
THE INDEPENDENT ARTIST SECTOR

Defining and Sizing the Music Industry's
Fastest-Growing Sector

MARCH 2020

RAINE

RAINE

FRED DAVIS
Partner

E fdavis@raine.com

JOE PUTHENVEETIL
Managing Director

E jputhenveetil@raine.com

ROBERT FRECH
Associate

E rfrech@raine.com

SUN-UI YUM
Analyst

E syum@raine.com

SELECT ADVISORY ASSIGNMENTS

INVESTMENT PORTFOLIO

Raine is an integrated merchant bank advising and investing in high-growth sectors of technology, media and telecom: over the past 3 years, it has been one of the most active firms in the music sector.

2020



Advisor to SoundCloud on its \$75mm capital raise from Sirius XM

2019



Advisor to FUGA on sale to Downtown Music Holdings

2019



Advisor to SoundCloud on acquisition of Repost Network



2019



Advisor to Stephens Capital on sale of AVL to Downtown Music Holdings

2019



Advisor to Troy Carter on inaugural fundraiser for new label / tech platform Q&A

2017



Advisor to HitCo Entertainment on its \$70mm capital raise



amuse

NEW YORK, NY

65 East 55th Street, 24th Floor
New York, NY 10022
213.603.5500

LONDON, UK

1 Welbeck Street, 7th Floor
London, W1G 0AA
+44 203.695.8600

LOS ANGELES, CA

9560 Wilshire Blvd, Penthouse
Beverly Hills, CA 90212
310.987.7700

SAN FRANCISCO, CA

One Lombard Street, Suite 300
San Francisco, CA 94111
415.967.5830

SHANGHAI, CHINA

Suite 2203-04, Tower 1, Plaza 66
Jing An District, Shanghai 200040
+86 21.8017.1876

MUMBAI, INDIA

903-B, 9th Floor, Godrej BKC
Plot C-68, Bandra Kurla Complex
Bandra East, Mumbai 400051
+91 022.6221.2900

The Raine Group LLC ("Raine") is a global merchant bank focused exclusively on technology, media, and telecommunications, providing a wide range of advisory services and managing investment strategies across growth equity, venture capital and public markets. Raine has in the past and may in the future have advisory relationships with certain companies mentioned in this paper. As of the time of publishing, Soundcloud is a current Raine portfolio company. Raine has provided this paper for informational purposes only. This paper is not intended to be, and must not be, taken as the basis for an investment decision. The paper is necessarily based upon economic, financial, market and other conditions, and information available or provided to Raine, in each case, existing as of the date of this publication (unless otherwise specified) and, accordingly, the paper should be regarded as indicative, preliminary and for illustrative purposes only. None of Raine, its client(s) or any other person has independently verified the accuracy or completeness of any of the information contained in the paper, assumes any responsibility for independent verification of such information or makes any representation or warranty, express or implied, as to the accuracy, completeness or fairness of such information or any opinions set forth in these materials, and no liability whatsoever is accepted by any such person in relation to any such information or opinion. Although subsequent events may affect the accuracy and completeness of the materials, none of Raine, its client(s) or any other person assumes any responsibility for updating or otherwise revising the publication, and the delivery of the publication will under no circumstances create any implication that the information contained herein has been updated or corrected. Any forward-looking information contained herein, including all statements of opinion and/or belief, is based on a variety of estimates and assumptions by Raine, including, among others, market analysis, estimates and similar information. Any such estimates and assumptions are inherently uncertain and are subject to numerous business, industry, market, regulatory, competitive and financial risks that are outside of Raine's control. There can be no assurance that any assumptions made will prove accurate and such information may change materially. Further, no representation or warranty, expressed or implied, is made by any of Raine, its client(s) or any other person as to (i) the achievement or reasonableness of any projections, forecasts, estimates or other statements about the future or prospects of any company contained in these materials (and no liability whatsoever is accepted by any such person in relation to any such projection forecast, estimate or statement) or (ii) any of the potential transactions described herein, including that any of such transactions can or will be completed or, if completed, that they will be successful. Neither these materials nor their delivery to the recipient shall constitute or be construed to be an offer to sell or a solicitation of offers to buy any security and may not be relied upon in connection with any purchase or sale of securities.



