



MERLIN

GLOBAL • INDEPENDENT • DIGITAL



Merlin member survey 2015

In May-June 2015, Merlin surveyed our **650+ global membership** in detail about: (a) changes to their digital business from **year-end 2013 to year-end 2014**; and (b) **current developments** in the digital market.

During this period of **significant change** for the wider recorded music sector (eg in the US, licensed on-demand streaming increased 52%) Merlin agreed a number of **landmark partnerships**.

Collectively, Merlin's independent labels and distributor members represent **the most commercially significant basket of rights** outside of those held by the major labels, **commanding in excess of 10% of the global digital music market**.

This is the **third time** Merlin has surveyed its global membership. Responses were received on an **anonymised basis** from members across **26 countries**.



Key findings

Comparing responses from last year's Merlin member survey (published June 2014) we can see **FOUR** key developments in 2015:

1. Independent labels crossed a digital tipping point.

- For the first time, more than half of respondents reported that digital income currently represents over 50% of their overall business revenues.
- For one in three, this income represents over 75% of their overall business revenues.

2. Streaming & subscription income is driving digital growth.

- One in three respondents reported that income from audio streaming & subscription services currently represents over 50% of their digital revenue. Up from 1 in 5 in 2014.
- Similarly, last year, almost half of respondents stated that streaming & subscriptions accounted for less than 25% of their digital revenue.
- In 2015, this was only the case for a quarter of respondents.

Key findings



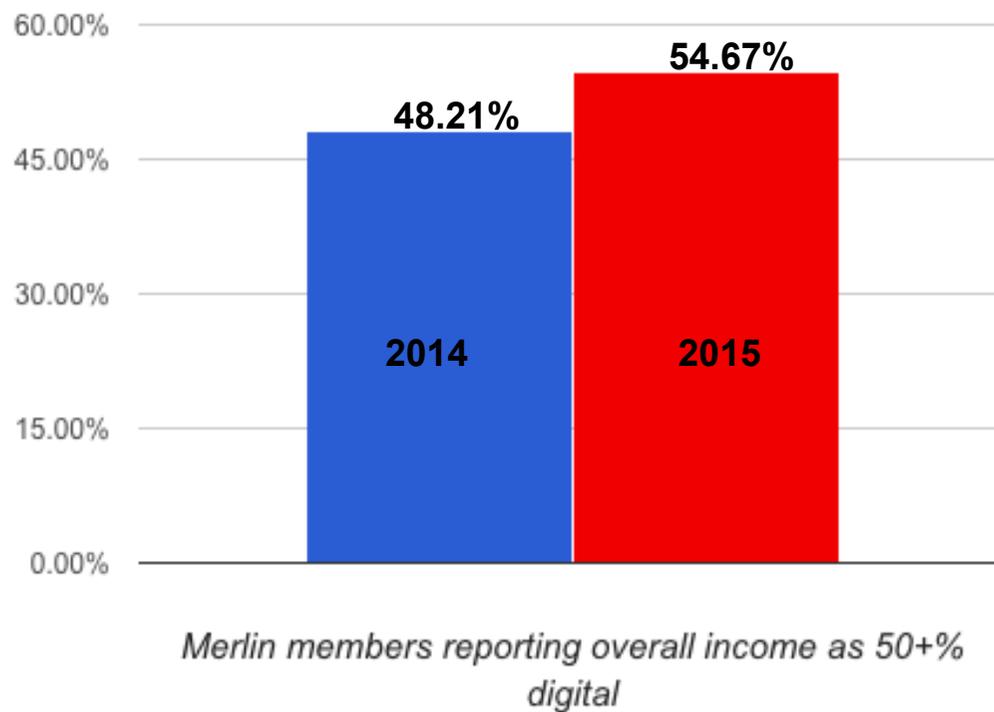
3. Total digital revenues increased for almost 75% of respondents.

- 17% reported total digital revenues increased by over 50%.

