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Believe H1 2021 Results Presentation

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Key Highlights

Denis Ladegaillerie

Founder and Chief Executive Officer, Believe

Welcome

Thank you very much. Good morning, good afternoon and good evening everyone. Today, Xavier and I will be spending the next hour with you, and we are quite happy to do so, for these first half-year results for Believe.

Key H1 Financial Highlights

If we can turn directly to slide four of the presentation. In H1 of 2021, Believe has experienced strong organic growth, driven first and foremost by our attractivity, Believe's attractivity, to a new generation of independent digital artists. We have grown across all segments of the artist market, from entry to established to top artist, thanks to our unique model allowing us to serve all of them. We have grown digital music revenues at the rate of 30% organically, which is about twice the rate of the market leader, driving strong global market share gains.

Of course, as you may imagine, our growth is also sustained by the continued structural long-term market growth trends that we are seeing for paid subscription, the recovery in ad-funded monetisation and, as well, from the fact that we are positioned in Asia, emerging territories, Europe; the fastest-growing countries.

The strong organic growth has driven a sharp profitability increase compared to H1 2020. From that standpoint, I would say H1 2021 has demonstrated the strength of Believe's model, which is a very simple equation: fast growth plus controlled and continued platform investment equals strong operating leverage. I want to emphasise that the growth in profitability, the sharp increase in profitability, has been done with a strong, continued investment in local teams and central platform. So, as a result of these trends' stronger growth, that is driving us to uplift our 2021 guidance, both in terms of growth and in terms of profitability.

In the key highlights of H1 2021, I would like to point out two other important elements. One, as you know, following the IPO, we have significant firepower now and do intend to accelerate growth with M&A, and we are engaged in several events discussions in key markets. Second element, which is very meaningful to me and the management team, is the finalisation and the approval by our board of 'shaping music for good,' which is Believe's CSR strategy and a key indicator and objective.

Attractivity Highlighted By Strong Performance of the Roster and Its Growth

Turning to the next slide, slide five, what is driving our growth? Three things are driving our growth. The first thing is Believe's ability to attract the new generation of independent digital artists. Once again, I want to emphasise that this is across all markets, and this is illustrated at the top with an increasing number of chart successes across territories, very high number of top 50 artists across a number of territories in Asia, in Europe. As an illustration for our French investors, I am sure some of your kids have listened to La kiffance by Naps, which had been the top ranking track summer hit.

In the middle market, we have signed a record number of independent artists and labels in H1. Very strong dynamics once artists were able to go back to the negotiating table with the COVID recovery, and a strong growth with new artists at TuneCore and monetisation, with 28% growth of our Automated Solutions in H1 2021. That is one; very strong artist attractivity.

Second thing that is driving growth, our ability to retain and to grow our existing portfolio of artists and labels. In H1 2021, we renewed and we expanded an exceptionally high number of our largest label relationships to longer term contracts, illustrating our ability to serve these labels best and build long-term relationships.

Third thing is driving growth, our ability to develop artists and labels to the next stage of their career. An illustration, 340 TuneCore artists signed to Believe contracts, including, as an example, Charlotte Sands in the US. The bottom line is as all of the markets are becoming more and more digital, the attractivity increasing, this attractivity is fuelling organic growth and translating into significant market share gains.

Strong Model Driving Growth in All Geographies

Turning to the next slide, if we look how that plays across territories, what you see is very strong growth, +69% growth, across APAC and Africa. Two things there at play: very strong artist attractivity as well as recovery of the ad-funded markets in those territories post-COVID.

Very strong performance in other territories, rest of Europe. As you may remember, rest of Europe for us is very large, it covers territories like the UK, Italy, Russia, Turkey and a few others. And strong growth in these territories driven once again by strong market growth projections, strong local market monetisation, as well as strong acquisition of artists and labels in those territories.

In France, particularly, very strong growth at the very top of the market, acquisition of top artists and the development of new artists towards the top. So all across strong performance.

Only territory where we have slower growth is Germany. Xavier will address this a little bit more, in more detail. This is essentially due to the fact that we are decreasing the physical side of the business in Germany to drive stronger operating leverage there.

