Digital Music: Status & Outlook

21st October 2010

Presented by: David Sidebottom

futuresource CONSULTING

Futuresource: Activities & Capabilities

- "One stop shop", comprehensive sector research coverage in consumer and professional electronics, data storage, broadcast and entertainment media
- Global coverage – UK, US and Japanese offices
- Unique knowledge-based expertise and database across value chain, built up over 20 years
- Powerful methodologies and state-of-the-art research tools
- Industry-leading data delivery/analysis platforms
- Strong client service ethos
- Blue-chip client base, unrivalled industry reputation

Global Entertainment Media Revenue Base

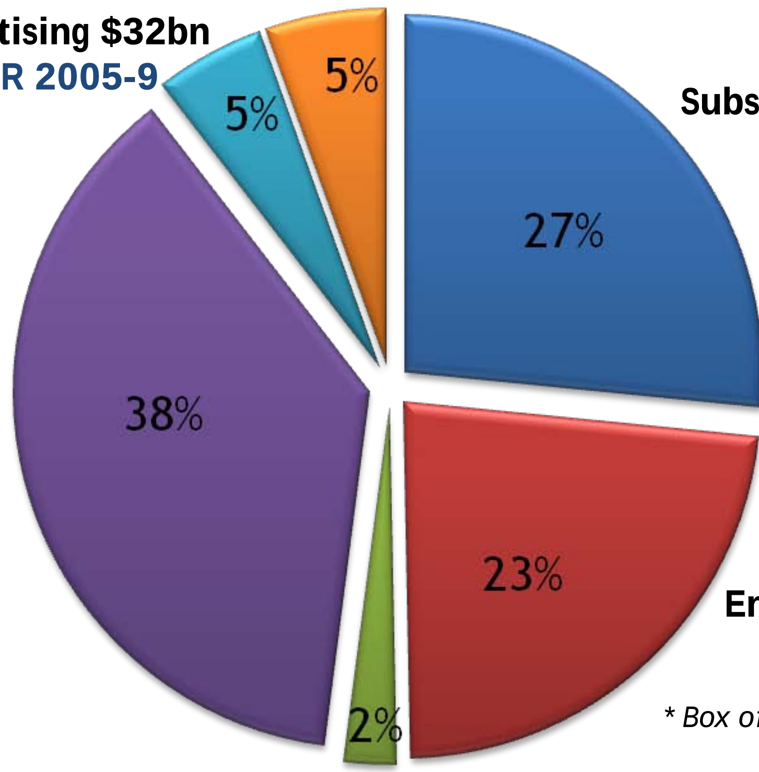
Total WW 2009 Gross Revenue $640bn

Broadcast Receiver Licenses $35bn

Radio Advertising $32bn
-5.3% CAGR 2005-9

Subscription Television $170bn
8% CAGR 2005-9

TV Advertising $240bn
2.4% CAGR 2005-9



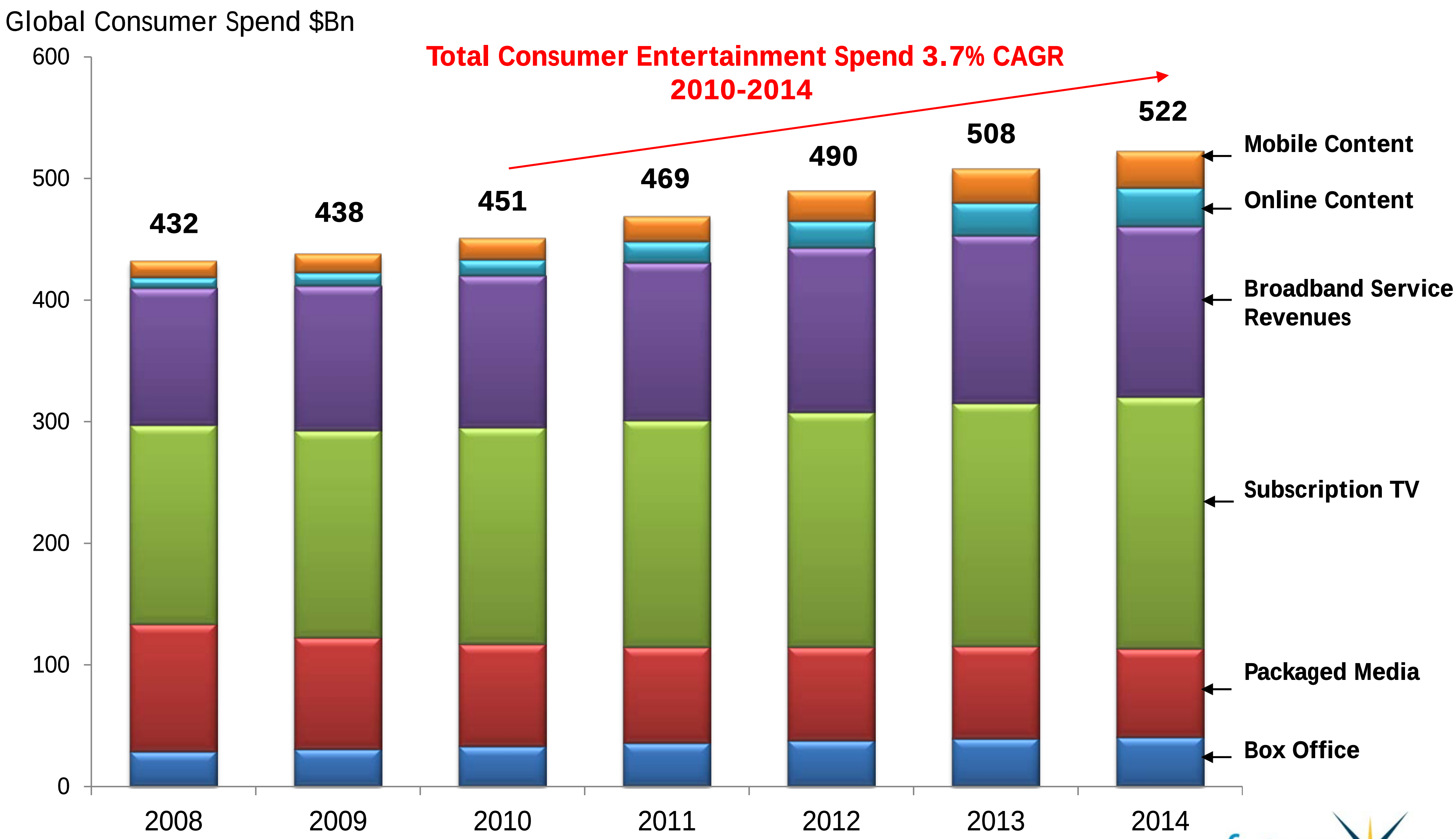
Entertainment Content* $148bn
1.8% CAGR 2005-9

