut of revenue. Streaming royalties are also notoriously low, with artists receiving only a fraction of a penny per stream. Independent artists and labels often struggle to secure financing and face challenges in accessing traditional funding sources like banks. These limitations have led many artists to turn to alternative financing options like crowdfunding and fan support.

In conclusion, the music industry is a complex and constantly evolving landscape, shaped by technological advancements, streaming services, and social media. Major labels and streaming services dominate the industry, while independent artists and

labels face challenges in securing financing. Understanding the current state of the music industry and its limitations is essential for artists and labels looking to succeed in the industry.

The Intersection of Fintech and Music – The Emergence of a Music Capital Market:

As technology continues to advance, the music industry has seen significant changes in recent years. From streaming services to social media, digital innovations have revolutionized how music is created, distributed, and consumed. But there is another area that holds great potential for the music industry: Fintech. In this section, we explore the intersection of Fintech and music and present a vision for the future.

1. **Blockchain and Royalty Payments:** Blockchain technology can enable transparent, real-time royalty payments to artists and other stakeholders in the music industry, ensuring that they are fairly compensated for their work.
2. **Smart Contracts:** Smart contracts can automate payment distribution, allowing artists to receive payment as soon as a song is streamed or downloaded, without having to wait for the end of the payment cycle.
3. **Micro-Investing in Music:** Fintech can enable micro-investing in music, allowing fans to invest small amounts in their favourite artists and receive a share of the artist's revenue.
4. **Crowdfunding:** Crowdfunding platforms can help artists raise capital for their projects, giving them greater control over their music and allowing them to build a closer relationship with their fans.
5. **Alternative Financing:** Fintech can provide alternative financing options to music companies, helping them to finance projects and grow their business without relying on traditional loans.
6. **Digital Identity Verification:** Digital identity verification can ensure that the right artists receive payment for their work and prevent fraud in the music industry.

7. **Peer-to-Peer Lending:** Peer-to-peer lending can provide a new source of financing for music industry professionals, allowing them to borrow money from individuals rather than traditional lenders.
8. **Financial Education for Artists:** Fintech can provide financial education to artists, helping them to manage their finances and make informed decisions about their careers.
9. **Mobile Payments:** Mobile payments can provide a convenient and secure way for artists to receive payment for their work, regardless of where they are in the world.
10. **Real-Time Data Analytics:** Fintech can provide real-time data analytics to music industry professionals, helping them to make informed decisions about their business and stay ahead of the competition.
11. **Investment in Music Technology:** Fintech investors can support the development of music technology, creating new opportunities for artists and industry professionals.
12. **Collaboration and Partnership:** Collaboration and partnership between the music industry and Fintech companies can lead to innovative solutions and a better future for both industries.

Enter - The Emergence of a 'Music Capital Market' and a Vision or the future:

What is a Music Capital Market?

A music capital market refers to the market for investing in the music industry, or more definitively, ***'A financial markets structure where music discographies undergo securitization and in-turn become/are duplicated as financial instruments, which can be 'Bought and 'Sold' |'Hedged' and 'Arbitraged' on a securities exchange -which itself will be the product of standardized financial accounting standards which have perfected the synergy between the traditional capital markets financial standards and the music industry's financial standards- all in pursuit of liquidity and capital gains'***~ Thoriso R. Foromo. It enables artists, labels, and other stakeholders to raise capital by selling equity, debt, or other

financial instruments to investors. The market operates similarly to traditional capital markets, such as stock exchanges or bond markets, but with a focus on music assets, such as music catalogues, publishing rights, and master recordings.

Key Players and Processes Involved:

The key players in a music capital market include:

1. **Artists and Labels (Sophisticated Investors):** These are the creators and owners of music assets that seek financing from investors.
2. **High-Net worth individuals/organizations and Investment Management firms (Private Investors):** These are individuals, institutions, or funds that invest capital in music assets in exchange for a share of the future revenue generated by these assets, i.e., Hipgnosis Songs Fund, KKR & Co. Inc, and Kobalt Music Group, etc.
3. **Major Labels and Investment Banks (Institutional Investors):** These are intermediaries that facilitate the issuance and sale of music-related financial instruments to investors and may likewise act as market makers to anchor and stabilize liquidity for the instruments.
4. **Fans and the general public (Retail Investors):** These are individuals who act as the primary consumers of music and all related offerings, e.g., merchandizing, live performances, music streaming and downloads, and online engagement campaigns (TikTok, Instagram, etc), etc. And these are the same individuals who will buy and sell the music-related financial instruments in pursuit of capital gains.
5. **Exchanges (Primary and/or Secondary Marketplace):** These are platforms that enable the buying and selling of music-related financial instruments.

The processes involved in a music capital market include:

Asset Evaluation: The value of a music asset is determined by analysing factors such as its revenue potential, market demand, and intellectual property rights.

Fundraising: Artists and labels issue financial instruments, such as shares, bonds, or royalty streams, to investors in exchange for capital.

