NIGERIAN RECORDED MUSIC INDUSTRY REPORT

(2015 - 2020)

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INTRODUCTION

The Nigerian recorded music business is a complicated game. Yet it has huge potential to generate significant revenues across numerous digital channels for content rights owners, such as music companies, music publishers and management outfits. Digital distribution channels have now become the single largest source of almost all the income currently generated from recorded music in Nigeria.

The importance of the revenues that accrue from recorded music cannot be overstated. Firstly, such income is the lifeblood of the creative aspect of the music business, namely the composition of songs and the recording of performances of said songs. Thus, the income from the recorded music market is primarily to reward and encourage the "creators" of the music (i.e. composers/songwriters, producers, and recording artists) as well as the third parties that deploy their resources to ensure it reaches as many people as possible (i.e. music companies and music publishers).

Secondly, income from recorded music is for the most part ‘passive income’ meaning the margins on such revenues for rights owners are much higher than on income that requires active/physical involvement to generate; for example, live performances and appearances.

Recorded music revenues are therefore the backbone on which music industries around the world are built, as well as being the key feature that makes the business attractive for investment to further increase market value.

Nigeria’s recording music market has been showing steady growth over the last 5 years primarily driven by a boom in mobile value added service (VAS) sales of music as caller ringback tones/ringtones (CRBT/RT) and downloads. This transformed the market both in terms of music consumption as well as how revenues are accounted for - due to the transparency afforded by such digital channels of distribution. This transparency (or lack thereof) is one of the primary hinderances preventing major growth in the industry as a result of the lack of verifiable means of accounting for collected revenues from sales.

What is particularly exciting and different about the current market is the emergence of new segments from which previously inaccessible additional streams of revenue are now becoming available. Yes, these revenues may initially be minimal - due the nascent stages of growth of these segments - however they will prove to be an increasingly important component of the overall revenue pie available to content owners.

These segments include performance rights - from exploitation of music by way of public performance (in bars, clubs, businesses, broadcasters and internet platforms etc.) and synchronization revenues - from use of music in films, tv shows and video-games etc.).

With respect to the performance rights segment, there are now two government-licensed performance rights organizations (PROs) in the country and both are, in their respective rights, engaged in significant activities to increase license fee collection and distribution. These PROs have also seen some big successes in some of their major litigations; as well as embarking on licensing drives to increase the number of paying licensees and tasing license fee rates; all the foregoing show that significant progress is being made in this segment with regards to revenue generation. There is still, however, a serious sticking point with regards to the allocation of royalties for particular uses of specific works and the distribution of same amongst the owners.

In the synchronization market a number of music publishing companies are springing up with said companies owning rights to large repertoires of works and compositions that include those of numerous (legacy and current) hit recordings. These companies are specializing in licensing music to Nigerian film and television producers to add more value to their productions by using music to enhance their stories, both in a cultural and artistic sense. Furthermore, with the Nigerian film industry, Nollywood, also growing at a significant rate - both domestically and internationally - this creates even more revenue opportunities for the recorded music industry from this segment.

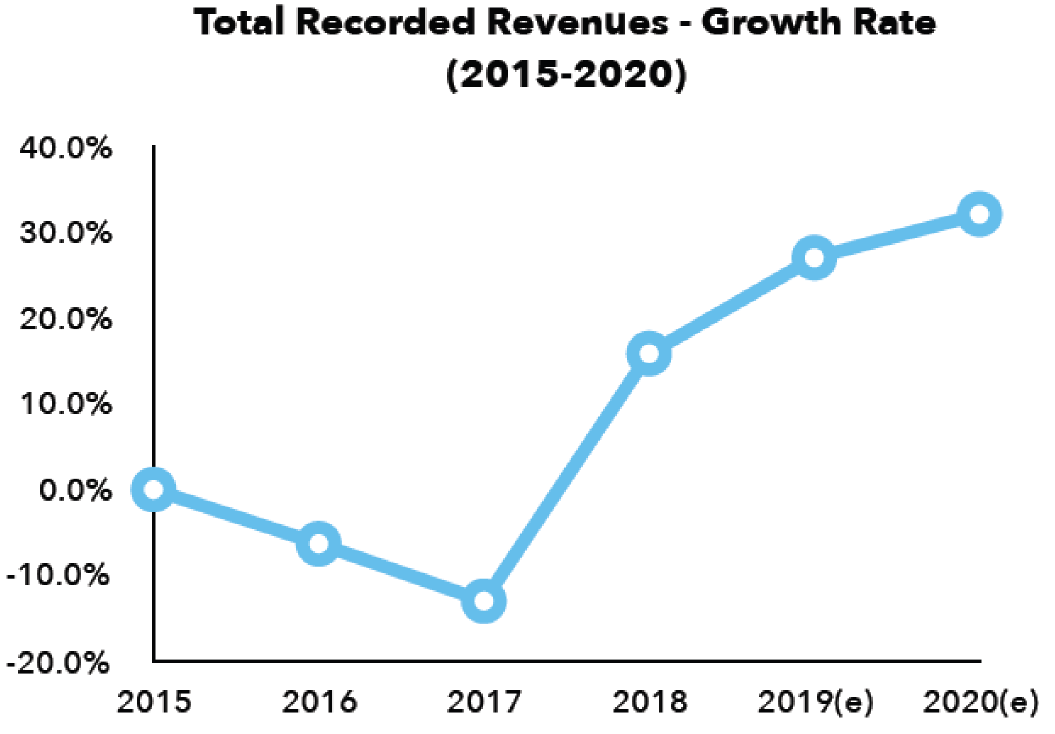
This report seeks to identify and summarize the revenue numbers in the Nigerian recorded music market based on data acquired from financial statements of players within the sector as well as information from industry contacts and other data sources. The purpose of the report is to provide content owners with a guide as to the potential returns that can be generated by their catalogues, which can then be used to value their copyright assets and attract/justify appropriate levels of investment.