The fastest-growing segment of the music industry is the independent artist sector, defined as the revenue generated by the master recording of all artists not signed to a major or to an independent record label.

We anticipate that in 2020, the independent artist sector will generate \$2B in revenue, achieving close to 10% market share of the broader industry and representing ~32% year-over-year growth from 2019.

Current reports and articles significantly understate the size and growth potential of this sector, particularly given the exclusion of “mid-tail” distributors.

I. INTRODUCTION

The maturation of the streaming market has created a new sector – the independent artist sector – consisting of mainly additive revenue to the overall music industry. The newfound accessibility of artists distributing to Digital Service Providers (DSPs) and the growth of video / social platforms have together led to an exponentially expanding music marketplace. Newly empowered by a streamlined digital ecosystem, the millions of musicians, producers, DJs, and other audio artists worldwide¹ who are not signed to major or independent record labels are no longer reliant on CDs and legacy physical production supply chains to reach their legions of fans worldwide.

The independent artist’s newfound claim to cultural relevance was evident as early as the middle of the 2010s, particularly as the so-called “bedroom SoundCloud artist” skyrocketing to fame became an increasingly common phenomenon. What was less clear, however, was whether this growing artist contingent would manage to cut through and create revenue for themselves, as well as revenue that would be additive to the overall record industry revenue pie. The existing industry paradigm was rigid: an artist was either relegated to playing gigs at small local venues and passing out albums or became one of the lucky few to walk the paved, institutional road to commercial success. Particularly when widespread distribution could only happen through factory-manufactured CDs, the career paths of an independent artist were binary.

However, dramatically shifting and evolving business models in the wake of audio streaming adoption have broadened this definition of success – and self-sustainability – by widening the continuum. After an initial rush of primarily free streaming and hosting services (SoundCloud, MixCloud, etc.) – indebted to the legacy of YouTube, Napster, and piracy-oriented free hosting sites like MegaUpload and MediaFire – a new landscape of independent artist distributors has emerged, offering artists the ability to channel their music on to hundreds of DSPs worldwide. No longer regionally restricted, artists are now able to create with the confidence that they can reach their fanbase wherever in the world that may be.

¹ Internal Raine estimate

I. INTRODUCTION (CONT.)

The core distribution product, too, has evolved to differentiate in the face of rapidly proliferating competition, shifting to offer broader monetization capabilities such as YouTube rights management (Create Music Group, AdRev), publishing collection (Symphonic, Songtrust), and higher-touch capabilities (Believe Digital, Kobalt's AWAL, SoundCloud's Repost Network). In a similar vein, companies such as Bandcamp and Patreon offer compelling alternate paths to monetization, bringing creators and fans closer than ever before. As a direct result, the independent artist who generates a listener base of millions and can viably embark on multi-city tours and be scouted by record labels online is a newly-created reality that was impossible to imagine two decades ago.

The impact of these fundamental industry changes has been immediate and the implications obvious. MIDiA estimated "artist direct" master revenue to be \$472mm in 2017, \$643mm in 2018², and \$873mm in 2019³, growing more than three times as fast as the broader global music market over that period at ~30% year-over-year, while *Rolling Stone* has separately projected the segment to achieve \$1bn+ in revenue in 2019⁴. We believe previous estimates have underrepresented the size of the market. Companies with strong demonstrated track records in the space have become attractive M&A targets – such as AVL Digital's CD Baby and FUGA, both acquired by Downtown Music Holdings, as well as Repost Network, acquired by SoundCloud – while others have been founded with a direct eye towards servicing this market.