Leveraging Increased Technology Investment and Preferred Partner Relationships

What is driving the artist attractivity? Moving on to slide seven. Why are we attracted to independent artists and gaining market share? Very simply because a number of things. That we are the best partner for them to develop in the digital world. A couple of illustrations in the slide. Digital music means digital artist development and we do digital better than the traditional players.

Spotify Discovery

Couple of examples. Spotify Discovery. Spotify Discovery is a better product, launched by Spotify in the spring, to accelerate artist development and artist discovery. We partnered with Spotify to test the service, none of the traditional labels are partners in the programme, and we built a dedicated technology platform, data platform, to select the best artists for the programme, resulting in 40% streaming growth for the selected tracks included in the programme.

Short music videos

Second example is short music videos. Short music videos, with TikTok and now YouTube Shorts, is becoming a key driver of music discovery. As a reminder, we signed our deal with TikTok several quarters ahead of any of the traditional players. Same thing for YouTube Shorts, where we participated in beta test with YouTube in India, as one of their very few local players, and that beta test has since been expanded internationally with great success.

Backstage Links

Third example is Backstage Links, an marketing innovation that we released a few weeks ago that allows our artists and labels to easily manage and build relationships between fans and artists using links that are allowing them to collect data and drive audiences directly to the stores. This was rolled out very recently with great success and good performance metrics, with an increase, on average, for the artist leveraging these tools and functionalities like Pre-Save, they can, with engaged[?] fans[?], pre-sell their albums on services like Spotify, that contribute to an increased factor of 2x in the number of streams they are generating.

So all of these elements are part of a suite of data and marketing tools, and part of the investment we have made, we started making in technology in 2020, that we are continuing in 2021, to be the best at developing artists and marketing them.

CSR Strategy Aligned with Believe's Core Values and Business Model

Last element on slide eight, key achievements in H1 2021, is the finalisation and the approval by our board of our CSR strategy, which is really aligned on our core values and the business model, centred around talent development – respectful, fair, transparent talent development – across the territories, as well as local team, and, of course, environmental long-term impact as well. So we are very glad that we have been able to move forward on this.

Now, to illustrate the trends I was describing – accelerated, stronger organic growth, increase of profitability – I will let Xavier illustrate more into numbers what I just described. Xavier?

H1 Financial Highlights

Xavier Dumont

Group Chief Operating and Finance Officer, Believe

Thank you, Denis. So, as Denis said, I think the H1 financials are the perfect illustration of our model that rely on strong organic growth, along with controlled and continued investment in our teams, whether they are local teams in sales and marketing or whether they are in the central platform. And those led to an increased operating leverage, significant at the end of the semester.

Focus On Organic Growth and Continued Investment Driving Margin Up

Focus on organic growth

First, we focused on growing organically. In H1 2021 we accelerated our investments in local team and expertise. We ramped up local teams in most of our fast-growing markets, such as Asia or Eastern Europe. We also deployed TuneCore, which forms our Automated Solutions offering, in fast-growing markets such as Brazil, Russia and Southeast Asia. As you know, we have been operating already in those markets, but they were managed from the US. Now,

what we do is we localised our offer, both in terms of website, payment methodology, etc., so that we are capturing those emerging markets in terms of DIY artists.

Of course, we keep increasing the depth of our digital services and solutions in our two segments. The payback on those investments that have been executed since 2020 have been quite strong. Our organic growth, compared to H1 2020 was +30% in Premium Solutions and +26% in Automated Solutions.

Continued investment in central platform

Meanwhile, of course we continued investing in a controlled way in a central platform, in which our cost investment increased by 14% in the first half of the year compared to the first half of last year, even if it decreased as a percentage of sales. We also maintained a very controlled CAPEX that has slightly decreased compared to the first semester of last year and, as you know, CAPEX mostly consists in the central platform R&D.

Operating leverage driving adjusted EBITDA margin

So that strong organic growth drove the profitability of the segments upwards and we now have a pre-central platform EBITDA margin at 13%, versus +9% last year, and we are closing to our historical levels. You may remember that we were at 16% in 2018 and 2019, so we are closing the gap to our historical numbers. Of course, at group level, that led also to a positive EBITDA, with a group adjusted EBITDA at +2.7% of revenue, versus -2.8% last year. That is demonstrating our operating leverage.

