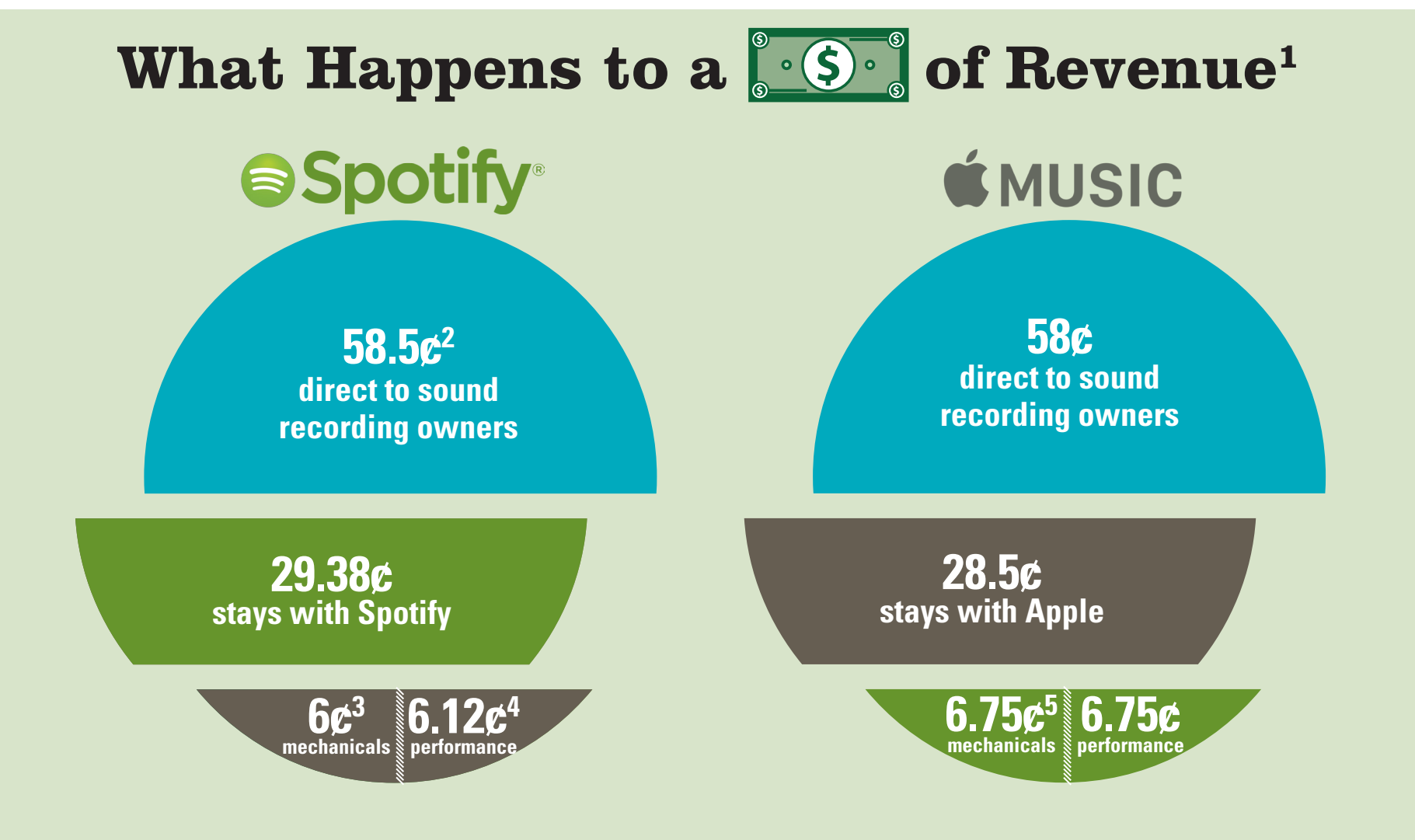


# U.S. Music Streaming Royalties Explained

## a/k/a How Do Artists Get \$\$\$ From and .



### Legend

- Sound Recording Owners** in most cases are record labels. But they also include producers, film studios, independent artists and investors.
- Mechanicals** (short for mechanical royalties) are collected by publishers or a mechanical licensing administrator like the Harry Fox Agency ("HFA"). What publishers keep before paying out to songwriters varies. The HFA currently charges a 11.5% commission on payments collected.
- Performance** income usually flows through PROs (see footnote 4). **ASCAP** and **BMI** deduct their operating expenses "off-the-top" (approximately 16-18% of royalties) before paying the **writer's share** (50%) directly to writers and the **publisher's share** (50%) to publishers. Note: 16-18% is just an unconfirmed estimate of operating expenses for U.S. only, and these rates don't apply to direct deals with **SESAC**, **GMR** and **collection societies**. And some *publishers* are now collecting performance income too.