4. The majority of Merlin members report overall business growth.

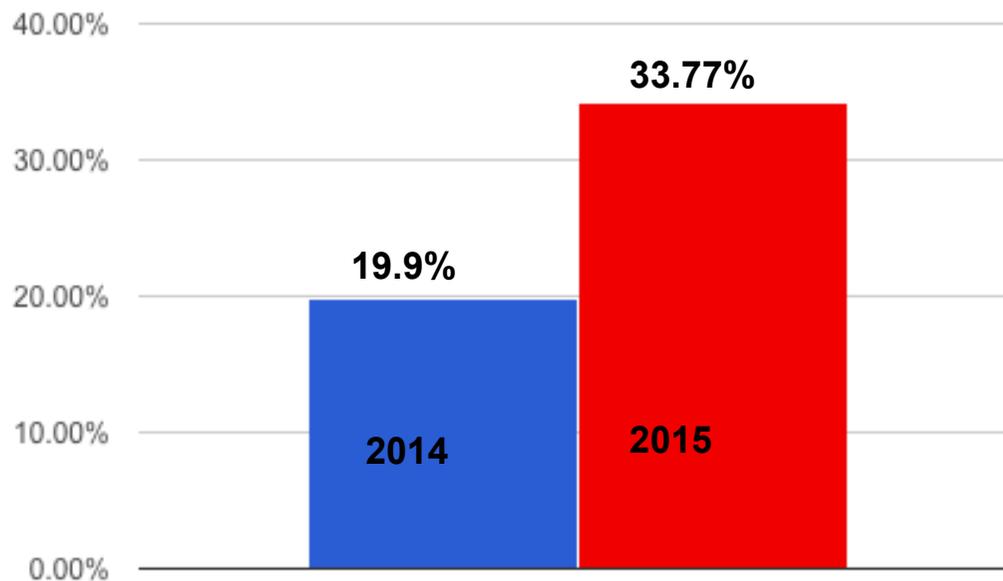
- Despite a market in transition and a drop in a la carte download sales, 65% of respondents reported an increase in overall business revenues in 2014 (compared to 62% in 2013).
- 16% of respondents reported a decrease in overall 2014 business revenues (compared to 18% in 2013).

I. Independent labels cross a digital tipping point



- For the first time, a majority of Merlin members report that income from digital music services represents their largest source of overall business revenue.
- One in three respondents report digital income now accounts for more than 75% of their overall business revenue.

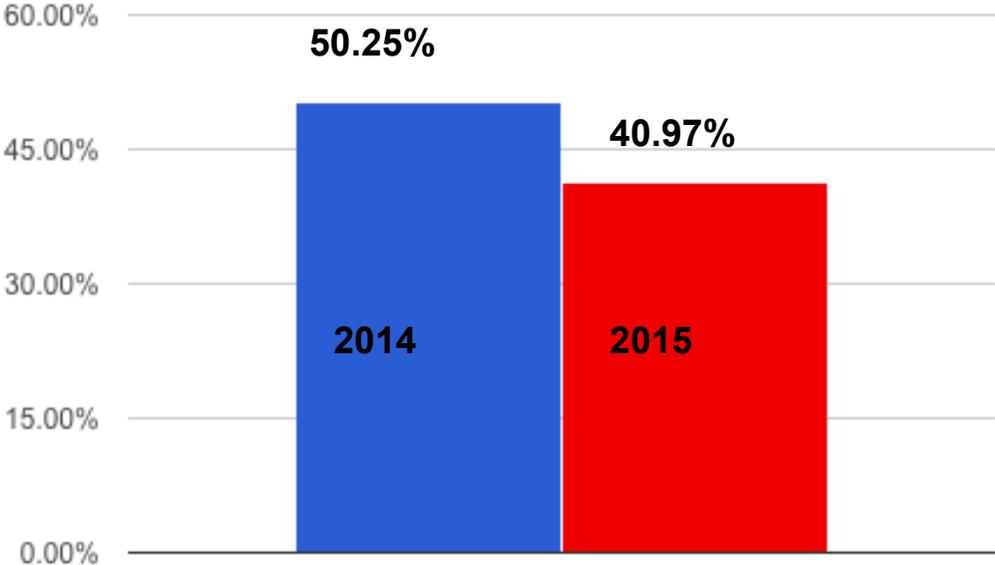
2. Streaming & subscription revenue drives digital growth



Merlin members reporting that digital income is over 50% streaming/subscription

- Streaming/subscription is currently the dominant digital income stream for 1 in every 3 Merlin members (33.77%) - up from 1 in every 5 (19.9%) last year.
- Similarly, last year, almost half of Merlin members (45.45%) reported that streaming/subscription revenue accounted for less than 25% of their total digital income.
- In 2015, only a quarter (23.25%) stated this was the case.

3. In a challenging market, the majority of Merlin members report growth



Merlin members reporting overall digital income is over 50% a la carte (tracks and album sales)

- A la carte sales are the dominant form of digital revenue for 40.97% of Merlin members (down from 50.25% in 2014).
- Despite the decline in track and album download sales, 73.27% of respondents reported an increase in total digital revenues.
- 65.04% of respondents reported an increase in overall business revenues - up from 62.38% last year.