DMS and Revenues in H1 2021

So if we go now to next page on DMS and revenue. So you may remember that we are following DMS; that is our digital music sales. Those are the receipts that we get from the digital stores' service providers and we are operating two different models: the Automated Solutions model, where we pay back almost 100% of the digital music sales, but our revenue are subscriptions; and the Premium model, when we take a commission on the digital music sales. So the digital music sales and the revenue have been impacted by currency, specifically the USD to euro variance that is significant for TuneCore that reports in USD. So what we see during this semester is a fast-growing Premium segment, both in terms of revenue and DMS. Premium Solutions revenue grew by 34%, out of which 30% organic, 4% being the effect of the perimeter mostly; that is the acquisition of DMC, the Turkish label, that we carried out last year.

TuneCore is fast growing in terms of revenue at 26% organic, so without a currency impact and thanks to the monetisation model, but it is not growing as fast as Premium on digital music sales. Automated digital music sales were very high and dynamic in H1 2020 as DIY artists were very active during lockdowns. And so the growth of digital music sales in H1 in TuneCore is less than the growth of their revenue, which amounts to 26%.

Revenue Growth Acceleration in Q2 2021

If we go to next page, you can see how the revenue growth is broken down between the various quarters. You may remember that we had a very solid performance in Q1 at 26% growth, 24% organic, and as we discussed before, the revenue growth in Q2 2021 accelerated versus Q1. That acceleration led to a 39% growth in Q2 in total, 36% organic. That growth comes from, mainly, the recovery of digital sales activities that were ad-

supported and so impacted by COVID last year, and, of course, the growth and performance of our roster, leading to increased market share in the various territories, specifically emerging and France.

So, overall, we grew 30% organic in the first semester, 33% in total. In the next slides, we will see that we think that the market growth will decelerate in H2 because the COVID impact was very significant in Q2 last year and is weighting[?] off for Q3 and Q4, hence the fact that the growth is going to decelerate. I know that some of you have requested if we could provide Q3 numbers. I am pleased to announce that they will be provided in the next few days. We are still finalising as we were concentrated on H1, but we should be able to communicate our Q3 revenue numbers in the next few days ahead of our next publication that is planned to be at the beginning of November.

Free Cash Flow Reflecting Business Growth and Sustained CAPEX Level

So if we get to next page, which is the free cash flow. So first, as a reminder, you know that we are operating under a negative working cap model, i.e. we pay the artists and labels after we get paid by the DSPs, with the exception of advances that we sometimes pay. H1 2021 has a negative working cap variance; that is driven mostly by higher advances. Higher advances come from, first, the growth of our business and the continuing development of our artist services and artist solutions businesses in several geographies, but it also comes from high level of renewals, as Denis mentioned before, with large labels on longer term deals, which is a tribute for quality of service and our model.

We have not changed the financial policy of our contract as demonstrated as a proportion of advances recoupable within one year, which is very stable in 2021, and as it was in 2018-19. And while we expect a lower level of renewals with large labels in H2, given the achievement in H1, we see advances remaining at a growing trend in the summer and so we think that our change in net working capital will be amplified at the end of the year. As we mentioned before, CAPEX is broadly stable versus last year, illustrating the controlled investments in our platform.

FY 2021 Guidance Uplifted On the Back of Solid Growth Prospects

If we go now to the next page, what it means for us in the next few months. First, given the H1 performance, we are revising upward our guidance for full-year 2021. As you know, we were prudent at the beginning of the year to give our guidance because we did not know exactly how COVID was going to play out. And as we demonstrated, both the COVID effect and our model proved to be quite successful in the last month, so we are now anticipating an organic growth at a constant rate at least at 23%.

As I said before, Q3 and Q4 will demonstrate a marginally lower growth because of the market trends, and we do also expect that physical sales are going to decrease in H2 2021, mostly driven by the reshuffle of our portfolio that we are doing in Germany, where we are cutting contracts that are mainly physically driven to be able to focus on the more profitable digitally driven contracts.