** Box office, Video, Music, Games (packaged & digital)*

Excludes Internet Advertising at $51bn

Other (est) $15bn

Consumer Entertainment Content Expenditure by Media Type/Channel



futuresource CONSULTING

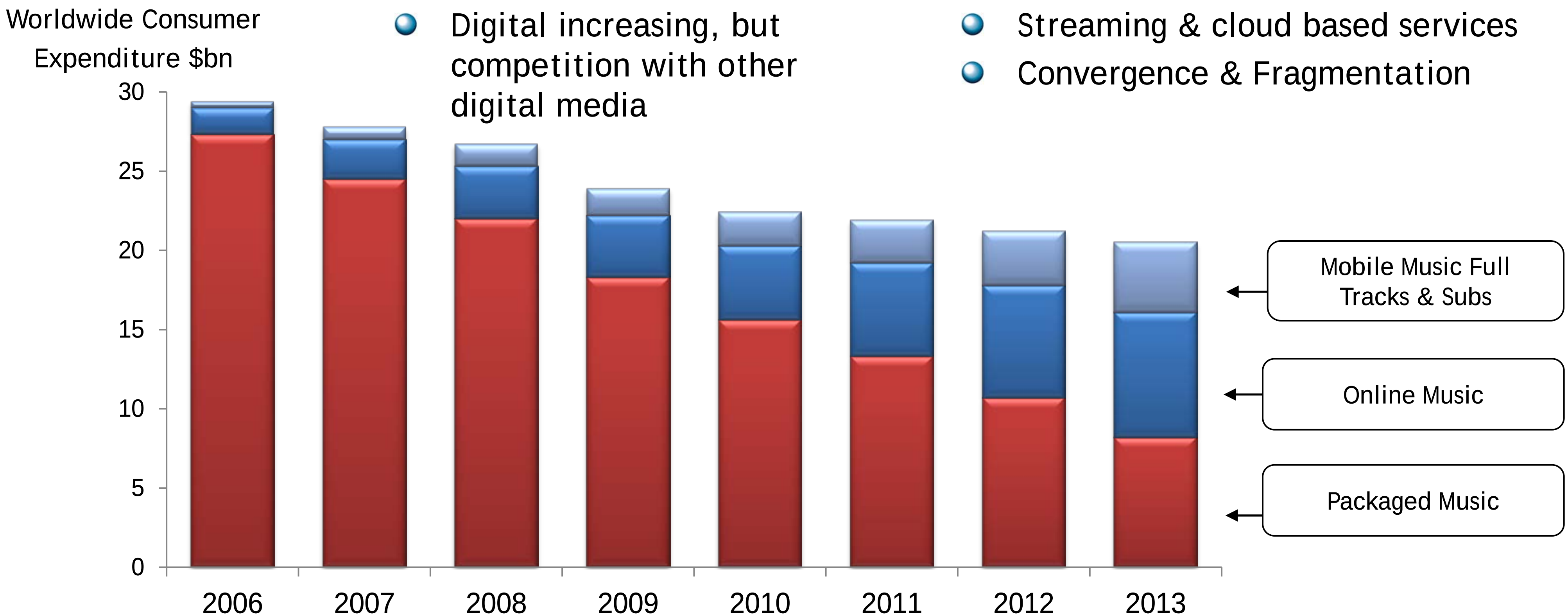
Total Global Music Market in Decline, Digital Not Quite Filling the Gap

TODAY

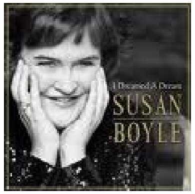
- Packaged Music Declining but still important
- Digital increasing, but competition with other digital media

FUTURE

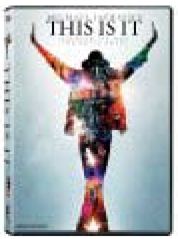
- Industry will continue to push Subscription
- Streaming & cloud based services
- Convergence & Fragmentation



Still Some Positives in Packaged Music Industry



- CD album sales decline in some countries not as bad as first feared
  - UK, Germany, Italy in particular performing better than expected, with only single digital CD album unit declines
  - Most countries are expecting similar declines in 2010, if not slightly better



- Music DVD grew in many countries in 2009, Michael Jackson Effect
  - Strong start to 2010, but will wear off
  - Blu-ray sales remain relatively small