THE DOMINATION OF DIGITAL

Digital music consumption in Nigeria overtook physical consumption circa 2013 and market revenues from physical sales, which have been declining steadily year on year, are now dropping to well below $10m. For context CD sales at their peak in Nigeria generated just over $30m per year.

Car CD players, that helped prolong the lifespan of physical sales, are rapidly being replaced with auxiliary chords and car stereos that are compatible with mobile phone Bluetooth technology. This digital take over can also be ascribed to the rapid growth in mobile consumption, and further penetration of internet connectivity across the country.

The bulk of recorded music revenue in Nigeria was for a number of years primarily driven by the VAS segment that still had a growing aggregate subscriber base which then peaked in 2016 at around 60m subscribers[1]. This growth, coupled with the increasing adoption of (zero data rated) interactive streaming in Nigeria, has resulted in a surge in the aggregate number of users on these platforms as well as the revenues generated.



SOURCE DATA: DCEM

[1] This segment has recently experienced some declines due to a newly implemented policy from the sector regulator, the Nigerian Communications Commission (NCC), which forced VAS providers/MNOs to disengage the auto-renewal feature of their service subscriptions. However, due to the large subscriber base and the culture of purchasing downloads/ringtones/subscribing to RBT services with pre-paid airtime this segment still has significant monetary potential once stabilization occurs.

Mobile Network Operators (MNO's), with their VAS (network based) delivery channels, have had an overall positive net effect on market revenues. Prior to their advent piracy was the single biggest reason the Nigerian recorded music business was unable to breach the $40m mark despite the size of our population and our love for music. This issue, coupled with a lack of transparency with regards to sales data, meant that the physical sales market was never going to provide a suitable foundation to attract the necessary investment to grow the industry.

ANTI-PIRACY:

With its digital rights management (anti-piracy) features, the VAS distribution mechanism provided by the MNO's resolved this major challenge that faced the industry. Although digital piracy - in terms of illegal downloads of music sold to customers who pay to have them copied to their mobile phones or hard drives - is still quite rampant[2].

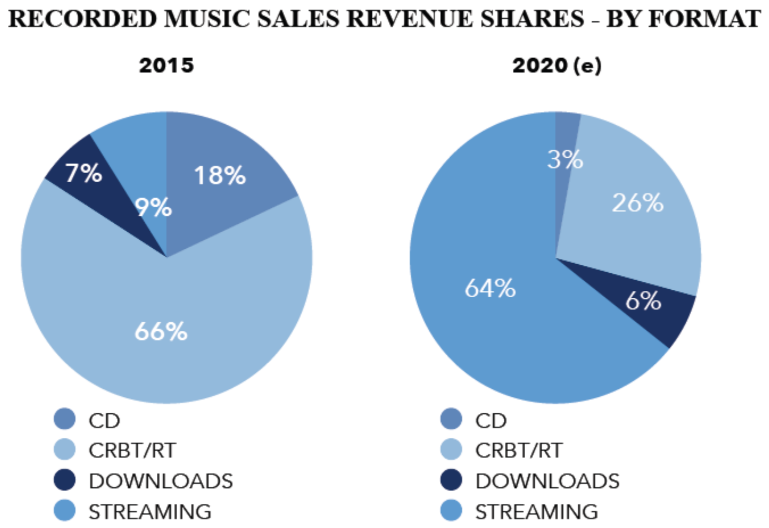
This form of digital piracy, coupled with the rise of promotional blog sites that indirectly monetize - via advertising revenue - free downloads of music to the detriment of rights owners, have had, and continue to have, a direct impact on the over-the-top (OTT) digital download market which, as will be seen later in this report, has struggled with growth in Nigeria since the arrival of streaming into the market.