The potential afforded by a democratized market is now beginning to be achieved and recognized. The independent artist community represents an increasingly critical stakeholder in the music industry today that continues to grow. Defining this segment with the aim of understanding its trajectory is our key objective. **Our work suggests that the independent artist recorded music sector will achieve \$2 billion in revenue in the calendar year 2020, representing approximately 9% of the entire global recorded music industry⁵.**

**OUR WORK SUGGESTS THAT THE
INDEPENDENT ARTIST RECORDED
MUSIC SECTOR WILL ACHIEVE:**

**\$2 BILLION IN REVENUE
IN THE CALENDAR YEAR 2020**

REPRESENTING CLOSE TO 10%

**OF THE ENTIRE GLOBAL
RECORDED MUSIC INDUSTRY.**

THE RAINE GROUP
MARCH 2020

² MIDiA, "Artists Direct and Streaming the Big Winners in 2018", 2018

³ MIDiA, "Recorded Music Revenues Hit \$21.5 Billion in 2019", 2020

⁴ *Rolling Stone*, "DIY Artists Will Earn More than \$1 Billion This Year. No Wonder the Major Labels Want Their Business", 2019

⁵ MIDiA, Research Music Forecasts, 2019

RAINE

II. DEFINITION OF AN INDEPENDENT ARTIST

Given the sector's nascency, one of our primary objectives is to set forth a definitive view on the definition of an "independent artist", as well as on what ought to truly be considered the revenue contribution of the "independent artist recorded music sector." The guiding spirit is to capture the full revenue potential of independent artists.

As such, we have used the below definition in our analysis and believe that this should be the industry's recognized standard:

Defined as any artist uploading directly to an audio or video DSP without a major or independent label serving as an intermediary

INDEPENDENT ARTISTS

THE REVENUE GENERATED BY INDEPENDENT ARTISTS FROM THE LICENSE EXPLOITATION OF THEIR MASTER RECORDINGS.

REVENUE

Inclusive only of revenue generated as part of a license to use a work of music, including from DSPs, physical and digital sales, and synchronization ("sync") fees

MASTER RECORDINGS

Excludes earned contribution from other associated rights (e.g., publishing), but includes all other revenue generated through the exploitation of recorded masters (e.g., on-demand audio streaming, YouTube, limited physical sales, etc.)

III. MARKET SIZING

Our analysis across the space spans four years of data from a variety of sources, including aggregated company and industry figures, to estimate the total independent artist recorded music revenue generated from 2017 to 2020.

Historical data is largely based on actual results. Going forward, the independent artist sector is projected by Raine to grow at a premium to the broader recorded music industry in-line with historical trends (approximately ~4x). Our view is that this growth projection is conservative, given the massive growth potential in the sector and anticipated expansion into developing markets (e.g., China, India).

Our analysis broadly characterizes the companies in the independent artist sector into the following tiers:

TIER 1: DISTRIBUTORS

Independent artist-focused, long-tail distributors that offer the basic service of channeling artist music onto global DSPs. Payout structures generally take the form of a revenue share - the segment has also historically experienced pricing compression in favor of the artist, with services such as Amuse offering baseline distribution for no payment. Analysis includes YouTube monetization of masters.

TIER 2: SYNC & PRODUCTION MUSIC

Companies that facilitate or directly create music oriented for sync exploitation. Artist payout structures differ but generally contemplate upfront payments for creation services while forgoing upside or backend compensation.