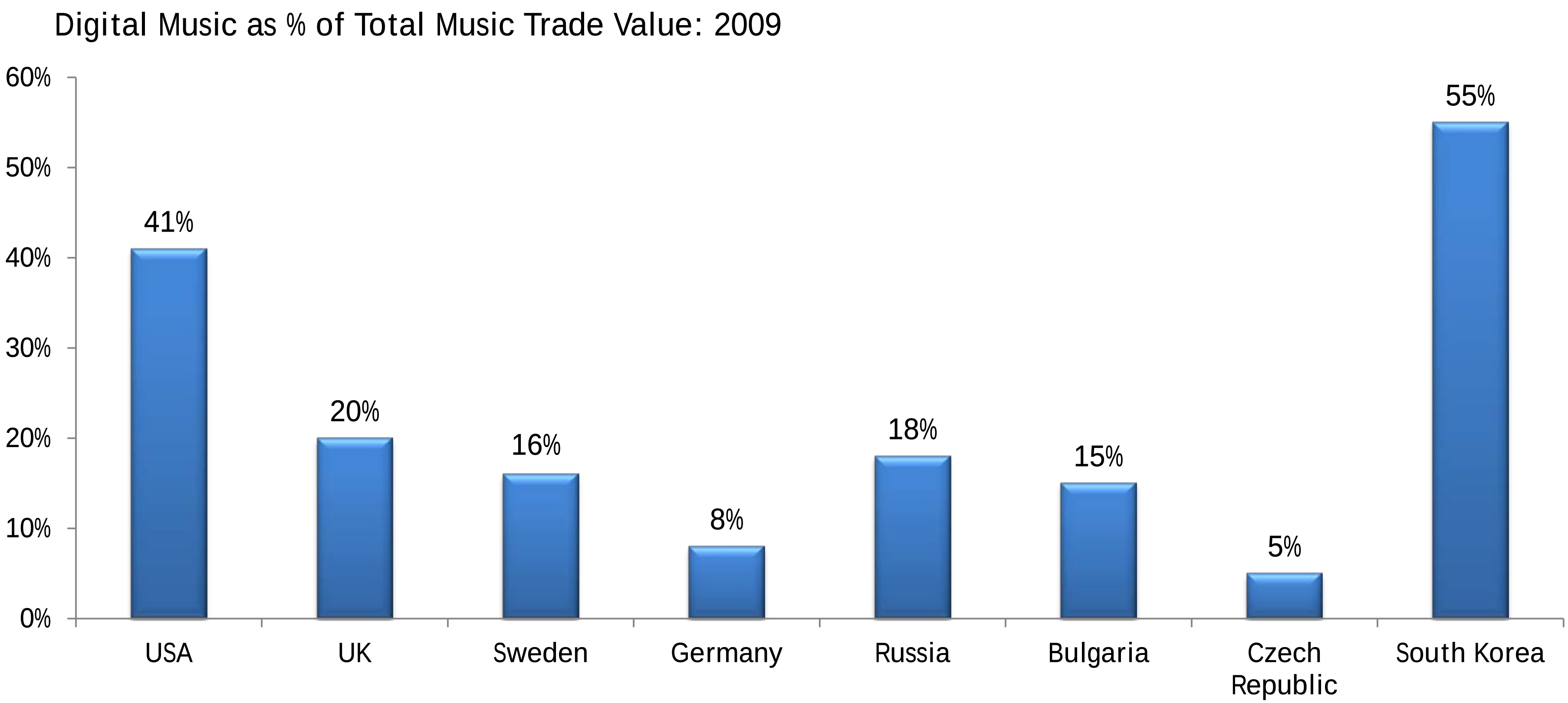
The Pirate Bay

- Legislation having some impact, still long way to go

- But contracting retail, digital competition and digital youth era will continue to impact packaged revenues

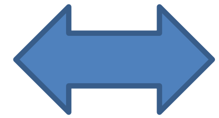
futuresource CONSULTING

Digital Significance Still Varies Wildly by Country



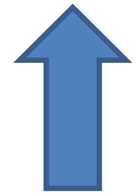
Key Markets Showing Digital Slowdown in 2010

US Digital track units: YTD 2010



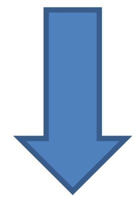
0%

UK Digital Tracks: YTD 2010



7%

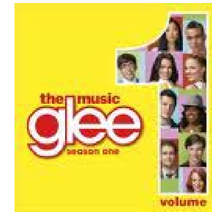
Japan Total Digital Revenue: Q1 2010 vs. Q1 2009



2%

futuresource CONSULTING

Dynamics of Digital Markets Changing



- Online track sales slowing, albums growing
  - Online track growth of around 10% – 40% in 2009 in many countries, lower growth in 2010.
  - 50% - 100%+ growth in 2009 digital albums in many countries outside US.

- Mobile Music Revenues Stuttering
  - Significant declines in truetones/ringtone revenues.
  - Full-track download growth effected by online music cannibalisation.
  - Mobile music subscription awareness low, most not well executed.

- Music Streaming Revenue Growth
  - Streaming usage growing significantly overall, mainly free. Small but growing royalties.
  - Premium subscription revenues at least doubled in most countries in 2009.