Despite the Copyright Commission (CC), the copyright regulatory body in the country, constantly engaging in activities aimed at curbing this phenomenon - including education initiatives, workshops and above all raids and seizures - lack of funding and other key resources makes this an upward task for the CC which has arguably only made a negligible impact on this modern form of piracy.

SALES DATA:

An added, and equally key, bonus of the transition to digital (both VAS and OTT) is the availability of sales data. This is crucial for a number of reasons. Firstly, it provides content owners, and their distributors, potential access to up-to-date (sometimes real-time), independently verified/verifiable, information regarding the number of sales and, by extension, the revenue their content generates. This has a positive knock-on effect across the entire value chain as content owners are able to accurately account for gross sales revenues from which the shares of every party with copyright interests in the music can also be accurately calculated.

2 Computer Village (Ikeja, Lagos) is one of largest hubs for such piracy, with customers typically being able to acquire 1,000 songs for toughly N3,000. There are numerous such hubs around the country.



SOURCE DATA: DCEM

The fact that the true gross revenue base from the sale of music (as a ringtone/CRBT/MP3/ stream) can now be recorded and made available, has opened up never before seen opportunities in the Nigerian music business. Content owners now have the ability to track, monitor and predict their share of revenues based on objectively verifiable data, thereby making it possible for each to attract investment/financing on the strength of past performance of their catalogues and forecasts of future revenues based on same.

PRICE/FORMAT:

Another significant benefit of the digital revolution has been that music prices have been raised. Physical sales in Nigeria were traditionally characterized by sales of long play projects or albums. Individual songs were never sold as physical singles. However, the MNO's - due to their focus on selling music primarily as caller tones - created a singles market wherein the average price of a ringtone/CRBT/download (i.e. N50) is an almost 180% increase on the average N18 price of a recording on a CD album sold at N180 containing ten recordings.

Digital distribution - and in particular the VAS distribution system - has had substantially the same effects on Nigerian music consumption as iTunes had on consumption in western markets; namely that 'singles' became the dominating format of consumption and market revenue driver.

Prior to the Nigerian Communications Commission's (NCC) implementation of its 'Do-Not-Disturb' direction for MNOs, as well as its ban on the automatic renewal of subscriptions for VAS services, total subscribers to VAS music services peaked at around 40 million subscribers in late 2015. With their VAS services MNOs had (re)opened what was a dwindling market in an era when physical sales were still dominant. And given that CRBTs[3] are non-transferable and generally inaccessible to non-subscribers, digital piracy (which naturally replaced physical piracy) has been, to some extent, kept at a minimum.

3 Includes offline downloads

Despite the increasing significance of digital consumption of music through streaming - which since late 2017 overtook consumption through VAS networks - music sales through VAS networks are still a significant revenue driver in the Nigerian recorded music market.

MR EAZI PHOTO BY NIYIOKEOWO

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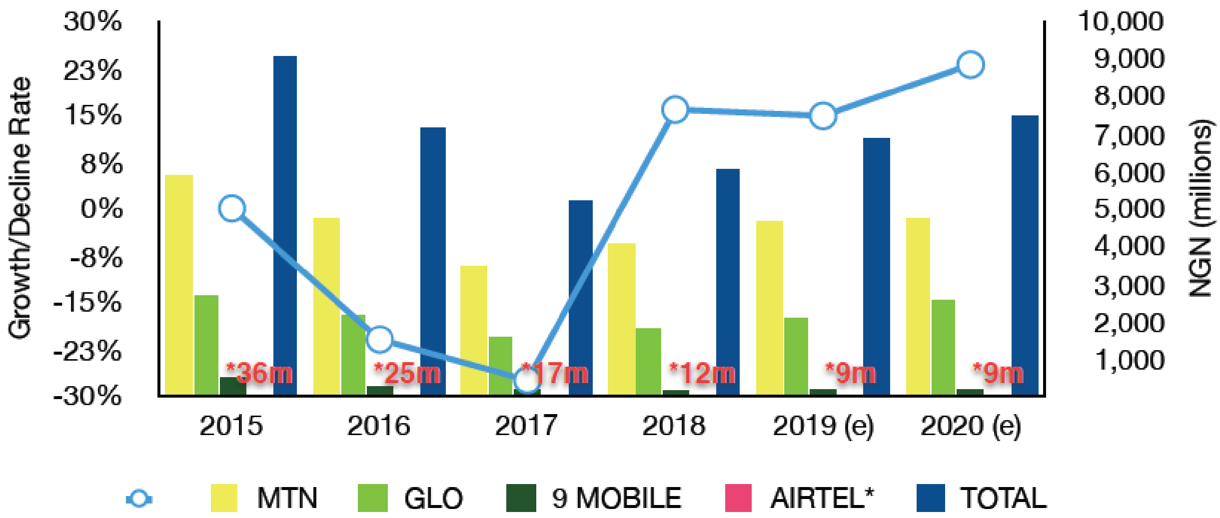
CRBT/RINGTONES

As highlighted above the CRBT market[4], till 2016-2017, has been the most lucrative revenue channel for recorded music in Nigeria. It must, however, be reiterated that the aforementioned NCC regulatory policies (that began to be implemented towards the end of 2017/beginning of 2018)[5] have had a significant adverse effect on this market segment. Notwithstanding its decline, VAS segment revenues still remain a large bulk of the overall revenue generated by the Nigerian recorded music industry.