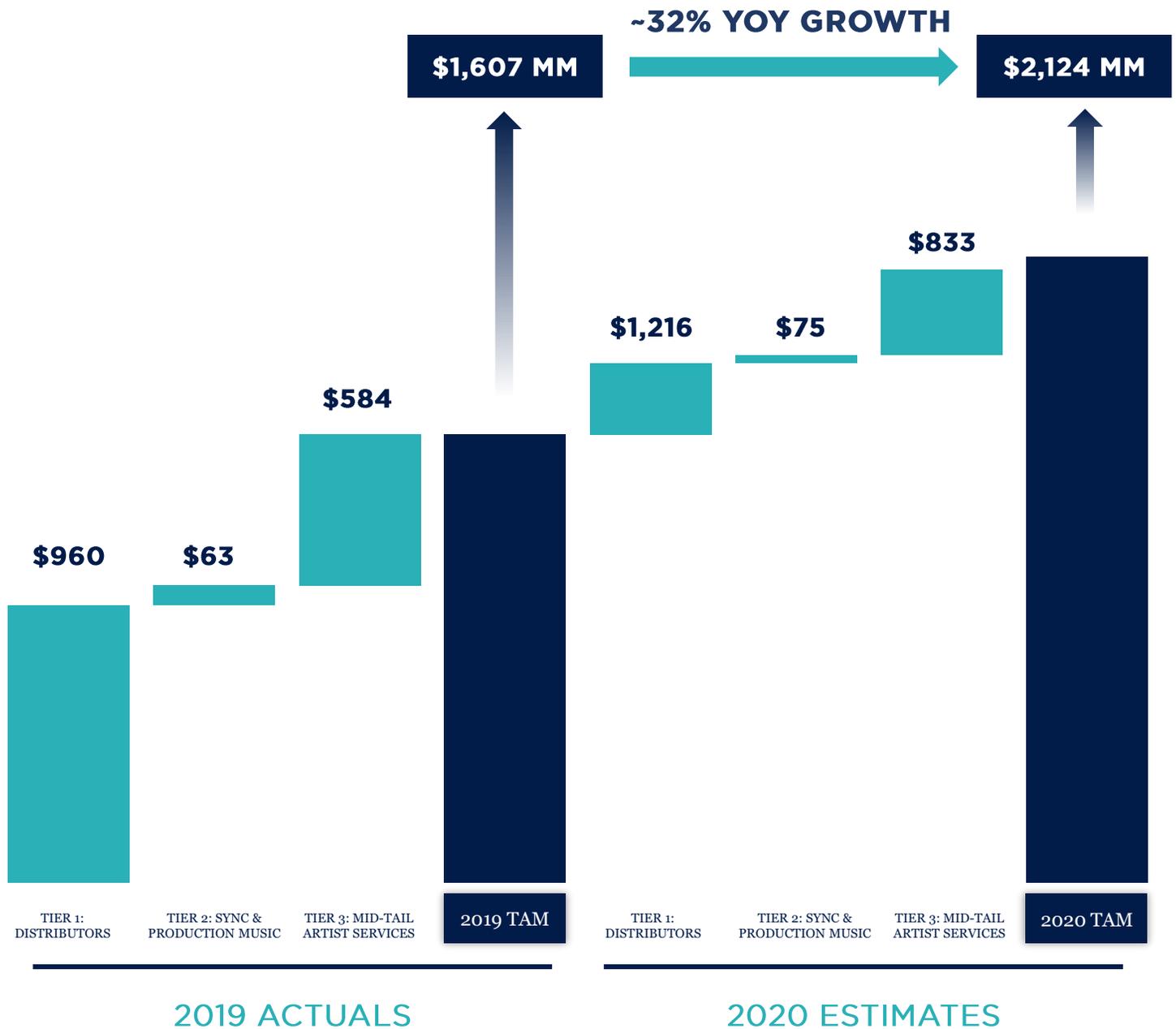
TIER 3: MID-TAIL ARTIST SERVICES

Directly related to Tier 1, the “mid-tail independent” caters to the higher end of the independent artist segment - artists that are not signed to major record labels but have begun to generate traction. While their core function is still primarily distribution, these companies also offer capabilities such as promotion, A&R, and broader distribution. Analysis includes YouTube monetization of masters.

Overall, we believe current literature on the independent artist recorded music sector significantly understates the size and growth potential of the segment after taking the above into account - specifically, we take the viewpoint (unlike MIDiA or *Rolling Stone*) that “mid-tail” distributors operating on revenue share models ought to be included in this segment as they stand apart from the traditionally defined independent record label. Our analysis estimates that the independent artist segment’s size was underestimated by more than 40% in both 2018 and 2019; revenue generated by the segment exceeded \$1.6 billion in 2019. In 2020, we expect the market’s size to achieve \$2 billion.

RAINE

THE INDEPENDENT ARTIST MARKET (\$ IN MILLIONS)



As we push into a new decade, having cleared 1 trillion on-demand annual audio and video streams in the US for the first time in 2019, the trajectory remains strong. The now-standard streaming mode of consumption continues to accelerate, a rising tide that lifts all boats, and evolving business models continue to transform the music business and shape a world where independent artists are equipped to make a significantly better living from their music.