Given higher organic growth, we expect a margin expansion compared to last year, and our guidance will be in line with 2020. We should be slightly above that level, but the expansion is going to be moderate because we want to continue increasing investment, specifically in

our sales and marketing team, as we are demonstrating that we are able to gain market share and we are able also to be very profitable in terms of payback in our investments.

Mid-term Targets – Unchanged

The next page is the mid-term targets. I will not comment on them, they remain unchanged. I think we are on a good track to get to our mid-term objectives.

I will leave Denis to conclude the session.

Conclusion

Denis Ladegaillerie

Founder and Chief Executive Officer, Believe

On The Right Track To Build The #1 Global Artist Development Platform

Thank you very much, Xavier. If I had to summarise, I would say H1 2021 I think is very reflective of the strength of the business and our key strength in building of the number one global artist development platform.

Formally, H1 demonstrated very strong artist attractivity that resulted into strong organic revenue growth and – I insist on this – market share gains across all market segments. This was not growth only driven by market growth but also by the fact that we acquired more artists, more labels in all segments. We expect that trend to continue as the markets become more digital.

Secondly, in H1 2021, we continue to invest in sales and marketing to drive future growth as well as in beta and technology to build on our first digital [inaudible] advantage, innovate and support future growth. We expect to continue doing this. And as a result, we expect the operating leverage that has been demonstrated by fast growth, controlled investment in the platform to translate into increasing profitability while we still continue to invest. Thus, H1 from that standpoint, very reflective of what we anticipate, and that gives us strong confidence in the ability to achieve our mission, which is to build the number one global artist development platform.

Thank you very much, and we are opening now to questions.

Q&A

Nicolas Cote-Colisson (HSBC): Hi, two questions please. Can I come back on the strong revenue slowdown in H2 based on your guidance? How do you reconcile this with your addressable market assumptions in terms of growth and also your market share gains? And I was just wondering, because you are referring to the impact of physical sales, should we expect Germany revenue to go down?

And my second question would be around M&A, because I am a bit surprised that there has been no acquisition, while at the time of the IPO you were very close to finalise some deals. I was wondering if you have lost any bargaining power, having some hundreds of millions of cash for M&A. Does it have an impact in terms of inflation in the assets and maybe your decision to buy or not to buy? Thank you.

Denis Ladegaillerie: Xavier, do you want to address the first question on growth and I will answer the second one on M&A?

Xavier Dumont: Yeah. Thanks for your question. On the two points, yes, we do expect the addressable market to lower the growth as there was some kind of a catch-up during the first half of the year. And so, we do expect that H2 is going to be lower, even if the market share gain will be the same.

Regarding Germany, as we are cutting some contracts, we do expect that the growth is going to be limited. And it is going to be limited for us not only in H2, but it is going to be limited also probably in the following quarters because that will have a full-year impact much later on.

Denis Ladegaillerie: Thanks, Xavier. And on the M&A side, as you remember at the time of the IPO, we had seven targets under advanced discussions. All of these targets have moved forward into due diligence and towards deeper conversations. We expect there have not been any changes related to competition or pricing. It is just a matter of properly ironing out due diligence with the target and just the time necessary to get the deal done and closed. And so, we do expect to make a number of announcements in the relatively short future.

Nicolas Cote-Colisson: Okay, thank you.

Tom Singlehurst (Citi): Thanks very much. It is Tom here from Citi, and congrats on the results. I was wondering whether we could start by talking about France. You talked about growth at the top-end of the market. Is that just because of the genre you are exposed to? Did you add a particular artist or were your artists at that premium end just a bit more active and that drove revenue? I suppose, what I am really interested in, is gauging a sense of market share in a developed market like France, vis-a-vis the traditional record labels you think you are taking share in the context of those developed markets. That was the first set of questions.

The second was, you did say, and I must have switched off for a second because I missed it, working capital for the full year. I can see that the medium-term guidance is unchanged relative to your original view. However, for this year, are you looking to recoup some of that in the second half, or is that just a bigger-than-expected working capital outflow? I will leave it there at the second. I might pop back in the queue in a second.