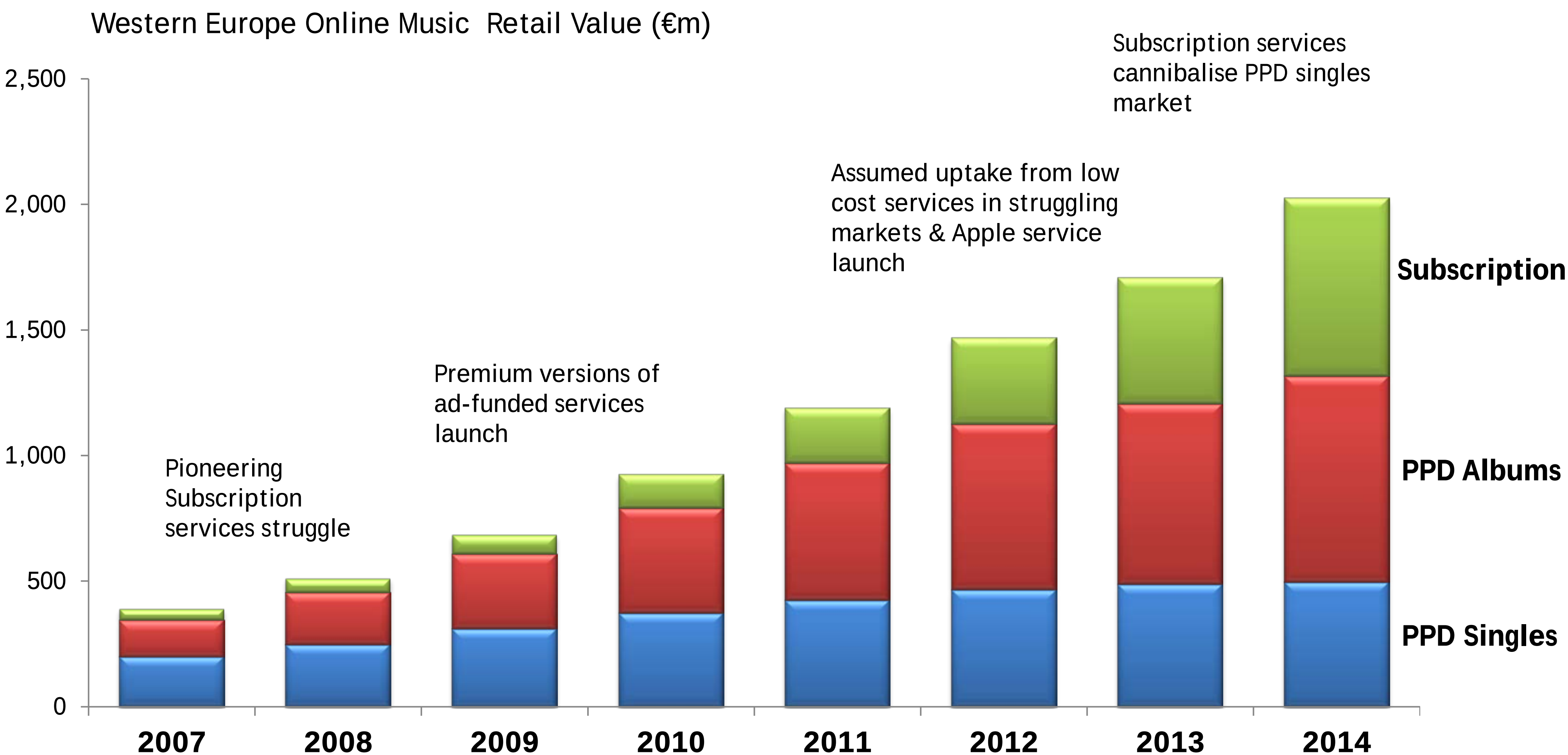
Dynamics of Digital Markets Changing

- Less interest in ownership & collectability
  - Particularly in youth sector
  - Rise of streaming, "unlimited" models and cloud computing
  - Similar in home video (shift to rental & "snacking")