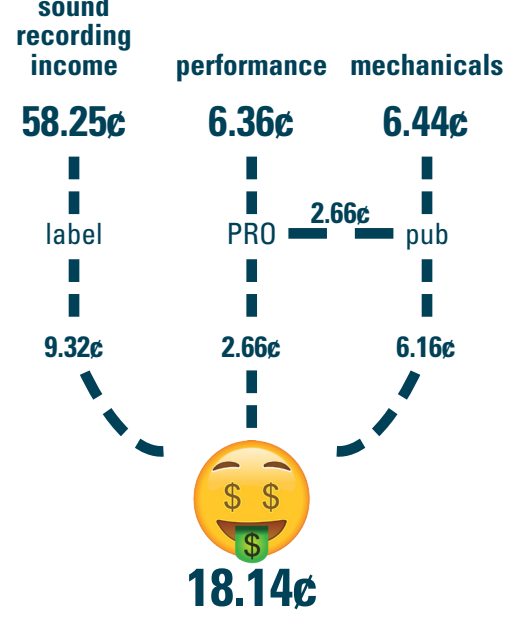


## How Does All This Work for Artists?

- While we can't give every example, below are **three** hypothetical scenarios that will show you how a digital dollar of interactive service revenue flows through to the recording artist and songwriter from **labels**, publishers ("pubs") and **PROs**.
- These scenarios apply to artists that, at least in part, write some of their own music. But there are songwriters who don't record (i.e., they get no sound recording \$) and recording artists who don't write (i.e., no pub \$).
- To keep your head from exploding, we've done **The Math** based on a rough average of the **Spotify** and **Apple** dollar breakdowns above. So for each scenario below, assume: (i) **58.25¢** in sound recording income; (ii) **6.36¢** for performance; and (iii) **6.44¢** in mechanicals.
- For simplicity, we have also assumed the artist wrote 100% of the song.

### The Major Label Artist

- Record Deal:** 16% royalty
- Co-publishing Agreement:** 75% mechanical rate and a 50/50 split on the publisher's share of performance

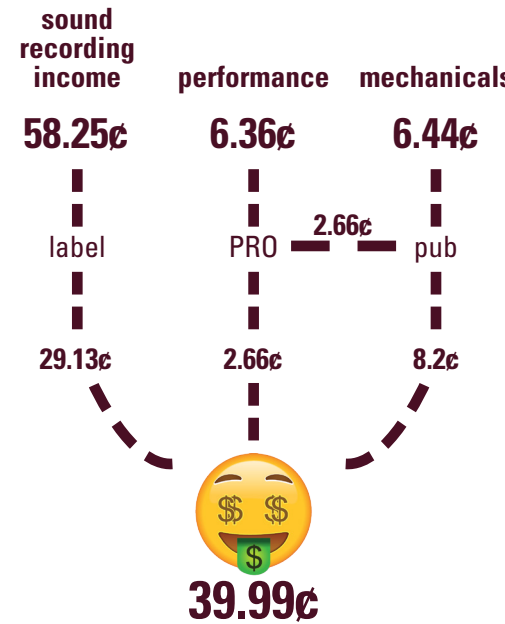


### more info

- Roughly speaking, a **16% royalty** means the recording artist receives 16% of the **wholesale price** of records sold
- Co-publishing agreements** typically involve **co-ownership** between the songwriter and the pub
- A **75% mechanical rate** means that pub keeps 25% of net mechanical income and the songwriter keeps 75%
- 50/50 on publisher's share of performance** means the artist keeps 100% of the writer's share (see legend) and splits the publisher's share 50/50 with the publisher

### The Indie Label Artist

- Record License:** 50/50 profit split
- Administration Deal:** 90% on mechanicals and performance

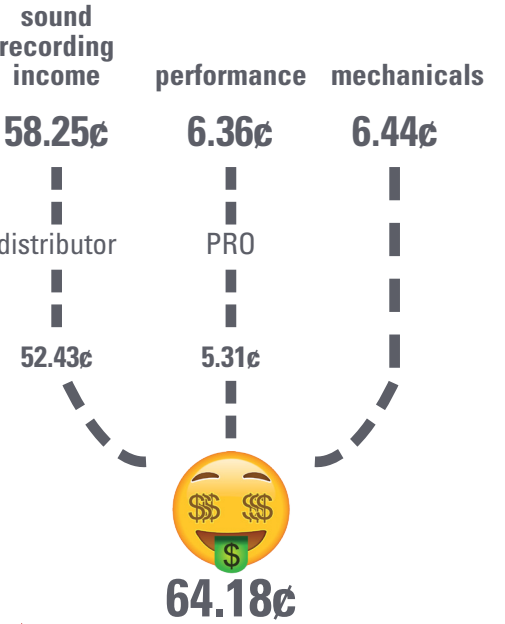


### more info

- Self-releasing artists have agreements with physical or online distributors of records for a one-time set-up fee (e.g., TuneCore) or a continuing percentage of net receipts. Here, we have assumed a **distribution fee** of 10%.
- Mechanicals** may be collected directly by or as an administrator. In this scenario, we have assumed self-collection.
- Performance income** is usually still collected by the PROs (or in some cases a collection society), but the songwriter receives both the writer's share AND publisher's share direct.