In a market of around 30 million VAS subscribers across all networks spending an average of N300 ($1.20) each per year - which equates to a potential market value of circa N9 billion ($25+ million) per year for this sub-segment alone - the music VAS market is still a major source of revenues for content owners.

MNO VAS Music Revenues + Growth/Decline Rate, 2015-2020



SOURCE DATA: Group Financial Statements/Investors Reports/Press Statements/News Reports/Articles and NCC subscriber market share data

4 Includes ringtones/CRBT/MP3 downloads

5 The NCC's Do-Not-Disturb Direction: first initiated in May, 2016 but commenced in 2017-2018 .

The NCC, after lobbying by the Wireless Applications Service Providers Association of Nigeria (WASPAN) and other stakeholders including as music companies, in March 2018 issued the “Value Added Services Aggregator Framework” that, amongst other things, provided for guidelines as to revenue sharing allocations between various participants within the VAS distribution chain.

These guidelines provide for a minimum 40% aggregate share of gross revenues between content providers (i.e. VAS companies) and content developers (i.e. music companies). This is double the traditional 20% of gross revenues VAS companies and content owners have historically come to accept from the MNOs.

It should be noted, however, that one of the issues of these guidelines is that they are just that; ‘guidelines’. This means they are not mandatory and thus parties are still at liberty to come to alternative arrangements. However, with increased awareness and coordination amongst the major stakeholders in the music community, these guidelines will likely become the minimum standard in the near future.

The VAS segment suffered a decline in revenues between 2016 and 2018. This decline had a significant negative effect on overall recorded music revenues during the period. However, it is strongly believed that this decline will stabilize over the next 2-3 years whilst the next segment to drive growth, namely streaming, will make the VAS channel less and less relevant to the aggregate value of the sector.

Music companies with strong catalogues (consisting of at least 2 - 4 recently popular /well-known recordings) can generate anywhere from N3.2m - N6.8m per quarter (or N13 - N28m per annum) based on a cumulative average of 50k - 140k monthly (or 600k - 1.7m annual) CRBT subscriptions/MP3 downloads across the various mobile networks.

STREAMING

Streaming majorly took-off in Nigeria around 2015. Although there were a few local streaming services[6] before this period, almost all offered streaming merely as an ancillary service supporting their more core CRBT/download offerings; and all had nominal streaming subscriber numbers. None of these platforms achieved any significant growth with respect to the streaming aspect of their platforms and were still heavily reliant on CRBT/download revenues.

It was only in 2015 that the first Nigeria-based standalone streaming platform, BoomPlay, entered the marketplace. BoomPlay - owned and operated by Transsnet Music, a subsidiary of mobile phone manufacturer Transsion Holdings Ltd - with almost 40m users as at December 2018 is by far the leading streaming platform in Nigeria[7].

The other notable local players in this space are Mino (launched by the founders of popular music download site NotJustOk.com (NJOK), and a recently launched - GT Bank backed - digital (music inclusive) service called Habari. However, given that the estimated total number of subscribers between these remaining players in Nigeria does not exceed 5m, revenues from these platforms are currently negligible.

Mino and Habari are each less than two years old respectively and as such are in the early stages of their growth. Mino, with resources from NJOK (such as catalogues, network, and relationships) can be expected to grow its music offering quickly, particularly by acquiring content from top tier and A-list acts, which - in addition to the necessary marketing - should serve to attract an increasing number of users to its platform in a relatively short time. Habari, being backed by one of the Tier 1 banks in the country, should also have the necessary resources to acquire premium content and undertake the necessary marketing.

BoomPlay, with its robust user base, generated estimated total subscription revenues of close to N1.5b in 2018[8]. These revenues are then, on a periodic basis, subjected to calculations based on a complicated sharing formula that, in summary, pools and allocates the revenues to calculate a per stream/play pay out rate. This rate is then multiplied by the total number of times the works of each content provider is streamed/played during the relevant period.