Other significant survey findings:



- **44.53%** reported a **50%+ increase** in audio streaming & subscription revenues
- A la carte download revenues **increased** for **44.67%** of respondents (although **36.28%** reported a **decrease**)
- For **82.46% of members**, video-based streaming services still account for **less than 25%** of digital revenues
- **86.6%** stated Merlin was “important” to their business, **63.16%** stated Merlin was “very important”
- **81.61%** stated they were “optimistic” about the future of their business. Only **6.13%** were not optimistic



Data analysis: a year on, a billion more streams

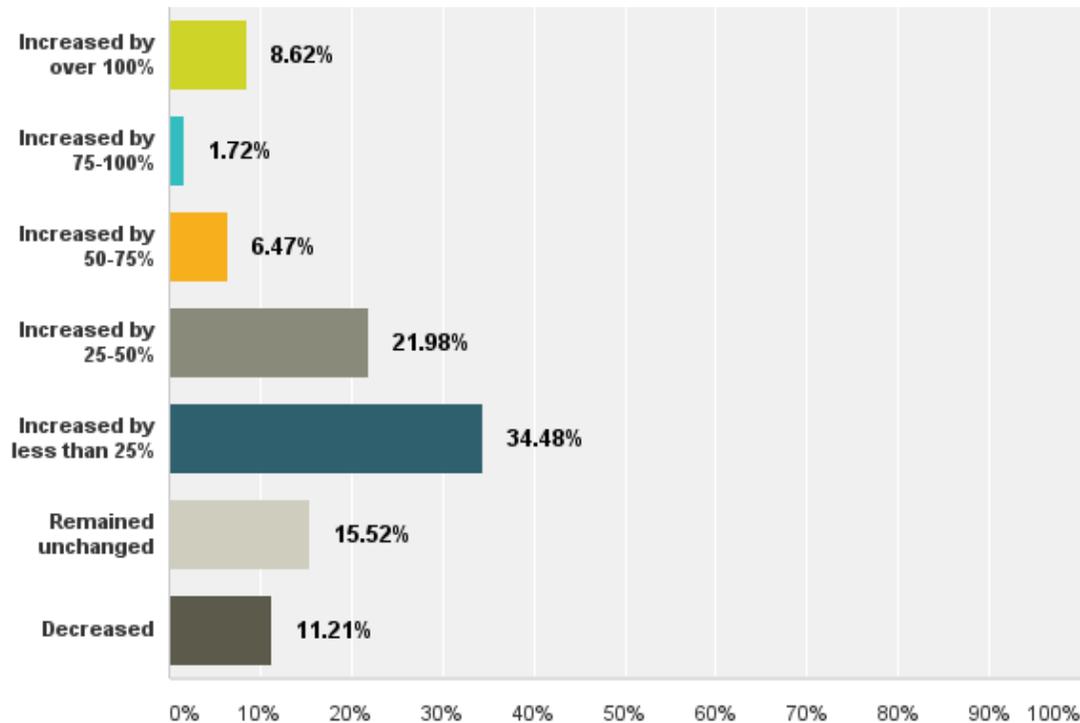
In addition to the membership survey, Merlin also repeated analysis of our own internal data - highlighting year-on-year changes in usage and revenues.

- Comparing usage in the month of **March 2015** with **March 2014**, the volume of **audio streams** reported to Merlin by leading music services **increased by 67%**.
- In **March 2015 alone**, audio tracks by Merlin's members were streamed **more than 2.5bn times**. Up from 1.4bn in April 2014
- Year-on-year** (from April-March 2013/14 to April-March 2014/15) revenues reported to Merlin by leading music services **increased by 43%** to **\$137.8m**
- Drawing on an analysis of over 9bn audio streams (Jan-April 2015) usage of Merlin members' repertoire on audio streaming & subscription services was **35% higher on paid streaming tiers** compared to free ad-funded tiers.