### The Self-Releasing Artist

- Self-Release:** collect mechanicals and performance directly



**!Keep in mind** Even though you keep more of each dollar if you self-release, you are likely to earn a lot more with a label's marketing \$\$ behind you.

Major Label Artist Math			Indie Label Artist Math			Self-Releasing Artist Math	
Label	PRO	Pub	Label	PRO	Pub	Distributor	PRO
58.25¢ x 16% = <b>9.32¢</b>	calculate admin fee 6.36¢ x 16.5% = <b>1.05¢</b>	mechanicals 6.44¢ x 75% = <b>4.83¢</b>	58.25¢ x 50% = <b>29.13¢</b>	same as Major Label Artist calculations	mechanicals 6.44¢ x 90% = <b>5.8¢</b>	58.25¢ x 90% = <b>52.43¢</b>	calculate admin fee 6.36¢ x 16.5% = <b>1.05¢</b>
6.36¢ - 1.05¢ = <b>5.31¢</b>	performance <sup>3</sup> 2.66¢ x 50% = <b>1.33¢</b>				performance <sup>3</sup> 2.66¢ x 90% = <b>2.4¢</b>		subtract admin fee 6.36¢ - 1.05¢ = <b>5.31¢</b>
calculate writer's share 5.31¢ x 50% = <b>2.66¢</b>	total pub 4.83¢ + 1.33¢ = <b>6.16¢</b>				total pub 5.8¢ + 2.4¢ = <b>8.2¢</b>		

<sup>1</sup> Calculated based on publisher's share of performance.  
<sup>3</sup> Calculated based on publisher's share of performance.

**NOTES**

The numbers shown only relate to U.S. revenues. Foreign amounts will vary across all aspects.

<sup>1</sup> Depending on the type of service, music service revenue may include, among other things, monthly subscriber payments and/or advertising revenue.

<sup>2</sup> There is no statutory right of public performance for interactive streams of sound recordings. The precise amount of revenue paid out for use of a recording depends on the sound recording owner's negotiated deal with the service. 58.5 is an approximation based on multiple data points we received.

<sup>3</sup> Mechanical Royalties or "Mechanicals" are paid to publishers/songwriters for the right to reproduce a song in a recording (vinyl, CDs, downloads and "cached" or server copies on interactive services). Unless otherwise negotiated, the rates are determined by statute. For interactive services, the Copyright Royalty Board ("CRB") sets an "All-In Royalty Pool" of 10.5% of music service revenue. Then performance royalties are deducted from the All-In Royalty Pool to come up with what we call the "Payable Royalty Pool." 10.5% does not necessarily apply to all services. There is a "Minimum All-In Royalty Pool" calculated as a percentage of the amount the service reports to pay labels (the "label payment"), which if the result is greater than 10.5% of service revenue. That percentage changes depending on whether the record label or the service (mechanical licensee) in practice, it is always the service, which means the All-In Royalty Pool is calculated as 21% of the label payment. If the licensee were ever the label, the All-In Royalty Pool will be 17.36% of the label payment. There is also a "Subscriber-Based Floor" of 80¢ per subscriber per month, which will be used only if it results in a *smaller* amount than the Minimum All-In Royalty Pool. There is an **additional-mechanical Subscriber-Based Floor** of 50¢ per subscriber per month that applies if the Payable Royalty Pool is *smaller* after deducting performance monies (which it almost certainly is for Spotify). Note that for ad-supported interactive services, there are no Subscriber-Based Floors and there are different percentages for the Minimum All-In Royalty Pool. Practically, this means the All-In Royalty Pool for Spotify's ad-supported service is the greater of (i) 10.5% of service revenue and (ii) 22% of the label payment.

<sup>4</sup> Performance monies are paid for the right to publicly perform a song. As a song streams on an interactive service, it qualifies as a "public performance." Performance rates are negotiated directly between Performance Rights Organizations ("PROs") and the services, and set each year. 6-7% of service revenue is an approximate (unconfirmed) rate paid by Spotify to ASCAP and BMI for 2016.

<sup>5</sup> This calculation is based on direct deals between publishers and Apple. Therefore, there are no Minimum All-In Royalty Pools or Subscriber-Based Floors. However, if there is no direct license, the same statutory calculations as Spotify apply.

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