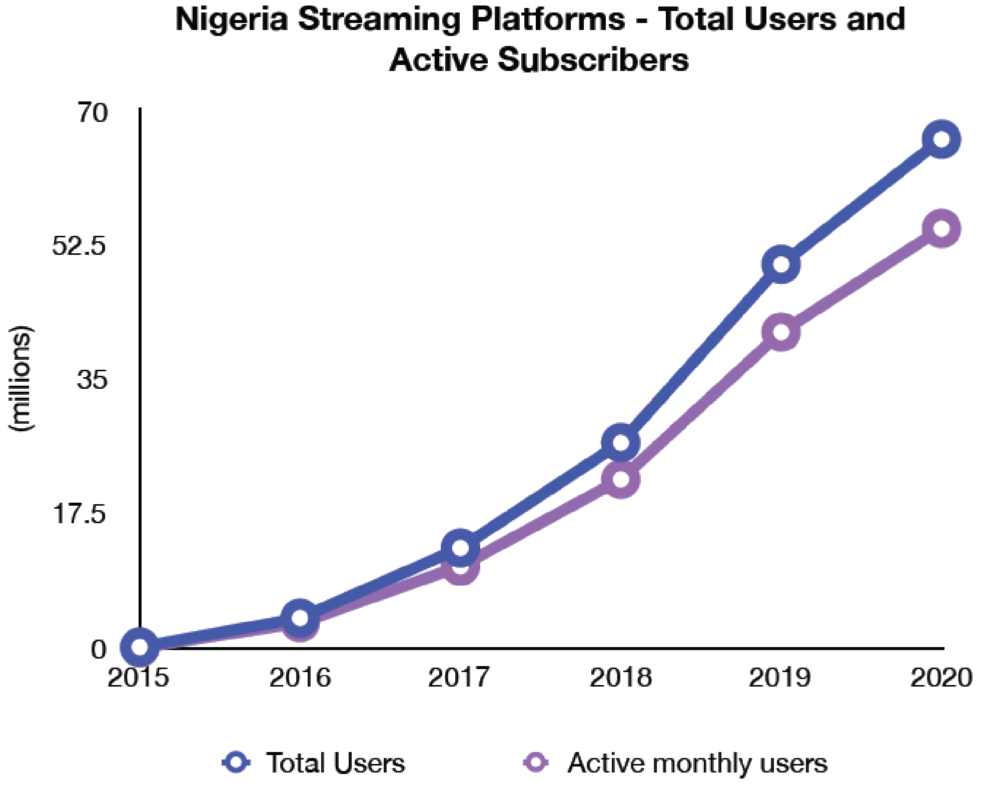
6 Music+ (MTN); Cloud9 (Etisalat/9Mobile); Iroking (Iroko); Spinlet etc

7 Source: BoomPlay Press Statement

8 Source: Technolawgical Partners

Given that BoomPlay is the only platform - directly operating in Nigeria - that boasts of such subscriber numbers, revenues from the service (and that of MTN's Music+) are the only streaming revenues considered for the purposes of this report. Revenues from other Nigerian streaming platforms are currently too negligible to warrant consideration for the purposes of this exercise; however, as the market develops and adoption increases alongside the per capita income of the youth-leaning population, these other revenues will become increasingly relevant.

MTN's Music+ (M+), the only other streaming platform considered for this report, has a subscriber base of just over 400k Nigerian subscribers.[9] With said subscribers potentially generating revenues of almost N1.5b per annum from their subscription fees[10], M+ and BoomPlay are together fast pushing streaming towards becoming the biggest generator of all recorded music revenues in the country; and this trend is only going to increase exponentially.



SOURCE DATA: DCEM

9 Based on Total Africa subscriber figures reported in MTN Investors Report, 2018, at rate/proportion of Nigerian network subscribers to total African network subscribers (i.e. 24%).

10 Based on 400k subscribers spending an average of N3600/p.a. (i.e. subscribing once every other month) for the subscription service which costs N600/month and no ad-supported tier

Music companies with strong catalogues (consisting of at least 5 - 10 recently popular /well-known recordings) can generate anywhere from N3.7m - N6.5m per quarter (or N15 - N25m per annum) based on an average of 2m - 3m monthly plays from both BoomPlay and Music+.

Furthermore, Nigerian music companies are starting to gain more purchase from advanced markets such as the UK, where 'Afro-swing' (an Afrobeats-inspired music genre) has penetrated the mainstream popular culture and music charts. This means that Nigerian music companies, with strong A&R/promotional insights and strategies in these markets can potentially generate a minimum N12m - N15m per annum in additional streaming revenues from digital music consumption in these territories on services such as Spotify, Apple Music and Deezer.

Furthermore, with services such as Spotify now directly licensing content from rights owners - as opposed to the traditional model of acquiring content through (a limited number of) third party/major-label distributors - margins can be further improved as a result of rights owners not having to incur the cost of label marketing/distribution which can - in some cases - be as high as 40%.