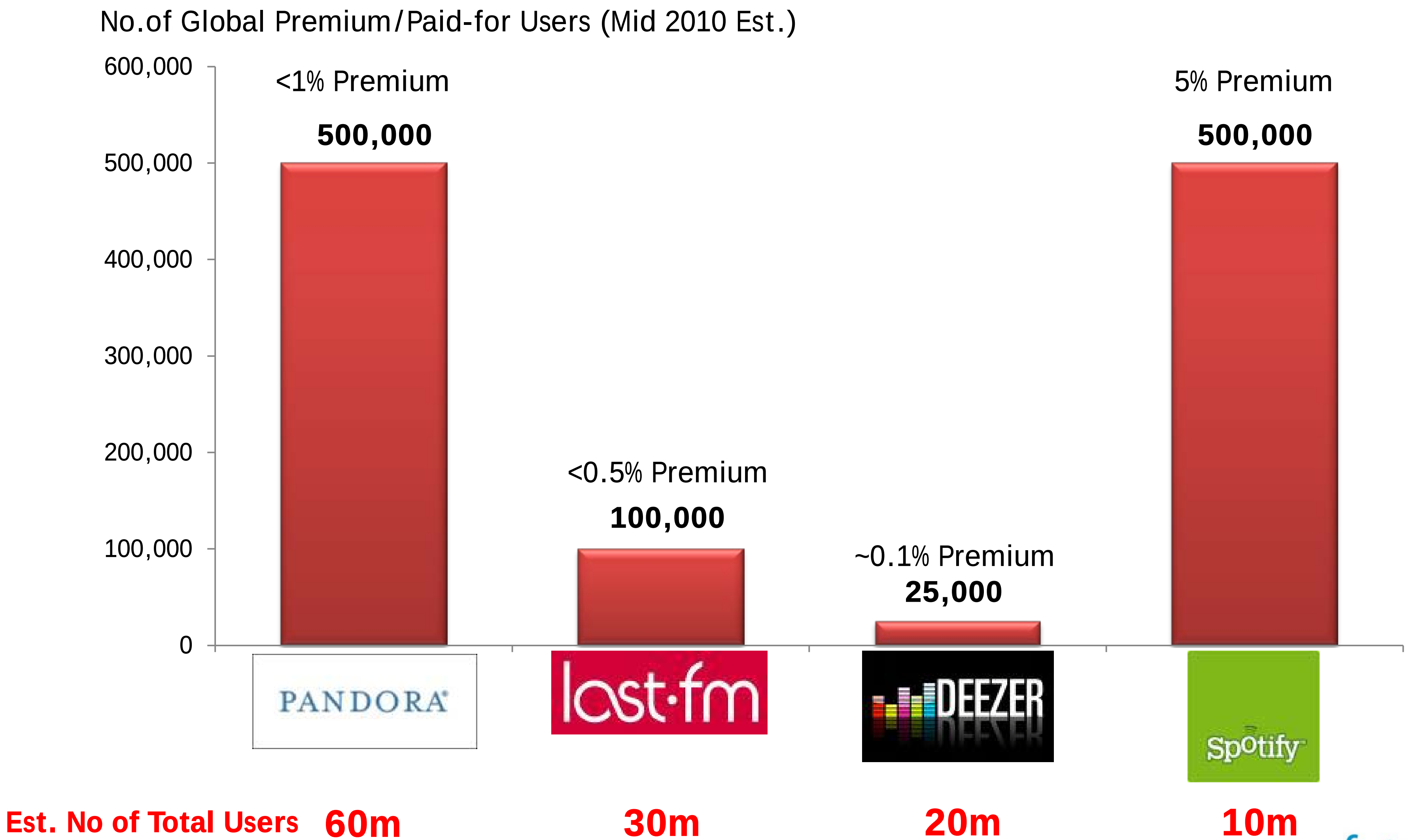
- Free Music Evolution
  - File sharing still a problem but legal services such as Spotify, YouTube, Pandora all providing alternatives, but also an alternative to consumers time.

- Challenge to iTunes?
  - iTunes has 70% online music market share in most key markets, but aggressive services such as Amazon & subscriptions starting to make inroads.

Online Albums & Subscriptions Impacting Online Singles Growth



The “New Breed” of Streaming Subscription Services – Premium Service Uptake Still Slow



Usage of YouTube and Facebook is up in all Territories

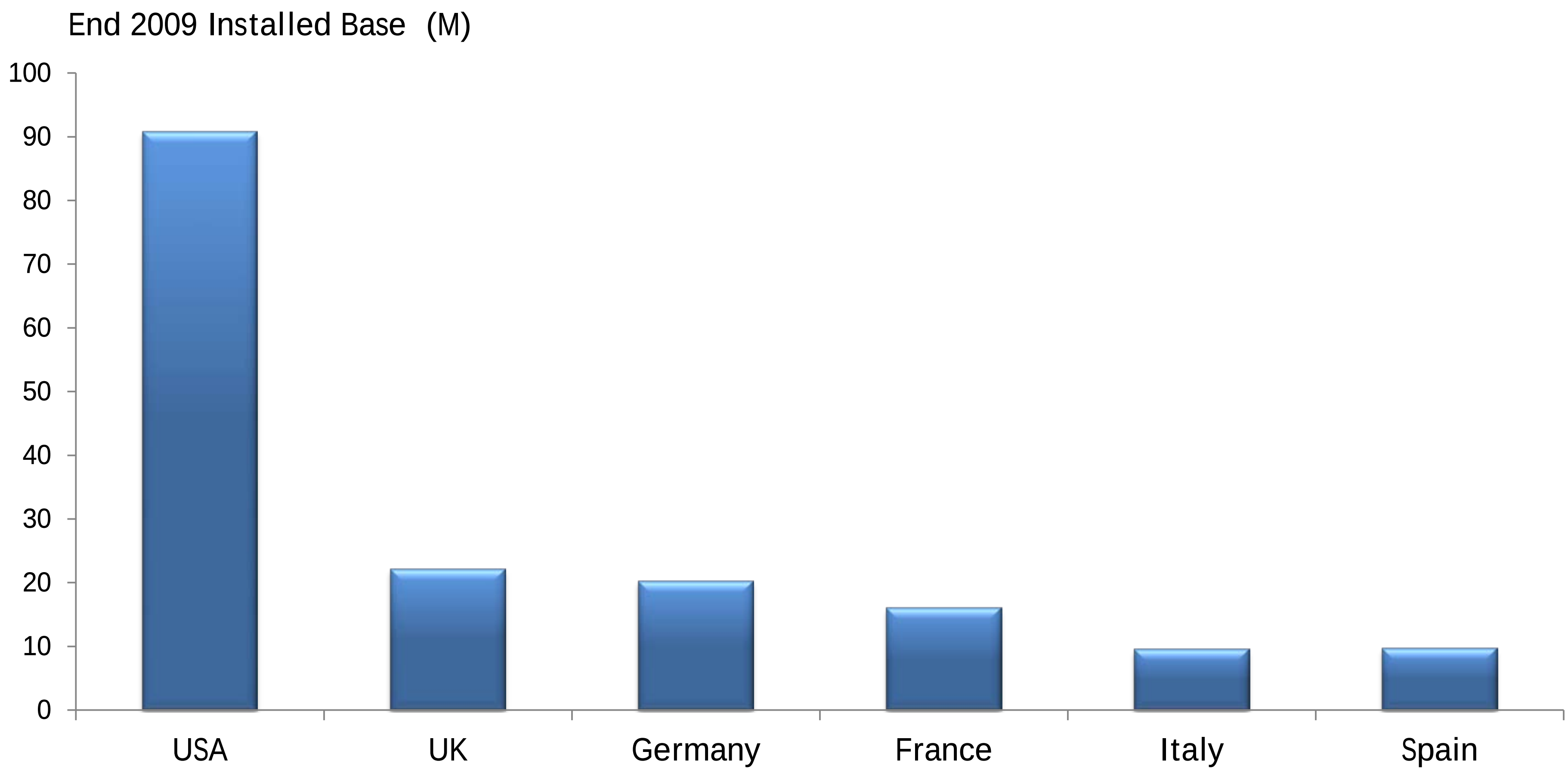
"Which websites do you stream or download video from?"