Full Merlin member survey findings 2015

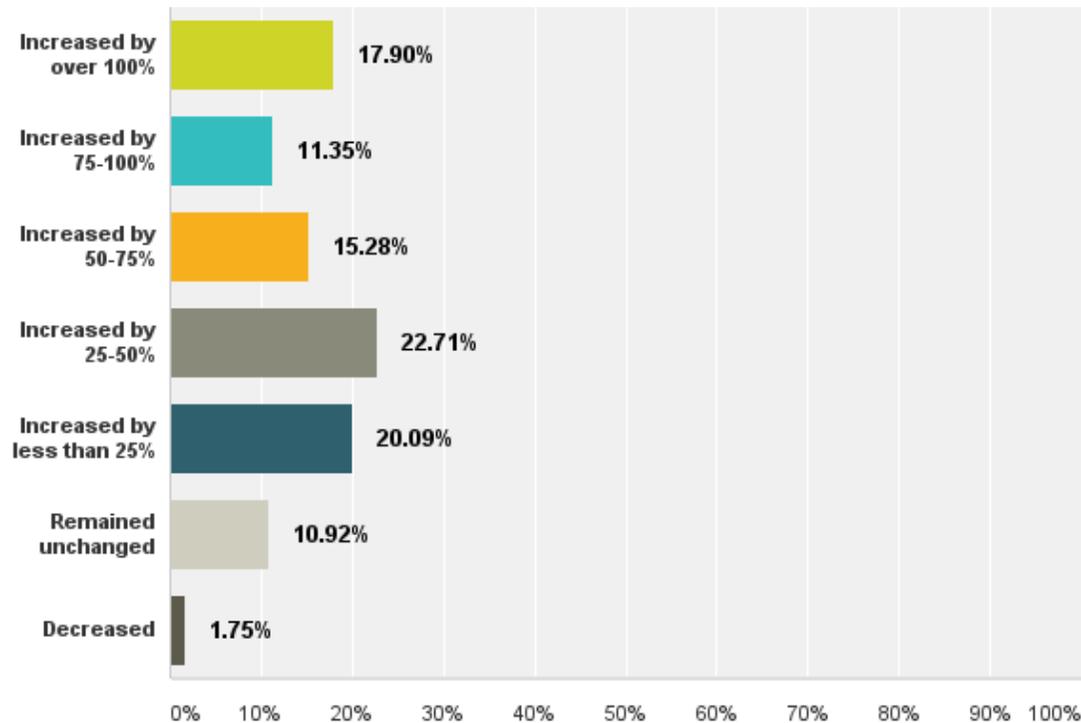


How did your total digital revenue - including ALL types of service - change between 2013 and 2014?



- 73.27% reported an increase in digital revenue
- 16.81% reported an increase of more than 50%
- 8.62% reported an increase of more than 100%
- 11.21% reported a decrease in total digital revenues

How did your total streaming and subscription revenue change between 2013 and 2014?

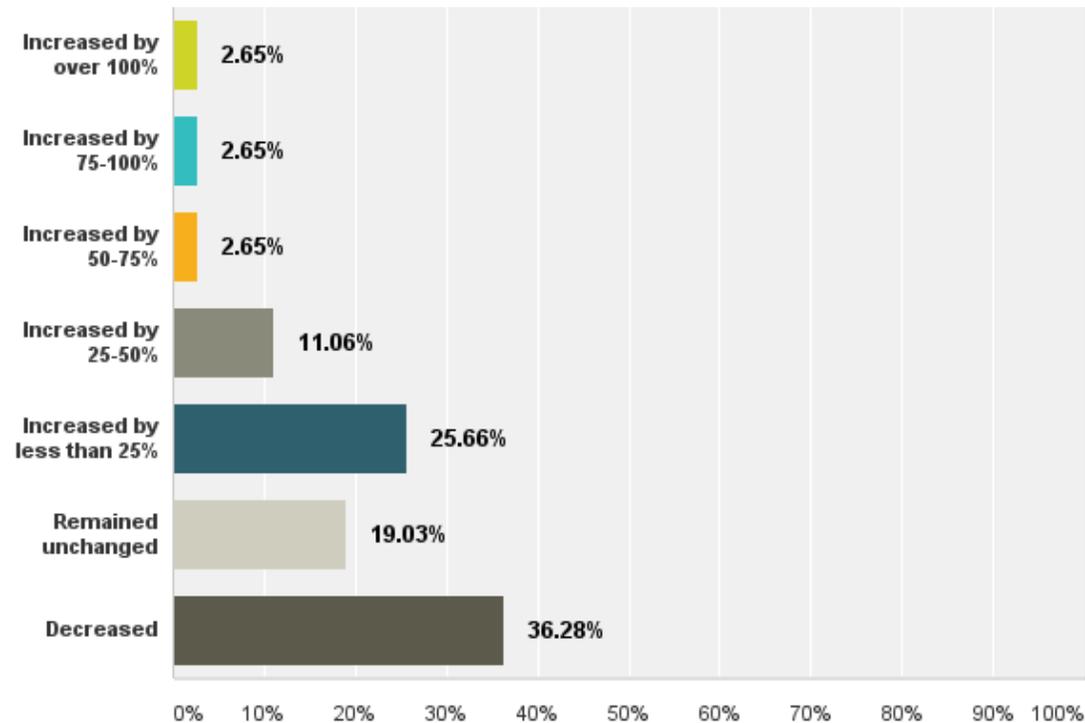


- 17.90% reported an increase in streaming/subscription revenue of more than 100%

- 44.53% reported an increase of more than 50%

- 1.75% reported a decrease

How did your a-la-carte download revenue change between 2013 and 2014?



