How to play the music royalty boom as streaming services fuel growth

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Barometer Global Music Royalty Fund owns rights to four of the top 10 songs of all time streamed on Spotify including Blinding Lights by The Weeknd. PAUL R. GIUNTA/THE ASSOCIATED PRESS

Canadian pop star Justin Bieber recently sold his song-catalogue rights to a British investment firm for US$200-million, joining a parade of big-name artists who have done deals with major investors.

A music royalties land-grab is underway with more players – from private equity firms to investment funds and entertainment giants – taking part in a catalogue-acquisition frenzy.

But individual investors also have opportunities to get royalties from music. Its strong consumption growth is being fuelled by paid streaming services, such as Spotify, and social media platforms like TikTok, YouTube and Instagram.

“It’s an emerging asset class,” says Rob Tétrault, portfolio manager and head of Tétrault Wealth Advisory Group at Canaccord Genuity Wealth Management in Winnipeg.

“I believe we will be streaming more next year than today, and even more in five years. That’s one reason why we own it [in client portfolios].”

Goldman Sachs Group Inc. forecast global revenue in the recorded music industry to grow to US$53.2-billion by 2030 in its Music in the Air industry report published last June. That’s up US$7.5-billion from the forecast of US$45.7-billion in 2021.

This asset class has also attracted Toronto’s Brookfield Asset Management Inc., which acquired a stake in U.S. music publisher Primary Wave, owner of rights to Whitney Houston’s hits and others, last fall.

Music royalties are a compelling alternative investment for yield and even growth – if one doesn’t overpay for them – because they’re uncorrelated to the economy and stock markets, Mr. Tétrault says.

A risk to investing in this asset class is that people stop paying for streaming, but that’s unlikely because consumers are used to paying monthly subscription fees that are not onerous, he says.

Still, a song or catalogue could stop being popular because the artist gets shunned due to something like a scandal, he adds.

“Obviously the more you diversify the music catalogues, the less of a risk it becomes,” he says.

Strategies of Canadian players

In Canada, music-royalty investments are now available mainly to accredited investors. There are two private alternative investment funds while Toronto-based Music Royalties Inc. is a company that acquires royalty streams and has plans to go public.

Unlike blockbuster deals with famous artists, song rights can also be acquired at more reasonable valuations from co-songwriters, producers, managers and others who own parts of royalties too.

ICM Crescendo Music Royalty Fund, which has raised $65-million since launching in 2020, has rights to music performed by artists such as Taylor Swift, Tim McGraw, Faith Hill, Lauren Daigle, Sleeping with Sirens, Janis Joplin, and Gordon Lightfoot.

“We target paying 10 to 12 times cash flow for royalties,” but catalogues from iconic artists have traded for 20 to 30 times, says David Vankka, chief executive officer of Calgary-based ICM Asset Management Inc.

ICM’s strategy is to buy assets across different genres, and types of royalty rights, he says.

“We own pop, rock, electronic, R&B, hip hop, classical and Christian music,” he says. “We just acquired a Latin catalogue too.”

The fund pays a monthly distribution and yields about 6.5 per cent. In 2022, it returned about 15 per cent depending on the series of units after its financial statements and valuation were audited by KPMG.

Barometer Global Music Royalty Fund, which was launched in 2021 by Toronto-based Kilometre Music Group and Barometer Capital Management Inc., has so far raised about US$80-million.

The fund owns rights to four of the top 10 songs of all time streamed on Spotify. They include Blinding Lights by The Weeknd, the No. 1 streamed song; Sunflower by Post Malone; One Dance by Drake and Closer by The Chainsmokers.

The fund also has music rights to Die for You by The Weeknd. The song was first released in 2016, but has roared back to life thanks to TikTok. It has peaked at No. 6 on the U.S. Billboard Hot 100 record chart, and a remix by The Weeknd and Ariana Grande was released on Feb. 24.

“Part of our thesis is that, if you are buying the greatest songs in the world, then great things will happen to them,” says Michael McCarty, CEO of Kilometre Music Group, a music creation and rights management company.

‘Miniature venture capital fund’

The Barometer fund, which has a quarterly distribution, delivered a 6.5-per cent yield in 2022. It had a total return of 11.5 per cent following a third-party valuation of its music catalogues.

But there’s now a potential growth kicker from deals with songwriters [including Prince 85 who has worked with The Weeknd] who will create new catalogues for the fund at a Toronto studio, he says.

“We believe that we will have far higher returns in that [smaller] bucket than the established catalogues,” Mr. McCarty says. “It’s higher risk, but we look at it as almost a miniature venture capital fund.”

The fund, which has paid 10 to 20 times next year’s expected earnings for song rights, also has a US$50-million line of credit with a U.S. financial institution for a “significant war chest,” he adds.

Targeting ‘anthem songs’

Music Royalties, which has raised $20-million from private placements since 2018, owns rights to songs sung by artists, such as the late Avicii, Drake, Rihanna and bands like The Who and Dire Straits.

“We target just the anthem songs, or the ones we all know” with diversification by genre and music era, says Tim Gallagher, CEO of Music Royalties, and former CEO of Metalla Royalty & Streaming Ltd.

The company has about 300 shareholders who get a monthly payout.

“We have tripled the dividend [$0.01 cent to $0.03 cent a share] and the share price over the past four years,” he says. “We just crossed the $5-million milestone of dividends paid out to shareholders.”

Music Royalties has paid 5 to 18 times cash flow for song rights, but “we are trying to average a 10-times multiple,” Mr. Gallagher says.

It has purchased some of its music rights through the Denver-based Royalty Exchange, an online platform in which individual and institutional investors can buy and sell royalties. Raleigh, N.C.-based SongVest and Luxembourg-based ANote Music are other online marketplaces.

Music Royalties, which has no debt and aims to raise another $10-million from private placements this year, plans to go public eventually, Mr. Gallagher says. “We just want to be smart about the timing.”

Only ‘first inning’ for entertainment royalties

Among publicly traded music royalty investments, the highest profile is London Stock Exchange-listed Hipgnosis Songs Fund Ltd., which was co-founded by Canadian-born music executive Merck Mercuriadis.

The fund has rights to songs by artists like Mr. Bieber, Neil Young and Justin Timberlake. However, its shares have struggled over the past year amid rising interest rates, which have raised the cost of its debt.

Music Royalties, which is 90 per cent invested in music rights, has also diversified in a different way. It gets a book royalty from Head First Java, a top-selling Java programming book on Amazon, and a film royalty from Rod the Mod, a film about rock star Rod Stewart in his early years.

Getting cash flow from royalties is a long-term story, and it’s possible that one day that there could be investments focused on copyright-protected books, TV shows, gaming, or films, Mr. Gallagher says.

It took 60 years to understand real estate investment trusts (REITs) and now there are different kinds of REITs, he says, drawing a parallel.

“Even the idea that you could take real estate public was just weird,” he says.

Given the longevity of copyright protection, music rights are an attractive investment, he argues.

“We are only in the first inning for entertainment royalties.”