Investment Management: Investors manage their portfolios of music-related financial instruments, monitor the performance of their investments, and adjust their strategies accordingly.

Trading: Exchanges enable investors to buy and sell music-related financial instruments, providing liquidity to the market.

Benefits to Artists, Labels, and Investors:

The emergence of a music capital market offers several benefits to the music industry stakeholders, including:

1. **Access to Capital:** Artists and labels can access capital more easily and at lower costs than traditional financing methods, such as bank loans or venture capital.
2. **Revenue Sharing:** Investors can participate in the revenue generated by music assets, such as streaming royalties or music sales, creating a more equitable distribution of income in the industry.
3. **Liquidity:** Investors can trade their music-related financial instruments on exchanges, providing liquidity to the market and enabling them to adjust their portfolios more easily.
4. **Transparency:** The music capital market creates a more transparent and efficient financial ecosystem, reducing information asymmetry and enabling fairer pricing of music assets.
5. **Financial Inclusivity:** Fans will finally be able to actively participate in the revenue creation and distribution chain that comes with the emergence of a financial markets system subset within the music industry.

The emergence of a music capital market has the potential to revolutionize the music industry, creating a more efficient and transparent financial ecosystem for artists, labels, and investors. By enabling the buying and selling of music-related financial instruments, the market can provide access to capital, revenue sharing, liquidity, and transparency, driving growth and innovation in the industry.

Key Components of a Music Capital Market

The music industry has been undergoing significant transformation over the past few years, driven largely by advancements in technology and changes in consumer behaviour. One area that has seen particularly notable growth is the use of fintech within the music industry. Here we will explore the key components of a music capital market, including music rights, investment vehicles, platforms for trading and liquidity and reveal the early pioneers and adopters of music – related financial instruments and the timeline of developments since then.

Music Rights

The foundation of any music capital market is music rights. Music rights refer to the various forms of ownership associated with music, such as copyrights, performance rights, and mechanical rights. These rights enable the creators of music to earn revenue from their work, and they are essential for any investment in the music industry.

Investment Vehicles

There are several investment vehicles already available within the music industry that most industry participants are familiar with. One common investment vehicle is **music royalties**, which enable investors to receive a share of the revenue generated by a particular piece of music. Other investment vehicles include **music catalogues**, which consist of multiple music rights, and **music-related businesses such as record labels and music streaming services**, as well as **merchandizing** and other

closely link brand deals that artists may either have themselves or with already established clothing apparels.

Platforms for Trading and Liquidity

To facilitate investment in music, there will be a growing number of platforms for trading and liquidity in the music capital market. These platforms will enable investors to buy and sell music rights and investment vehicles, providing liquidity to the market. Currently we already have a number of platforms leading the race trying to perfect these investment vehicles and business models, namely we have small players like – **Digimarc (Blockchain), Vezt Inc (Digital Marketplace App), Mediachain (Blockchain) [Acquired by Spotify in 2017], OPUS (Blockchain), eMusic (Blockchain), trac (NFT music distribution), Royalty Exchange (Digital Marketplace)**, etc., just to name a few.

Early pioneers and adopters of music – related financial instruments.

In the late 1990s, a new type of investment instrument emerged in the music industry known as "royalty-backed securities," more popularly known as Bowie Bonds. This innovation allowed musicians to raise capital by selling a portion of their future royalties as a bond to investors. The origin of this concept can be traced back to the early 1990s when a banker named David Pullman was working as a managing director at Fahnestock & Co., an investment banking firm based in New York City.

David Pullman is widely credited with inventing royalty-backed securities, which he later dubbed "Bowie Bonds," after the British musician David Bowie. The first-ever Bowie Bonds were issued in 1997, which allowed Bowie to securitize his back catalogue of 25 albums, earning \$55 million. The bonds were issued by Prudential Insurance and quickly sold out to investors, demonstrating the potential of royalty-backed securities in the music industry.

Pullman's idea was to allow musicians to receive upfront payments for their future royalties, enabling them to finance their careers without selling the rights to their music. This allowed artists to keep control of their work and receive a lump sum of cash that could be used to fund future projects. Bowie Bonds proved to be an attractive investment for institutional investors, such as insurance companies, who were searching for ways to diversify their portfolios.

The success of Bowie Bonds inspired other musicians to explore royalty-backed securities as a means of raising capital. Royalty-backed securities were also used to finance other assets in the entertainment industry, such as movie and television royalties. Although Bowie Bonds have faced some challenges over the years, including declining music sales and changes in the music industry, they remain a valuable investment option for musicians and investors alike.

Timeline of the development of Music-related financial instruments

Here is a 20+ year timeline of the development and challenges faced by royalty-backed securities:

1. **In 1997**, David Bowie issues the first-ever royalty-backed securities, dubbed "Bowie Bonds," which raises \$55 million.
2. Other musicians follow suit, including James Brown, The Isley Brothers, and Ashford & Simpson.
3. **By 2000**, the market for royalty-backed securities reaches \$3 billion.
4. **In 2002**, EMI sells \$170 million worth of bonds backed by future music royalties.