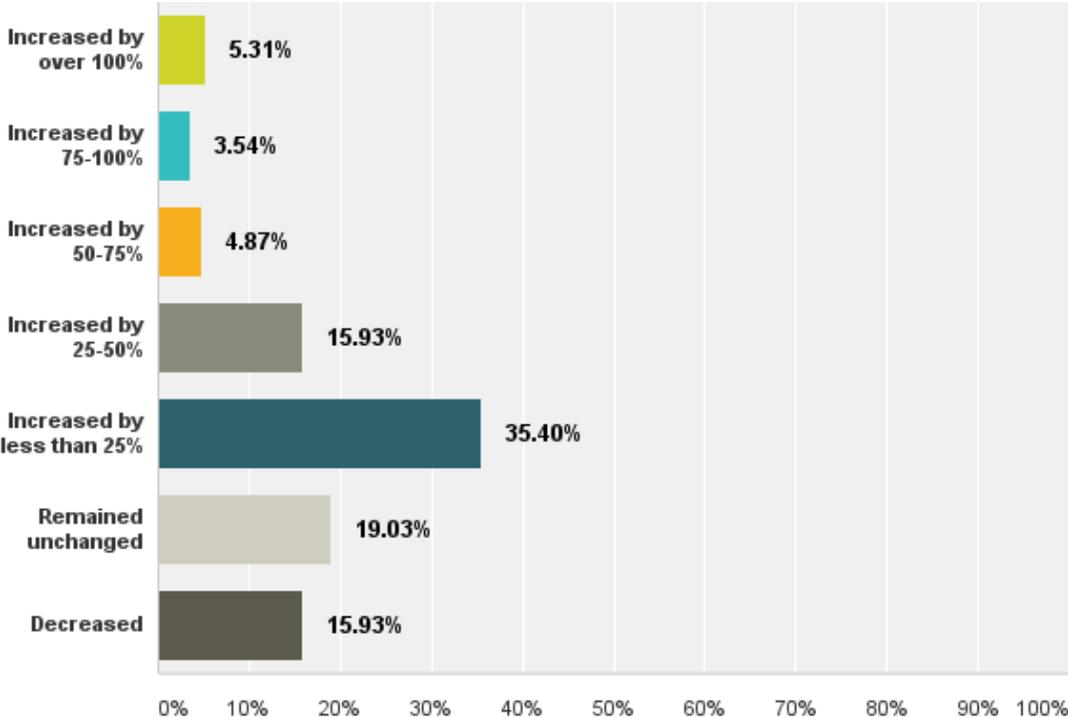
- 44.67% reported an increase in a-la-carte download revenue

- 7.95% reported an increase of more than 50%

- 19.03% reported revenues stayed the same

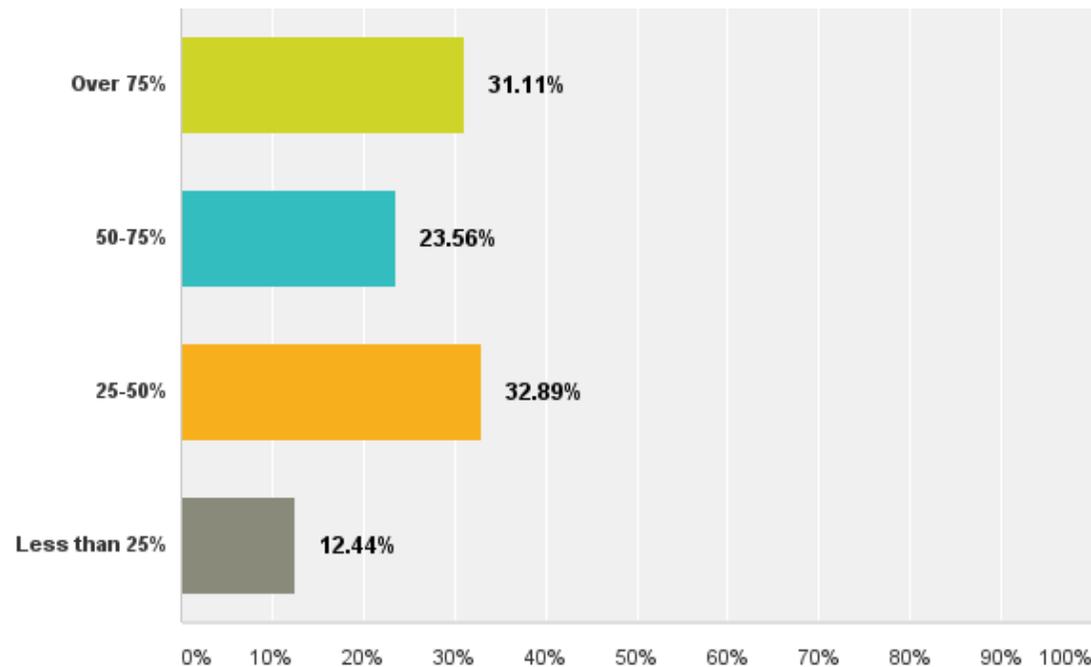
- 36.28% reported a decrease

How did your total business revenue change between 2013 and 2014?