	UK *(335)*			**France** *(370)*			**Germany** *(335)*		
1	YouTube	77.0%	↑	YouTube	78.1%	↑	YouTube	78.5%	↑
2	BBC iPlayer	76.7%	↑	Dailymotion	41.1%	↓	Clipfish.de	31.6%	↓
3	ITV.com	45.1%	↓	Facebook	39.5%	↑	RTL	30.1%	↓
4	Facebook	30.4%	↑	iTunes	19.5%	↑	iTunes	15.5%	↓
5	iTunes	26.6%	↑	TF1 Vision	18.4%	↓	Facebook	14.3%	↑
6	Yahoo	11.9%	↓	Yahoo	14.1%	↓	MySpace	13.7%	↓
7	MySpace	6.3%	↓	MySpace, Megavideo	13.5%	↓ ↓	MTV	13.1%	↓
8	Megavideo	6.1%	↓	CanalSat	10.5%	↓	Yahoo	11.9%	↓
9	Xbox Live Video Marketplace / Zune	5.7%	↓	CanalPlay	7.3%	↓	Sevenload	8.1%	↓
10	The Pirate Bay, Mininova, Love Film, Five Download	5.1%	↓ ↓ ↓ ↓	Neuf Cegetel	6.8%	↓	Megavideo	7.8%	↓

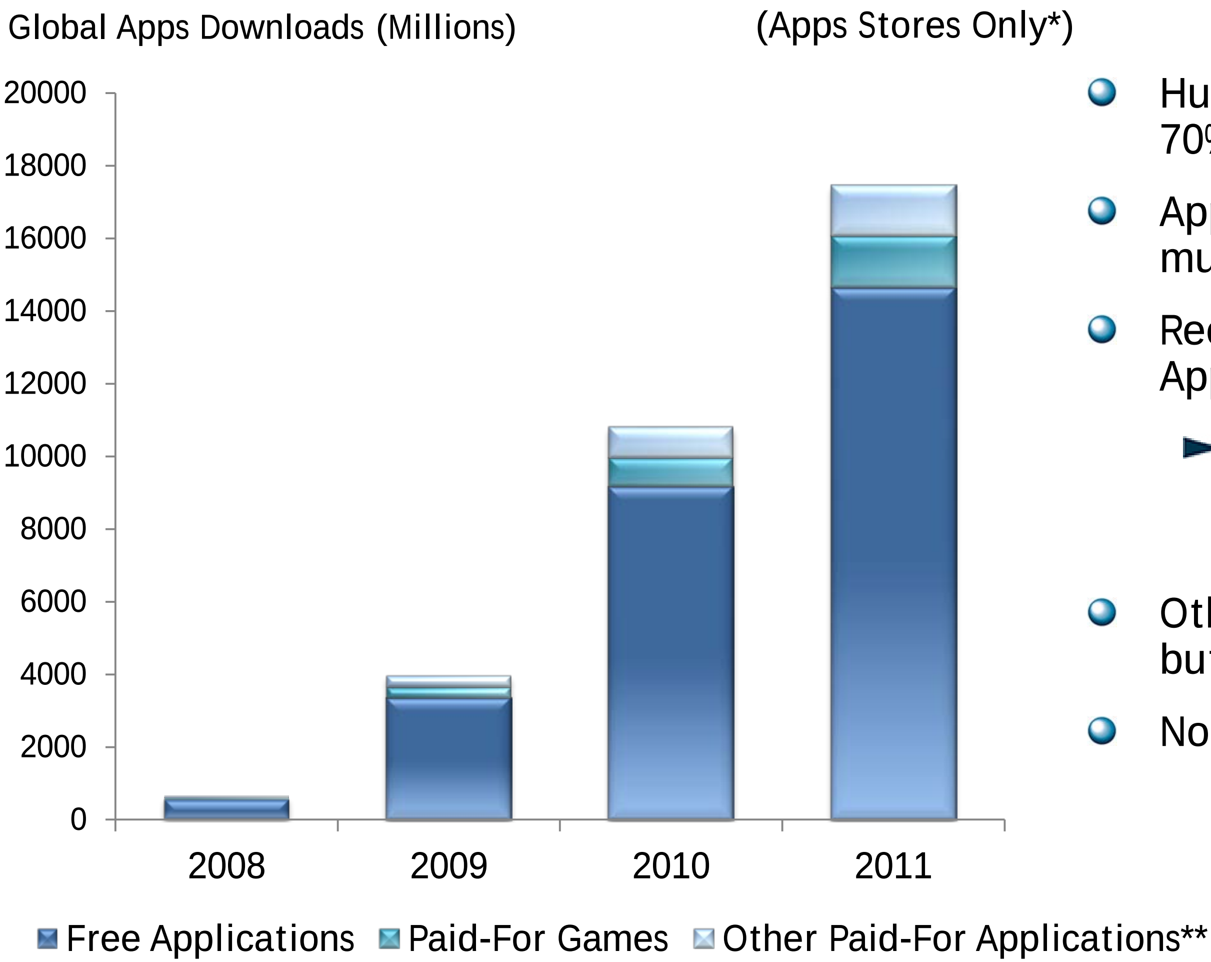
(Living With Digital May '09 compared to March 2010)

futuresource CONSULTING

Smartphone Installed Base Already Significant, Now a Significant Multimedia Device