5. **In 2003**, the Recording Industry Association of America (RIAA) expresses concern over the use of royalty-backed securities.
6. **In 2005**, the market for royalty-backed securities starts to decline due to a decline in music sales and changing music consumption habits.
7. **In 2006**, the first-ever securitization of music publishing rights takes place.
8. **In 2007**, the market for royalty-backed securities reaches an all-time low.
9. **In 2008**, the financial crisis hits, making it harder for musicians to raise capital through royalty-backed securities.
10. **In 2009**, the market for royalty-backed securities starts to show signs of recovery.
11. **In 2011**, the market for royalty-backed securities is valued at \$2 billion.
12. **In 2012**, David Bowie sells the rights to his future royalties for \$55 million.
13. **In 2013**, the music industry experiences a slight uptick in sales, leading to renewed interest in royalty-backed securities.
14. **In 2014**, Royalty Exchange launches as an online marketplace for buying and selling music royalties.
15. **In 2015**, Hipgnosis Songs Fund is launched, becoming the first-ever publicly traded fund focused on music royalties.
16. **In 2016**, Sony/ATV acquires the rights to the Beatles' catalogue for \$750 million.
17. **In 2017**, Royalty Flow announces plans to issue securities backed by future royalties from music catalogues.
18. **In 2018**, the market for royalty-backed securities reaches \$5 billion.

19. **In 2019**, a court case involving a dispute over the rights to the song "Stairway to Heaven" highlights the importance of accurate valuation in royalty-backed securities.
20. **In 2020**, the COVID-19 pandemic hits the music industry hard, leading to a decline in music sales and a slowdown in the market for royalty-backed securities.

Acknowledging the Potential Challenges and Risks associated with the emergence and indoctrination of a Music Capital Market Structure

The music industry is on the cusp of a new era with the emergence and indoctrination of a music capital market. The music capital market is a relatively new concept that will allow investors to participate in the ownership and trading of music rights. However, with this new innovation come potential challenges and risks that need to be acknowledged and addressed. Here we will explore some of the potential hurdles and risks associated with the emergence and indoctrination of a music capital market structure within the music industry.

Regulatory Hurdles:

One of the biggest challenges facing the music capital market is regulatory hurdles. The music industry is a highly regulated sector, and there is a need to ensure that any new financial instrument meets the regulatory requirements. The emergence of a music capital market raises questions about how it will be regulated and who will be responsible for enforcing these regulations. There is also a need to ensure that investors are adequately protected from potential risks and that the market operates in a fair and transparent manner.

Market Volatility & Pricing Mechanisms:

The music industry is known for its volatility, with sales and popularity constantly fluctuating, therefore a notable potential challenge is the development of appropriate pricing mechanisms. Unlike traditional financial instruments, the value of music rights is subjective and can be difficult to quantify. Determining a fair market value for music rights requires the development of robust pricing mechanisms that take into account various factors, such as the popularity of the artist, the historical performance of the music rights, and current market demand. The absence of proper pricing mechanisms can lead to mispricings and speculative bubbles, which could result in significant losses for investors.

Lack of Transparency:

Another challenge associated with the music capital market structure is the lack of transparency in the industry. Valuing an artist's royalties can be a complex process, and investors may not have access to all the information they need to make informed decisions. This can lead to discrepancies in valuation, which may affect the price of the securities.

Potential for Speculative Bubbles:

The potential for speculative bubbles is another significant risk associated with the emergence of a music capital market. Music rights are a relatively new asset class, and there is a risk that investors may become over-enthusiastic and inflate prices beyond their intrinsic value. This can create a speculative bubble that can burst, leading to significant losses for investors. There is a need for proper risk management strategies to mitigate the potential for speculative bubbles and ensure that investors are adequately protected.

The emergence and indoctrination of a music capital market structure within the music industry is an exciting new development that presents numerous opportunities. However, as with any new innovation, there are potential challenges

and risks that need to be acknowledged and addressed. Regulatory hurdles, market volatility and pricing mechanisms, lack of transparency and the potential for speculative bubbles are just some of the challenges facing the music capital market, additionally, industry participants would have to work together to develop appropriate regulations, pricing mechanisms, and risk management strategies to ensure that the music capital market operates in a fair and transparent manner, and that investors are adequately protected, in order to ensure the long-term sustainability of the music capital market structure within the music industry.

Future Outlook and Conclusion

In conclusion, the potential impact of a Music Capital Market on the music industry is significant. While the market may face several challenges, such as regulatory and valuation hurdles, it could also bring about increased investment, transparency, and revenue streams for artists and labels. As the music industry continues to evolve, exploring the creation of a Music Capital Market could be a valuable opportunity to transform the industry and create new avenues for growth and success. While it remains to be seen whether such a market will be established, it is an idea worth considering for the future of the music industry and its stakeholders.