Music Catalogs Are Worth More as Streaming Grows — Here’s Why

A new paper finds that streaming accounts for 62% of the average multiple of net publisher’s share paid for a publishing catalog.

BY GLENN PEOPLES
he long-term potential of music streaming has had a growing influence on the price investors will pay for an artist or songwriter’s catalog. That’s according to a new paper titled *How Streaming Has Impacted the Value of Music* by Larry Miller, clinical professor and director of the music business program at New York University’s Steinhardt School of Culture, Education and Human Development.

Miller, with the help of graduate students Felipe Garrido and Matt Palermo, found that streaming revenues were positively correlated with the multiples paid for music catalogs. Here, the term multiple refers to the acquisition price as a multiple of net publisher share (NPS), a publishing catalog’s annual royalties; or net label share (NLS), a recording catalog’s annual royalties. From 2011 to 2021, the average catalog multiple increased from 8.6 to 20.7, according to data provided by Shot Tower Capital. In that time span, streaming went from virtually nothing to 65% of global recorded music revenue, according to IFPI (https://www.billboard.com/pro/ifpi-global-report-2022-music-business-revenue-market-share/). Miller found that 61.5% of the value of the average NPS multiple in 2021 came from streaming revenues paid to music publishers. By contrast, just 5% of the NPS multiple came from streaming in 2011.

Importantly, Miller found that investors’ expectations for future streaming growth were also positively correlated with NPS multiples. For those calculations, Miller and his team used MIDiA Research’s forecasts for global music publishing revenue from 2018 to 2021 and transaction data from Shot Tower Capital. When MIDiA’s forecast for four-year cumulative average growth rate was higher — due to heightened assumptions about the streaming market’s growth potential — the average NPS multiple was higher, too.

The correlation between expectations and valuations cuts to the heart of the surge in catalog investments over the last decade. Although acquisitions are usually discussed in terms of a simple multiple — upwards of 29.5 times NPS
for Bob Dylan (https://www.billboard.com/artist/bob-dylan/) and 30 times NPS for Bruce Springsteen (https://www.billboard.com/artist/bruce-springsteen/), but lower for the average artist — the purchase price reflects the buyers’ belief about the catalog’s ability to generate royalties in the coming years. In mathematical terms, a catalog’s valuation is the present value of expected future cash flows. Experts such as Citron Cooperman and FTI Consulting value catalogs using financial models that forecast future royalties based on songs’ historical performance and industry-wide growth trends.

Interest rates also impacted what investors were willing to pay for catalogs. Miller found that increases in U.S. Treasury Bond interest rates were negatively correlated with NPS multiples. In other words, when debt became more expensive, catalogs were worth less to buyers. Again, the value of a catalog is the sum of its expected future royalties discounted — divided by a discount rate — to a present value. If the cost of debt increases by two percentage points, the discount rate will increase by an equal amount. And the higher the discount rate, the lower the present value.

Miller is careful to point out that his analysis is “a look in the rear-view mirror” that shouldn’t be used to forecast future values. “But it is certainly useful to understand where we’ve come from,” he says. The paper was commissioned by the Digital Media Association (DiMA), a trade group that represents member companies Amazon, Apple Music, Google/YouTube, Spotify and Pandora. Miller says DiMA neither took part in the analysis nor had a role in writing the paper.

Not only has streaming created revenue growth for labels and publishers, the nature of streaming royalties — steady royalties from recurring subscription fees — has also made music more attractive to investors. To comfortably earn a return for investors, you need “predictability to the cash flow,” Denise Coletta, senior vp at City National Bank, told Miller. Compared to purchases of CDs and downloads, streaming delivers consistent royalties — even during a pandemic when some other segments of the music industry faltered. “Streaming has certainly led to much better transparency over the past 10 years, which has helped support the rationale associated with these multiples,” she added.
Music streaming services have had an undeniable impact on the music business over the last decade. As streaming boomed, record labels and publishers escaped the doldrums of the download era and now routinely post double-digit revenue growth. That momentum reignited investors’ interest in music as an asset class. In recent years, major financial players such as KKR, BlackRock and Blackstone have poured money into funds that purchase music catalogs as long-term investments — mostly because of streaming.

Streaming has also changed music’s life cycle in a way that’s attractive to investors. In the past, an album would make money quickly and fade quickly as fewer people made trips to the cash register. Now, the loss of streaming activity — called the decay rate — is much milder because streams represent repeated listening. That has allowed songs and albums to remain popular longer and changed the way labels market and promote new releases by putting less of a focus on the first few weeks of release.

Miller cites a 2017 article by Will Page, then Spotify’s director of economics, that argued the definition of catalog — a song or album 18 months or older — had become “antiquated” in the streaming era. Purchases tend to happen early in a song or album’s life cycle. On streaming platforms, however, songs can earn royalties more consistently and for longer periods. Page’s analysis showed that Imagine Dragons (https://www.billboard.com/artist/imagine-dragons/)’ album Night Visions had 177% more streams in its first 18 months as a catalog title than during its 18 months as a current release. The album’s sales, on the other hand, fell 33% in the later 18-month period.

For this paper, Miller recreated Page’s work by comparing the performance of 500 “high-impacting albums” released in 2018 over two, 18-month periods using U.S. streaming data from Luminate. About 5% of those albums performed better in their second 18-month period than their first 18 months of release and 97 of the 500 titles declined less than 25% in the second 18-month period.

“The story here is we had been used to records peaking in the initial year of release,” says Miller. “It’s not just that 5.2% did better in the second 18
months. But the number of records that are declining, they are declining less than we had seen in previous years.”