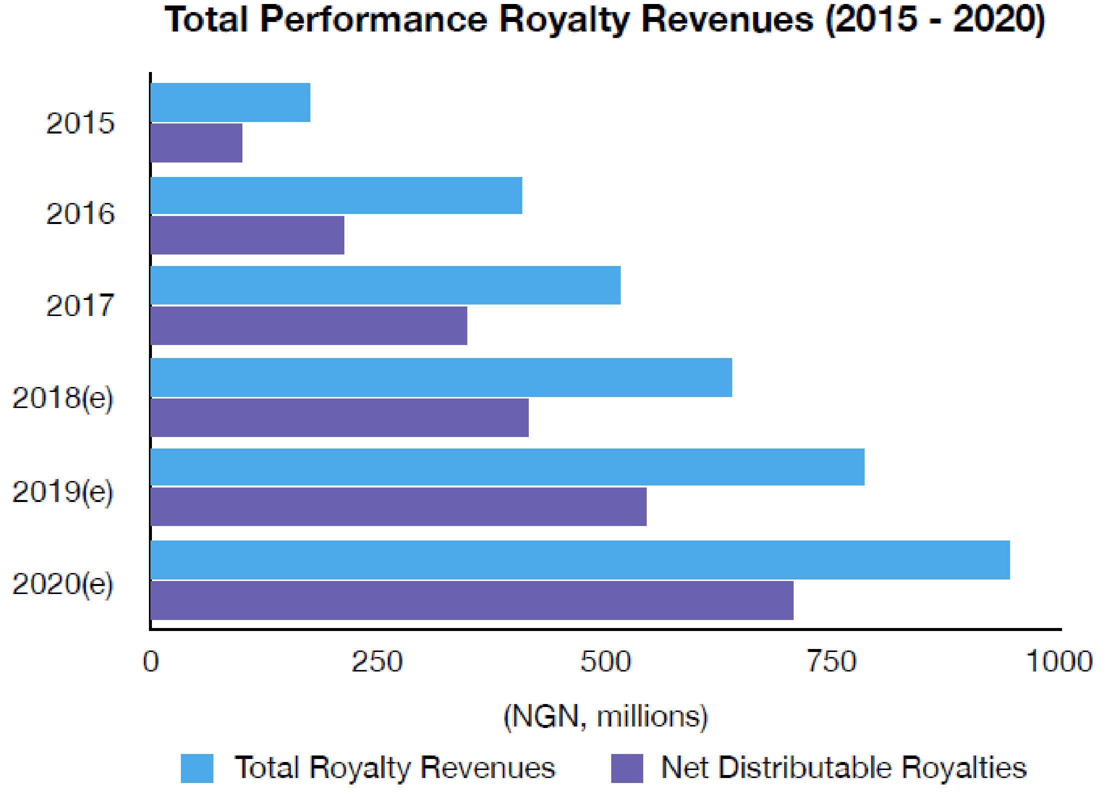
DAVIDO PHOTO BY TYBELLO

Nigeria, like many other jurisdictions, recognizes the exclusive right of a copyright owner of a sound recording or musical work to publicly perform and broadcast said works, as well as making same available to the public.

With now two government licensed PROs in the country to collectively administer these classes of rights of Nigerian music copyright owners[11], and with the growth in collected license revenues by each PRO respectively, previously unavailable income generating channels are increasingly opening up to owners of copyrights in the most popular Nigerian music of the last decade.

The Copyright Society of Nigeria (COSON) reported gross license fee revenues of almost N500m for 2017, an almost 40% increase on the previous year. Note that this is asides settlements/damages secured as a result of litigation.

The Music Copyright Society of Nigeria (MCSN) also secured a N5b judgment against the leading pay tv service provider in the country for unauthorized broadcasting of programming containing copyright works in their repertoire.



SOURCE DATA: COSON 2017 Annual Report

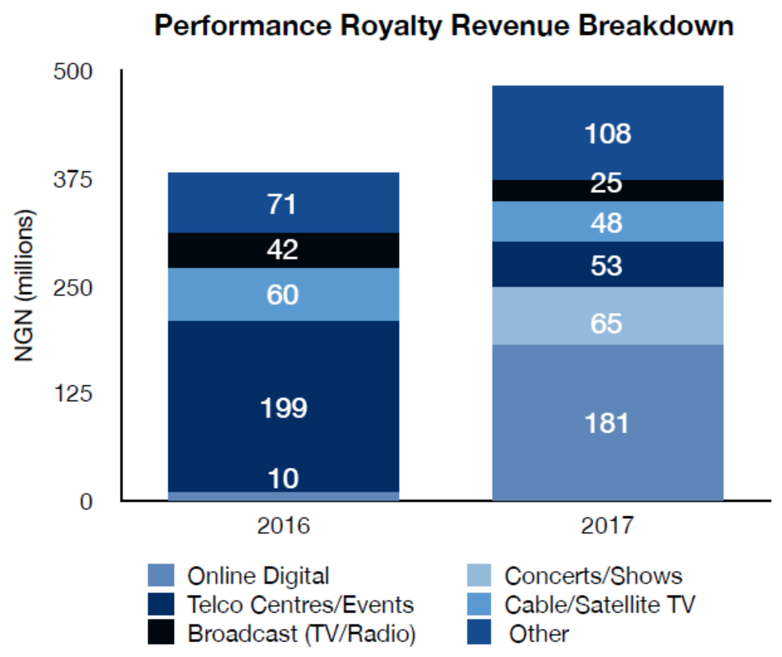
11 As at the date of publication of this report the license of the Copyright Society of Nigeria (COSON) is suspended

Moreover, digital licensees now also encompass digital music platforms that provide on-demand offerings. Such platforms are liable to pay both mechanical and performance license fees for music made available on their platforms. Mechanical rights are negotiated directly with rights owners however the performance rights aspect is administered by the PRO's.