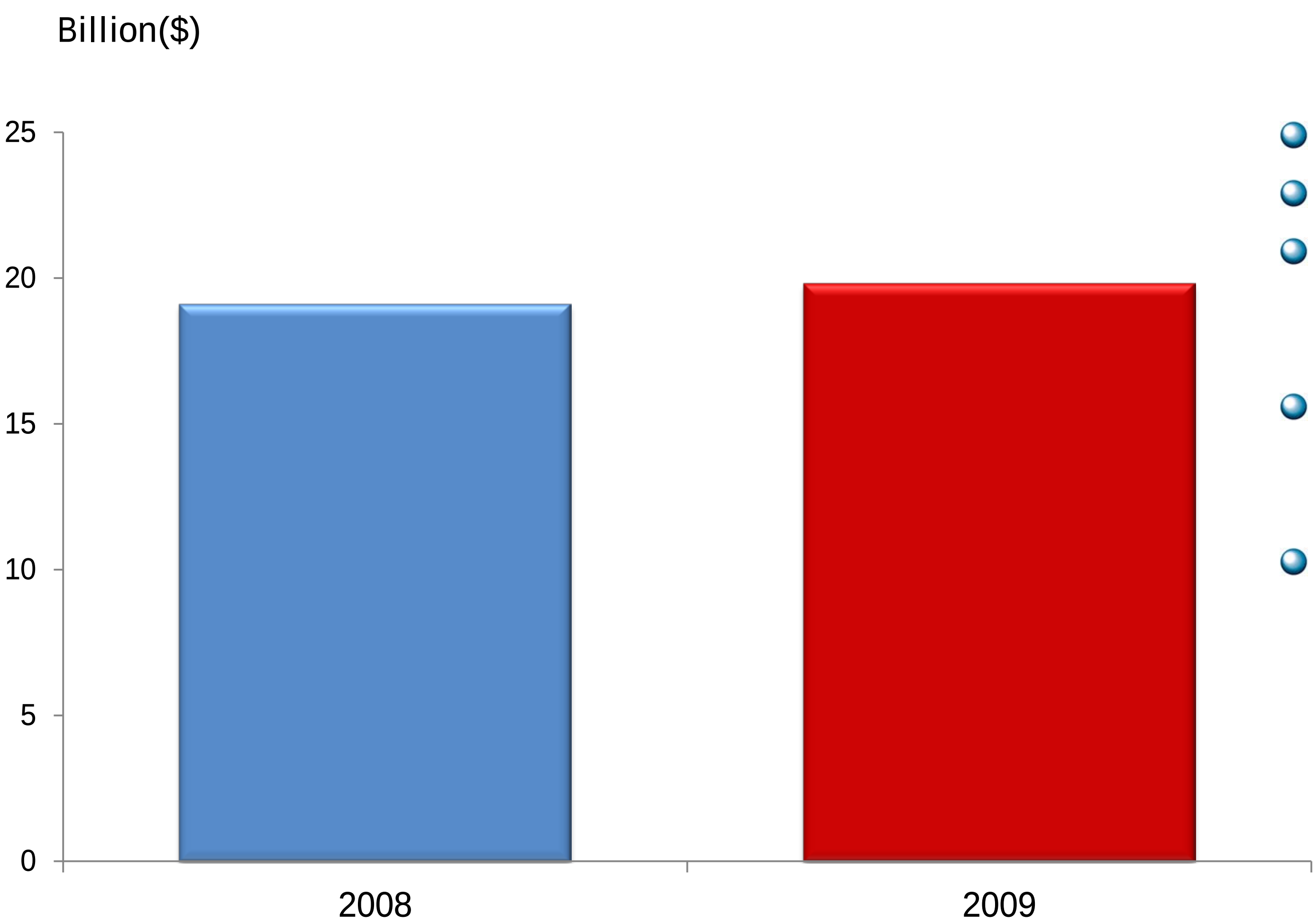
Apps Market Expected to Soar, Role for Music?



- Huge growth in Apps market, Apple over 70% revenue market share
- Apps starting to cannibalise digital music markets
- Record co's desperate to find role for Apps, no major breakthrough, yet
  - Artists apps are effectively "merchandise" but also help brand and artist loyalty
- Other music apps & radio also available, but low direct industry revenues
- No. 1 Music App, Shazam,>75m users

* Includes direct and in-apps downloads via OS powered mobile handsets. **Including entertainment, maps & navigation, etc.