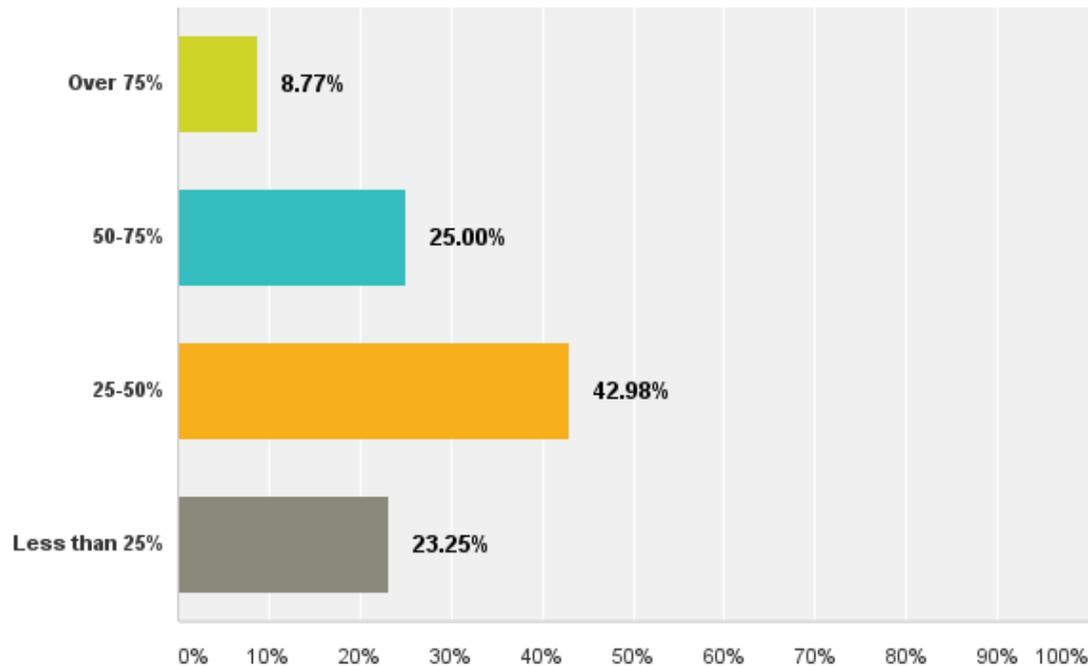
- 65.04% reported an increase in total business revenues
- 19.03% reported total revenues remained unchanged
- 15.93% reported a decrease in total revenues

As of now, and including ALL types of service, what percentage of your overall revenues does digital represent?



- 31.11% reported digital represents more than 75% of their overall revenue
- 54.67% reported digital represents over 50% of revenue
- 12.44% reported digital represents less than 25% of revenue

As of now, what % of your digital revenue does streaming/subscription represent?

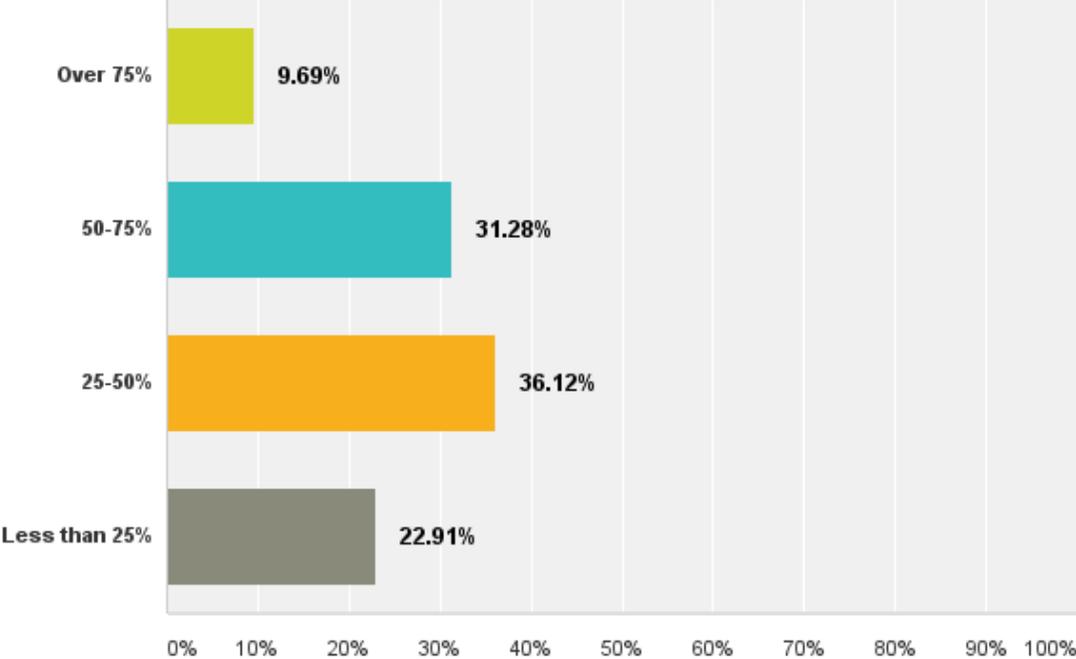


- 33.77% reported streaming/subscription currently accounts for over 50% of digital revenue

- 42.98% reported it is between 25-50%

- 23.25% reported it is less than 25%

As of now, what % of your digital revenue do a la carte downloads (tracks and albums) represent?