Distribution of collected revenues by the PRO's has historically been a point of friction preventing members of the PRO's from receiving their appropriate shares of said revenues based on (or as close as possible to) actual usage of each member's works.

Technological evolution - both internally within the PRO's and also in terms of market consumption - is rapidly eradicating this problem with licensees (particularly those with the largest usage of music as part of their business services) for the most part digitizing their operations and services/products thereby gaining the capabilities to accurately record consumption data and report same to the PRO's. The PRO's are in turn able to then use this data to properly allocate and distribute collected license fees to their respective members.

These developments all contribute to the emergence of a realistic opportunity for music companies to begin to generate performance rights related income in Nigeria. Initially such income may not be particularly notable, but would nonetheless still be significant enough - in conjunction with other recorded music income - to have a positive impact on aggregate recorded music revenues for music companies with the strongest catalogues.



SOURCE DATA: COSON 2017 Annual Report

SYNCHRONIZATION

The Nigerian synchronization market is in its very nascent stages.

As has been extensively reported, a boom - both domestically and internationally - in the country's film and television production industry (commonly referred to as “Nollywood”) is well underway, and is the primary driver of the growth in this sub-segment of recorded music revenues.

Domestically, Nollywood’s growth is being fueled by a significant rise in the number of cinema houses in the country - coupled with higher budget/quality movies targeted for exhibition in these cinemas. This novel segment of the music business is developing on top of the existing legacy DVD and pay-tv markets, with all, catering for a growing urban and youthful middle-class population.

International prospects are also bright due to the growing demand for Nigerian cultural products in foreign markets. This is supported by the increasing diversification of content being produced/acquired by the leading global video-on-demand platforms. All the foregoing will, by extension, will have a positive effect on the value of Nigerian recorded music used in such content.

By our estimates, the Nigerian sync market in 2019 will potentially generate a value of over N200m.

In the ethnic-language based television movie sub-segment (such as content on/for M-Net's Africa Magic Yoruba, Igbo and Hausa channels) as well as in the majority of low to mid-budget ‘independently produced’ movies (now primarily for digital distribution via video on demand platforms), the general practice is for producers to commission thematic original compositions - usually based on/tied to the title of the movie and - that are recurrently used throughout the movie.

Fees, for composing/recording original thematic music for movies in these categories, average around N75k/movie; and with an estimated 1800 of such movies produced per year, the potential value of this sub-segment of the sync market is up to N130m+.

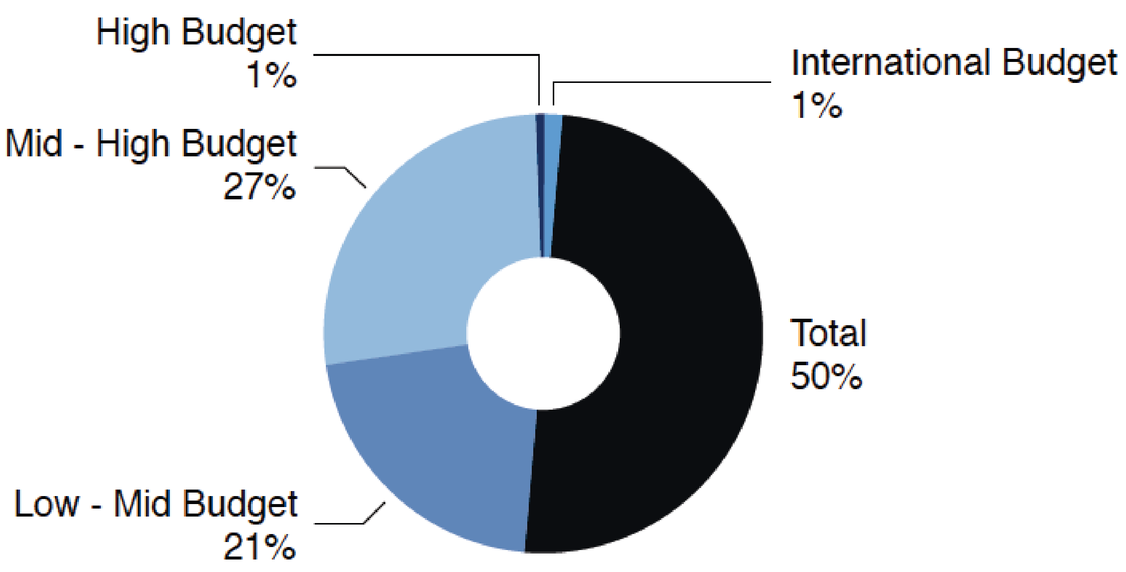
Mid-budget productions commonly include synchronizations of existing sound recordings/ compositions. Top line popular music releases comprise around 70% of the music synchronized in mid to higher budget Nigerian movies, however these rarely include any of the premium “Number 1” releases from A-List artists.