Denis Ladegaillerie: Thanks very much, Tom. I will answer the first one, and then let Xavier answer the second one on working capital.

On the first one, there are, I would say, two drivers of the acceleration of attractivity at the top. The first driver is in digital music market segments, we have been very successful, which in France, historically, has been hip-hop. We have been very successful at breaking, building, working with top artists. And what we have experienced in the past, I would say, six months, and more importantly, this year, is that artists who were previously signed to traditional labels have seen all of these successes. They have seen their revenues being digital and they are now coming to us. Thus, we have now signed more artists out of the traditional labels. We are signing more and more in this digital market segment and that is part of the increase at the top.

The second part of the increase at the top is that, as we had anticipated, we are starting to see other genres of music become digital. French pop, pop music in France, is now becoming much more digital. And we have been successful at building teams in these categories in this new genre of music, and, same thing, develop a new generation of pop and French pop artists towards short[?] success because the genre is becoming digital. It is really the mix of strengthening the position in already digital music genres and then new music genres becoming digital where we invested in teams, started signing artists, driving success, and that is what is driving market share gains at the top there.

Xavier, on working cap?

Xavier Dumont: Yeah. And so, on the working cap, we are not changing our mid-term guidance on working cap. Because what we see today is that basically, the growth in the working cap that we are seeing is either because we strike longer-term deals with large labels which is very favourable to us mid-term, and because also, what we see is that we are growing our artist service and artist development – our artist solution business – which has also a short-term impact but, less so, on the mid-term.

So to the question is, as I said during my comments, I expect a lower level of renewals with large labels in H2, but I do see some advances that are remaining at a growing trend. And I do think that the change in net working capital would be amplified on a full-year basis versus last year, but without changing our mid-term guidance.

Tom Singlehurst: Perfect. And actually, if I can just ask one follow-up. Actually, going back to Germany, you talked about hip-hop. I know Germany does have a little bit more legacy physical which I think you referred to. But should we infer from what is happening in Germany, that metal, which I think is one of your areas of focus, or one of the bigger ones, just metal is not digitising at the rate that you thought it was? I mean, is this a function of that genre is just not working out as you thought, or is it down to specific artists or specific relationships that are generally falling?

Denis Ladegaillerie: Yeah. No, I would say, Tom, what we are seeing in Germany is, obviously, Germany, towards even in the spring, was still affected by COVID and summer store closures in H1. However, more importantly, what we are doing in Germany, as part of the businesses that we acquired in the past, especially Groove, that were parts of the business that only had physical rights for distribution. For example, there are a number of large UK labels for which part of the business was only physical. What we are doing now is integrating operationally Groove Attack and we are terminating some of these physical-only contracts where we see there is less value and focussing the business towards the top.

We are doing two things in Germany. One is pivoting that legacy business. And at the same time, we see the same trends as in France. For example, hip-hop has been very digital there. And we see Schlager, for example, which is the equivalent of French pop, building up its digital presence. And so, we are investing into building teams there, because we think we are going to see the same trend.

On the metal side, Nuclear Blast is on the same trend as what we were expecting, what we saw is that Nuclear Blast is a slightly different business. I would say physical sales there are resisting better because they are very largely direct to find and a little bit more like towards

merchandising-type, higher-value products for that kind of audience. Thus, it is really more coming from the restructuring I was talking earlier.

Tom Singlehurst: That is great. Thank you, I will jump back in the queue.

Christophe Cherblanc (Societe Generale): Yes, good evening. Two questions on my side, one was on the mix. Can you give us sense of the exposure to ad-funded revenues, how much it was in Q1, Q2, and maybe a sense of what was the full-year in 2020?

The second one was also on the mix. I am sure you saw that Warner Music was mentioning that what they called emerging platforms – that is TikTok, fitness apps, social network – were about 5% of their revenues. I also saw that Hipgnosis was mentioning that TikTok alone was 6.5% for Sony music, which seems very high. What is the share for Believe?