Global Live Music Revenues Challenging Recorded Music Spend



Key Drivers

- Low price sensitivity
- Larger venues
- Artists touring more frequently due to reduced revenues from recorded music
- Wider ticket availability/Second-hand ticket agents
- Opportunity to sell high margin merchandise

Limited Key 3D Titles Available for General Sale H2 2010

Bundled 3D titles with either 3DTV, 3D BD players or 3D Glasses

SAMSUNG

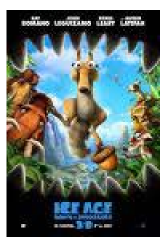
The Complete Shrek Series

How To Train Your Dragon

Panasonic

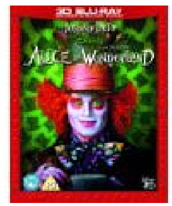
Avatar

Coraline



Ice Age: Dawn of the Dinosaurs

SONY



Alice In Wonderland

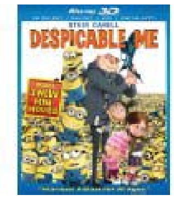
Bolt

Toy Story 3

Key Titles Available for Retail Sale

Open Season

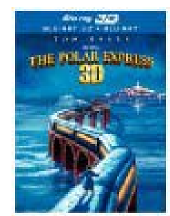
Monster House



Despicable Me

Cloudy With a Chance of Meatballs

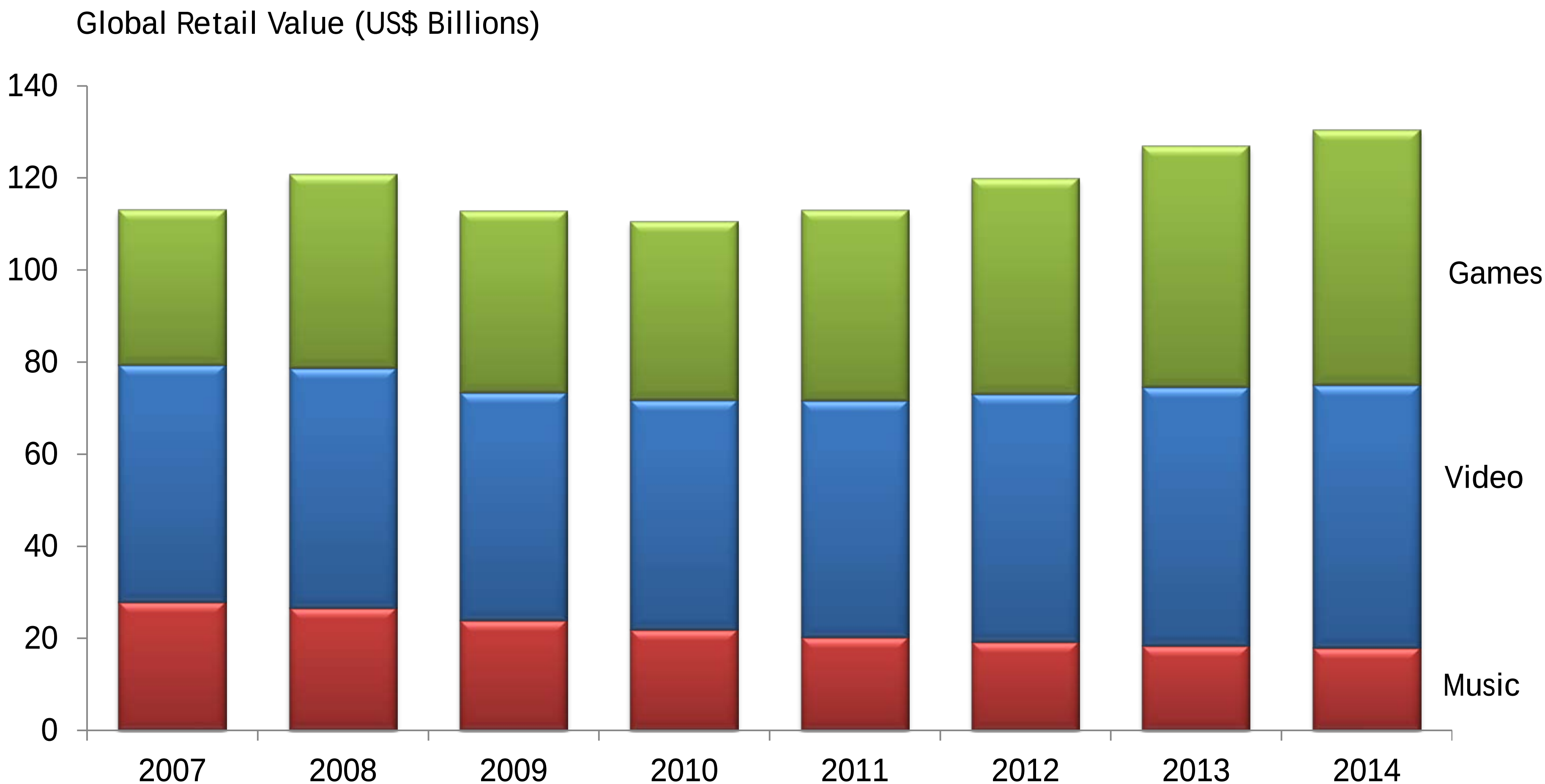
A Christmas Carol



The Polar Express

Step Up 3D

Competitive Spend on Spend on Content Increasing Across All Platforms



In Summary

- Total Global music market down 10% in 2009
  - -9% expected 2010.
- Digital revenues growing but slowing in established markets
  - Rate of change & evolution varies significantly by country
    - Digital markets maturing in some territories, revitalised in others
  - Future growth will come from digital albums & subscription services
  - File sharing and online piracy still a huge impactor
- Impact of free, both positives & negatives, Streaming becoming the norm
  - Leading streaming music services now have 120m users
  - Revenues for advertising are not enough
  - They <u>must</u> convert users to paying, but are the benefits enough?
- Digital convergence now a reality in terms of services, devices and infrastructure
- Handheld/mobile devices continue to grow impressively, another publishing opportunity?

Thank you!

Futuresource Consulting
+44 (0)1582 500 100
david.sidebottom@futuresource-hq.com
www.futuresource-consulting.com