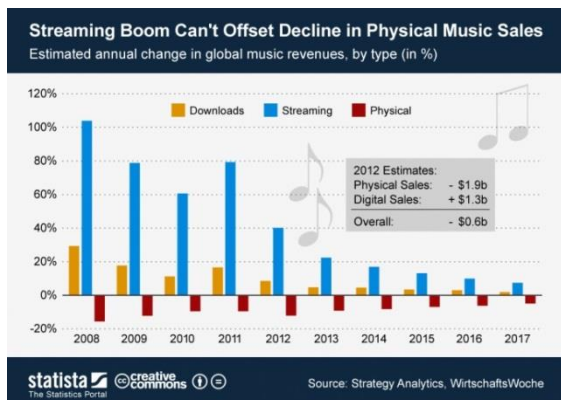


2016 Top Markets Report **Media and Entertainment** Sector Snapshot

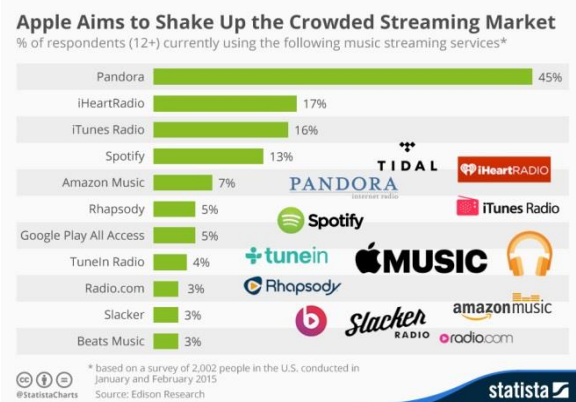
Music

Based on the 2015 study, the U.S. music market declined slightly from \$15.06 billion to \$15.01 billion from 2015 to 2016, but is projected to grow to \$15.84 by 2019. Digital music downloads are declining, yet digital streaming is growing by 11 percent a year and is expected to reach \$1.85 billion in 2018. Streaming will surpass downloads for the first time in 2018, accounting for 55.1 percent of digitally recorded music revenues by 2019. Live music has really taken off and was at \$9.3 billion in 2015, helping offset losses in other areas of the music industry; primarily ticket sales worth \$7.2 billion while the remainder was music sponsorship revenues. Physical music is hanging on life support. With sales of physical formats declining from \$2 billion to \$1.4 billion.



It is not great news for the music industry. First, recorded and live music growth is converging with the decline in recorded revenues worldwide and live music rising to almost offset the losses at a 0.8 percent CAGR over the forecast period. U.S. consumers spent more on digital formats in 2015 than on physical for the first time in 2015 – other countries are at the tipping point. Global digital

music streaming revenue is slotted to grow from



\$3.4 billion in 2015 to \$5.4 billion by 2019.

It seems the industry is putting pressure on music subscriptions services to limit free access to music in an attempt to raise the value of music so that it can be monetized and artists and copyright owners can make a living from music. Subscription services argue that free tiers are key to bringing in new listeners. In several Northern European markets, streaming accounts for the majority of spending on recorded music.

Technology will play a major role in the growth of live music revenues. Although live music revenue is set to rise in the next five years, income from ticket sales is forecast to grow faster than sponsorship revenue. Live music ticket sales revenue will generate US\$23.69 billion in 2019, compared with US\$20.51 billion in 2014, equivalent to a CAGR of 2.9 percent, aided by technological innovations. Smart wristbands made a major breakthrough in 2014 as they were rolled out at a number of live music events, particularly festivals. Fans have quickly taken to these new wearables that offer easy access to

events as well as cashless on-site payments.