Average sync license fees for such productions are around N350k for both master and sync rights12; and with an estimated 190 of such movies produced per year, this segment has a potential additional value of almost N70m.

High-budget movie productions are increasingly utilizing popular contemporary hit songs in movies but more-so in marketing trailers and other promotional multimedia. Less than 10 of such high-budget movies are produced each year and the number of those that decide to place popular songs are even fewer; around 40%.

However, such productions have been known to pay license fees of up to N2.5m for all media licenses for both master and sync rights albeit such license deals only occur occasionally where a major recording and artist align strategically with the production and there is the requisite budget for music clearances.

SYNC REVENUES BY PRODUCTION-BUDGET SEGMENT



SOURCE DATA: Green Light Music Publishing Ltd

12 30secs maximum use (theme/background), all media rights

CONCLUSION

The Nigerian recorded music industry is without doubt poised to spike in growth significantly over the next 3-5 years. As mobile and internet penetration continues to deepen, coupled with a steady growth in the purchasing power of larger proportion of the population, consumption of entertainment products will only increase.

Moreover, as internet access becomes more pervasive - thereby increasing the proliferation service providers - competition in service supply, as well as more "bundling"/zero-rating of entertainment products, will result in a decrease in the effective cost of data. This would mean subscribers having more money to spend on entertainment products such as music and video.

When one considers that the estimated amount of revenues spent by Nigerians on data in 2017 was N900b - and expected to rise to almost N1.5t by 2020 - a 1% decrease in data costs could potentially add an extra N9b to the entertainment sector; and up to 40% of such revenue may flow to the music industry specifically. With our current valuation of the recorded music industry being an estimated N10b+ as at the end of 2017, an additional N3b-N4b would be a major boost to the market.

TOTAL RECORDED MUSIC REVENUES (NGN, millions)

	2015	2016	2017	2018	2019(e)	2020(e)
CD	2,150	1,629	1,198	951	720	522
CRBT/RT	7,916	7,133	5,171	5,989	6,874	7,458
DOWNLOADS	831	803	786	674	615	653
STREAMING	1,065	1,640	2,591	3,680	6,145	9,341
PERFORMANCE	175	408	515	639	785	943
SYNC	76	89	112	147	202	301
TOTAL SALES REVENUES	**12,213**	**11,702**	**10,373**	**12,080**	**15,341**	**19,218**
TOTAL SALES REVENUES ($)	34	33	29	34	43	53

Recorded music would be the natural destination of such monetary flows given that the same channels through which data is bought are also used to subscribe to/access music platforms in Nigeria. Thus, rather than subscribers spend their prepaid credit on data plans, they simply use same to cover subscription fees and digital product purchases.

However, the cost of data to enable internet access still remains a hinderance to subscribers thereby acting as a barrier against the expected spike in entertainment sector revenues. Currently, the recorded music market is undergoing a shift where the primary revenue drivers of the industry are moving from the VAS segment towards steaming.

VAS revenues, that for the last 6 years have been the largest source of revenue for the industry, showed a sharp decline between 2016 and 2018 due to the implementation of regulatory directives that severely hampered their business models. Although streaming is quickly picking up the slack where the VAS format is waning - particularly in terms of subscriber numbers - the revenues from streaming will take a little longer to catch up;

It is therefore crucial that the Nigerian recorded music industry, as with Nollywood and the video game sector, must begin to take an active interest in the developments within the telecommunication sector. A particularly important issue within this sector is the speed at which fibre optic broadband cable is being laid across the various geo-political zones.

Connecting increasing parts of the country to the Atlantic submarine fibre cable network will significantly boost the bandwidth availability which should stimulate the necessary competition within the sector for price reductions to occur. However, we estimate that such a scenario is unlikely to occur for at least another 4-5 years due to the slow progress being made in completing the cable-laying activities in the hinterlands beyond Lagos.

Despite a number of companies licensed by the Federal Government to undertake these activities within each zone, most of said companies have struggled to make progress due to excessive government fees and levies in the different States in which they need to operate.

Notwithstanding the foregoing, the Nigerian music industry is still on course for more growth and it is not a matter of if but when. Slight set backs in 2017 were not as a result of market forces but regulatory intervention and based on 2018 revenues it seems - with the growth of streaming and the equalization of VAS revenues after completion of their “subscriber optimization activities” - the industry is back on its strength growth trajectory.

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