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With Good Times Back For The Music Business, Warner And Universal Look To Cash In

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Billie Eilish, winner of Record of the Year for "Bad Guy", Album of the Year for "when we all fall ... [+] GETTY IMAGES FOR THE RECORDING ACADEMY

Two of the world's largest music companies are looking to capitalize on the rejuvenated industry whose growth has been fueled by streaming services like Spotify and Apple

Music. Warner Music Group filed documents earlier this month, indicating plans to sel shares to the public. Vivendi just signaled the same, contemplating a public offering of its Universal Music Group subsidiary, merely a few months after it sold a 10% stake to Chinese tech giant Tencent at a valuation of more than $30 billion.

Those are the kind of numbers that might give investors pause. The last time the public had the chance to take a risk on music, things didn't turn out so well: WMG, after it separated from parent Time Warner, went public in 2004 at $17 a share. When billionaire Len Blavatnik took the business private through his Access Industries in 201 he paid $8.25 per share plus debt in a $3.3 billion transaction.

But times have changed. Record labels, which were all but given up for dead two decad ago amid rampant music piracy, have watched sales return to levels not seen since the industry's peak in 2000. Last year, the music industry moved 785 million album-equivalent units—the same number it did at its peak in 2000—up from a low of 443 million in 2010. Global recorded music revenue for the industry hit a high of $23.9 billion in 2000 and had nearly recovered to those levels by the beginning of last year, according to data from trade group IFPI. Goldman Sachs issued a research report forecasting that the global market for recorded music would hit $45 billion by 2030, as 1.5 billion users pay for a music subscription. That has created the right sort of conditions for IPOs.

"The reality is that people get more of a premium in the public markets, and more liquidity," says Robb McDaniels, who now runs Beatport after stints including one at th helm of Universal-backed distributor INGrooves. "In the music business, you had this lumpiness around whether something was going to be a hit or not. Now you've got this steady cash flow from streaming, and even if it slows down, you've got predictable growth. That's what Wall Street and Main Street like."

UMG, now the largest music group with a 31% global market share, had revenue of mo than 8 billion euros ($9 billion) in the first three quarters of 2019, a 14% increase over 2018. WMG had revenue of $4.5 billion in 2019. Both companies, having scooped up

assets of the companies that failed in the downturn, have more revenue than they did a the industry's peak.

Just days after WMG announced its plans, UMG parent Vivendi, a French media conglomerate, told investors it's negotiating the sale of another 10% stake in Universal, with plans for an initial stock offering by 2023. Five years ago, Vivendi rejected calls from the American hedge fund P. Schoenfeld Asset Management's to sell off the music company and use the proceeds to boost cash returns. It similarly spurned an $8.5 billic offer from SoftBank in 2013.

WMG, the half-century-old company that discovered such artists as Led Zeppelin and Aretha Franklin, and now boasts such acts as Ed Sheeran, Bruno Mars and Lizzo, is no the industry's third-largest company (behind Sony) and has seen 12% annual growth since 2017. It will head into its IPO delivering profits, a scarce commodity the first time around. Last year WMG reported net income of $258 million in 2019. In 2010, it was deep in the red. Some perspective? Spotify, the leading music streaming platform, ende its fourth quarter down $77 million despite a spike in subscribers.

So, what sort of valuations should Universal and Warner expect to receive on the public markets?

"Unfortunately, I don't have a crystal ball," says entertainment attorney Bernie Resnick "It seems that today's securities industry values potential just as much or even more than it values receipts in the cash register, which explains successful but over-hyped do com or unproven technology company IPOs. On the other hand, major record companies have historical and verifiable earnings to review ... [and] ever-expanding methods of monetizing their digital assets."

Ariel Shapiro contributed to this report.

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