“The International Federation of Phonographic Industries (IFPI) estimates, based on comScore/Nielsen data, that 26 percent of internet users worldwide regularly access unlicensed services. This estimate applies only to desktop-based devices: it does not include the emerging and as yet unquantified threat of smartphone and tablet-based mobile piracy as consumers migrate to those devices. Digital piracy is the biggest single threat to the development of the licensed music sector and to investment in artists. Piracy undermines the licensed music business across many forms and channels: unlicensed streaming websites, peer-to-peer (P2P) file-sharing networks, cyberlockers and aggregators, unlicensed streaming and stream ripping and mobile applications.”⁵⁷

Top Music Licensing Markets		Export & 2015 - 2019
Strong	1	Germany
Strong	2	United Kingdom
Moderate	3	Canada
Moderate	4	Germany
Less Certain	5	Brazil
Less Certain	6	Mexico
Less Certain	7	India

Data Sourced from PwC Global Media & Entertainment Outlook 2015-2019

Global Export Market Opportunities

This report highlights opportunities in the Top Markets. It is challenging to predict growth markets, as the music industry is sensitive to technology and broadband capable markets, consumer spending capacity and a host of regulatory matters, including taxation, IPR laws (and enforcement of said laws) as well as the availability of devices in a given market.

It is generally accepted that the largest music trade show in the world is MIDEM, which is held annually in June in Cannes, France.

MIDEM is a major international B2B show with music, tech and brands converging to enter into licensing agreements and do business. One of the

largest music industry events in the United States, South by Southwest (SXSW), is a set of film, interactive and music festivals and conferences that started out as a music only activity but now encompasses film, tech and music, drawing a global audience. The event is based in Austin, Texas and is held over a week and a half annually in April.

Throughout the year, there are a myriad of festivals and trade shows in the United States and globally, many of which focus on a particular market, region or genre of music. Many of the trade associations for this industry hold semiannual conferences. These events are critical for the fragmented music industry to network with colleagues and meet music managers, buyers, licensors and distributors as well as aggregators in the tech, auto, airline and other businesses that facilitate, consume and license music.

The music business depends on copyright protections and certainty in legal markets. It is critical to understand that the industry is governed by two copyrights: a musical composition copyright and a sound recording copyright. This means that the notes and lyrics have one, *i.e.* the musical composition, and the recorded version has one, *i.e.*, the sound recording. This is important as determining who the copyright holders are determines who gets royalties and earns income from performances of musical recordings. This in turn complicates the income generation for musicians, labels and music publishers. There is also an ongoing debate between the recording industry, ISPs, technology giants and online digital firms over the Digital Millennium Copyright Act beyond the scope of this report that is widely discussed across media platforms, regarding how the industry monetizes.

Three major record companies and music publishers dominate the industry while independents are growing, as witnessed with the American Association of Independent Music and its global network in indie music associations worldwide. Live music and tours are handled by a small number of publicly owned companies and is on its way to become a corporate business. Their presence in new markets opens up new opportunities for major artists to perform in more countries. The organization of the live music sector at a national level can differ from country to country as some have live promoters' associations

that lobby for their members, while others have no collective trade body.

Generally speaking, the biggest music markets are linked by a number of factors. Three major record companies and music publishers dominate their respective sectors, while live tours and events are handled by a small number of publicly owned companies. Such dominance in market share means any growth in national markets or at a regional level for recorded music and live will be largely determined by the actions of the dominant companies. For recorded music, the three majors are actively involved in sectors beyond music production and distribution with stakes in a number of the music subscription services leading the access service charge. Live music is rapidly becoming a corporate business, and as the major live players continue to expand their reach through partnerships and company acquisitions, their presence in new markets opens up new opportunities for major artists to perform in more countries.

Given this market dominance of the majors and the live music corporate entities, it is challenging for

smaller companies and artists to compete and to develop regional markets because the majors have such a strong presence. In addition, as these corporations are engaged in vertical sectors and subsidiary industries beyond music production and distribution, with stakes in music subscription services, there is a limited share for artists and independents.

Consumer attitudes also impact the industry, and as long as consumers believe they can access music for free, they are less likely to purchase it, whether it's a digital streaming service with tailored offerings or vinyl and cd's.

This report does not offer extensive analysis of music publishing and licensing, but it is critical to underscore the importance of understanding rights management as copyright laws and regulatory environments differ worldwide for the music industry, as does the ability of performance rights organizations (also known as collecting societies) to identify, collect and distribute royalties to their constituents.