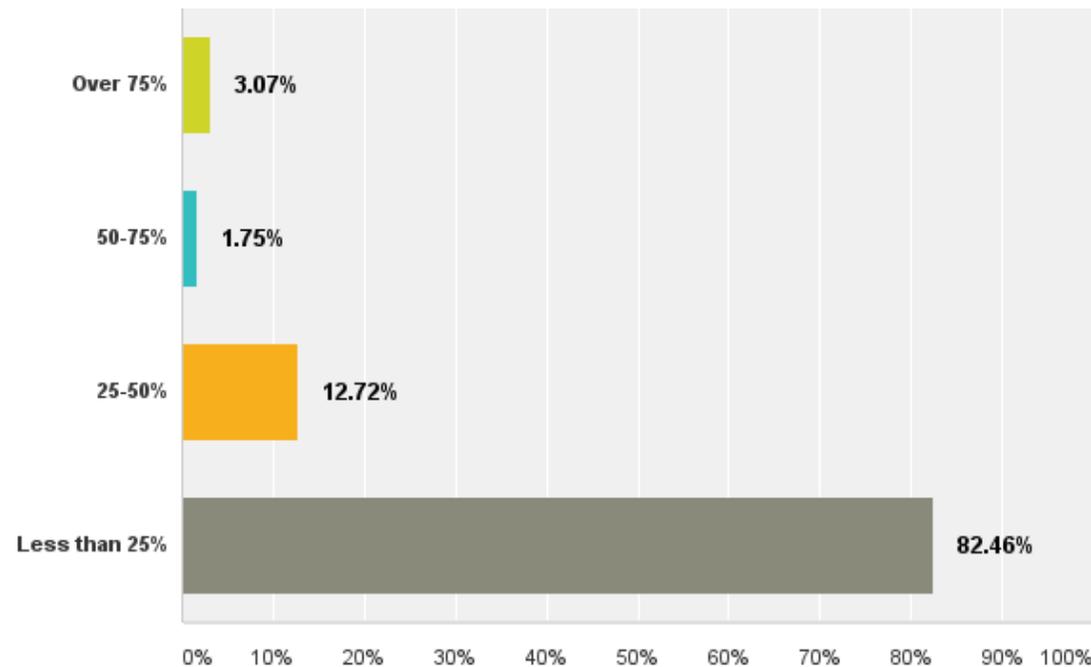


- 40.97% report downloads account for over 50% of their digital revenue

- 9.69% report downloads still account for over 75% of digital revenue

- 22.91% report downloads account for less than 25% of digital revenue

As of now, what % of your digital revenue do video-based services (e.g. YouTube, Vevo, Muzu) represent?



- 82.46% report that video-based services account for less than 25% of digital revenue

- 4.82% report they account for more than 50% of digital revenue

In terms of streaming/subscription services, what do you perceive as the most significant new opportunity for your business? Some examples...

“Streaming causes the product life cycle to become much longer. Due to play-listing and fans continuously playing the tracks over and over again the revenue keeps rolling in and short term peaks are less significant than in the old model. Moreover, the pay out per stream has the potential to continue to go up due to more and more subscribers.”

“Apple/Beats + Spotify Premium”

“As a record label with a significant sized back catalogue, streaming services provide an opportunity to continue earning substantial revenue from releases long after the initial 6 weeks sales window”

“To reach younger audiences due to freemium and generally lower barrier to entry”

“Much of our business is in Africa where mobile devices outnumber computers, so bundling of these services with telecom operators is a huge part of getting the market to adopt streaming.”

And what do you perceive as the most significant threat to your business? Some examples...

“Inequitable treatment of indie labels with regard to rates paid, advances, breakage, minimums, etc. for participating with these services and giving them access to our content”

“Loss of downloads, particularly from iTunes”

“More migration into major label and VC owned 'indie' distribution”

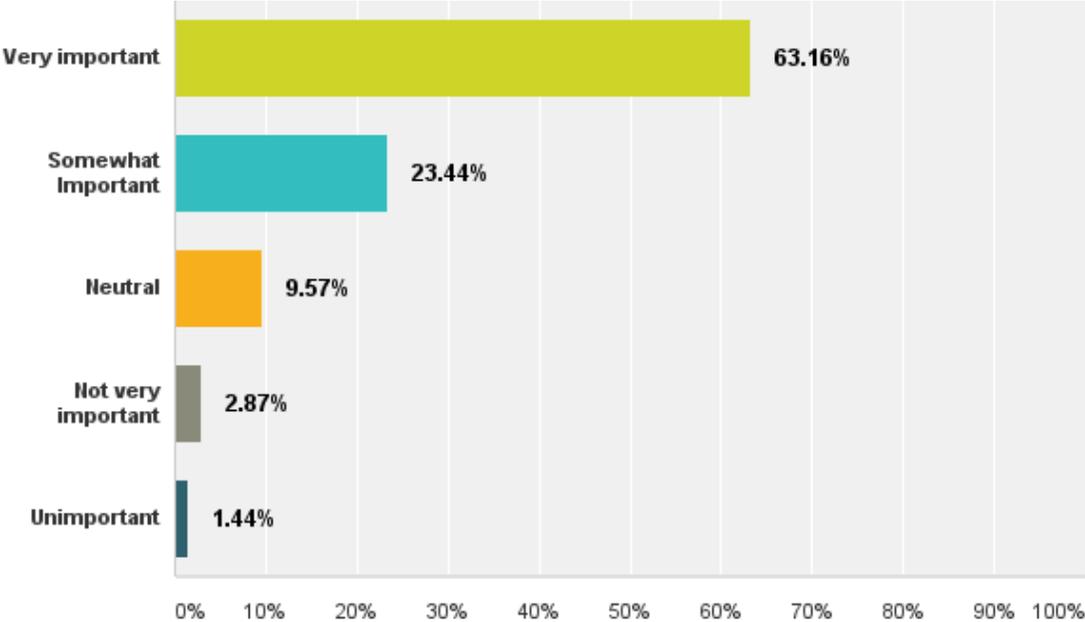
“The main question here is: will we be able to deliver and process the ever growing amount of data and assets needed - and still be profitable (think: YouTube content ID, responding on disputes for a UGC video with 10 views)”

“We have to battle many impostors who claim to own rights to our music catalog - ingesting/claiming our music through aggregators”

“If downloads die out almost completely it will create some issues, unless revenues rise significantly from streaming. The problem being that streaming income is spread over a long period as opposed to a big lump sum upfront”

“Streaming uptake being crippled by limitations on "freemium" tier streaming services forced through by major labels”

How important is your membership of Merlin to your business?



- 86.6% stated that Merlin membership was important to their business

- 63.16% stated that membership was very important

And here's a taste of why...

“Being a Merlin member is extremely important to us because we are small and with Merlin's help we are able to get our music onto Spotify, Rdio and other large digital retailers”

“Without Merlin I believe the terms we get from digital music services would be materially discounted from what we have achieved through Merlin”

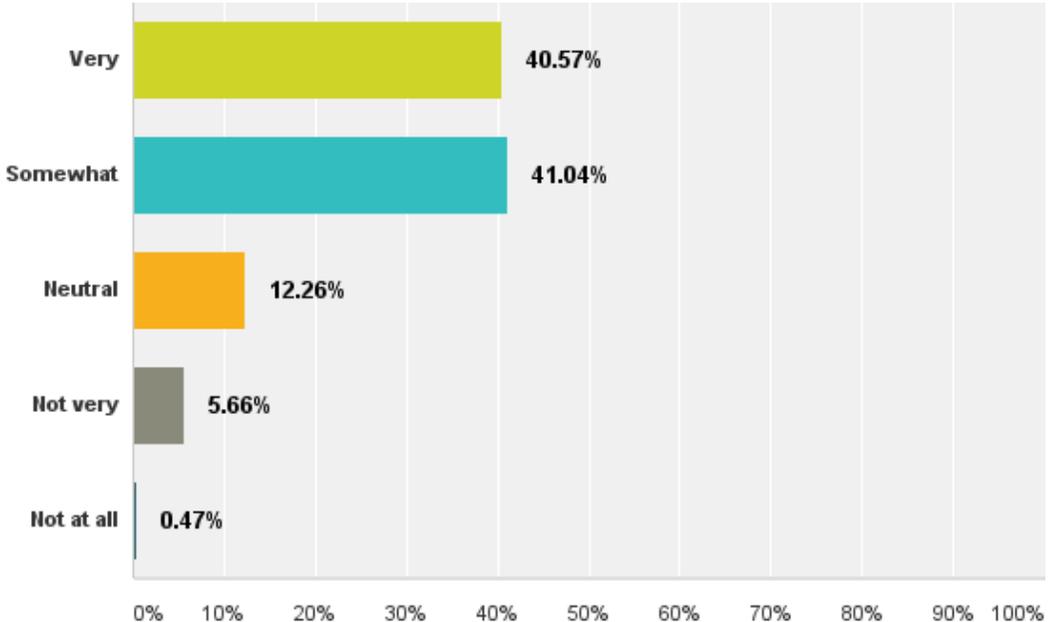
“An essential partner in negotiating deals that either would not be available or would be offered on poor terms”

“Merlin also makes it possible for clients to be independent. Independent labels need independent digital distribution and so we gain clients when Merlin gains clients”

“Merlin is an essential membership for our business. Removing what can be long and drawn out contract negotiation process' along with the peace of mind knowing we have a fair deal is of great benefit”

“It is important for us to get better contract conditions of course, but Merlin also matters for its philosophy, saying indies do represent an important part of the business, shall benefit from a fair market, and be at the forefront of the digital developments”

How optimistic are you about the future of your business?



- 81.61% of members said they were optimistic about the future of their business
- Only 6.13% were not optimistic



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