And one last is maybe for Xavier. Your modern guidance, you had a very nice win in H1, which is enough to have a significant boost on a full-year basis, so should we assume the second half EBITDA will be on an absolute basis flat or even down, not to have a good margin improvement? Thank you.

Xavier Dumont: Thank you for your questions. The first part is, did we increase the ad-supported streaming weight in the overall business of the company? The answer is yes, just because last year ad-supported business was depressed by COVID. It increased back again significantly this year. And as you know, we are operating in emerging territories where a large part of the monetisation comes from ad-supported business, so I would say we are over-indexed in ad-supported business this year more than last year, definitely so.

To the second question, TikTok revenues percentage. Okay. I do not have the figure top of my mind here. I would not say that it has increased since last year, TikTok and Facebook, and other equivalent platforms. Our contracts have been under renegotiation, we have increased. However, as the rest of the business is increasing very significantly, I am not sure that the weight of those social networks stores have increased in our portfolio, but I can check.

Denis Ladegaillerie: Yeah, I do not have the number in mind, Christophe, as well. We can check that. For us, what might be different, not in terms of growth, not in terms of weight. In terms of weight, we are definitely seeing these services – TikTok, YouTube Shorts, Instagram, which is really short video monetisation – have become significant revenue line, so the percentage is now meaningful. What we see there, because we signed our deal with TikTok almost like a year ahead of the traditional labels – YouTube Shorts was the same – for us, I would say the growth related to these revenues started a little bit earlier. So we do not have a bump-up effect that is late because we were early there, and we have seen the revenue growth with the monetisation of these services. And we expect to continue to see them grow. We have other similar deals in negotiations where our content is currently not monetised, so we do think that there are others that are going to come.

And yes, like traditional labels, what we do anticipate is this type of very specific music monetisations are going to increase as part of the revenue mix. Whether it is TikTok, whether it is Peloton, whether it is Twitch, whether it is YouTube Shorts, that is going to be a more important driver in the future than it has been in the past.

Xavier Dumont: And regarding the margin expansion, what we are saying is that, yes, we are increasing, or slightly above 2020 level, our margin expansion. That is because we want to continue investing in our teams in sales and marketing locally. Because what we have demonstrated is that we have very good payback on this, and we want to continue doing efforts here, with two main targets in mind, a) to close the gap with the historical EBITDA pre-platform cost margin, so that we close the gap to where we were in 2018 and 2019, before COVID and before we started with significant investment. However, at the same time, continuing to invest, to capture market growth in the territories where we are, as that market growth is very significant. Hence, the fact that our view is that we have an adjusted EBITDA margin that will increase, but not at the same level as we demonstrated in H1.

Christophe Cherblanc: So, it is too optimistic to assume that H2 EBITDA will be €30 million, like last year? I am pushing it, I know.

Xavier Dumont: I leave it to you to do the maths.

Christophe Cherblanc: Okay. Okay, will do the maths. Thank you.

Richard Eary (UBS): Yeah. Afternoon, everyone. A couple of questions for myself. Just going back to revenue mix, can you give us what the actual growth rates were in Q1 and Q2 2020, so we get an understanding of what you are comping, to see, obviously, how that flows into the Q3 numbers? And just within that, obviously, you have said you signed the deals with TikTok and Facebook essentially ahead the major labels. Are you now fully cycled out of that? And maybe, if you can just expand on what are the mechanics of the deal? Are they revenue share-based or they are absolute deals with inflators? So we can just get a sense of how we should think about the second half of the year, particularly, from the ad-funded side? That is the first question.

The second question just comes back to, I think, what people have been asking about – working capital H2. If you looked at the free cash flow last year in the second half, it was negative nearly €40 million. And so, should we assume that that is a similar number for the second half of this year with the investments you are making, and therefore, the full-year free cash flow number is more like negative €70 million? So, we just get a feel in terms of what the cash burn is within the business and any puts and calls around that.

And I suppose, another question within the working capital, can you just talk a little bit more about the labels renewals and how they are going, and what is happening in terms of pricing around that? Thanks.

Xavier Dumont: On your first question on 2020 versus 2019, we do not have a comp because we changed accounting methods, so we do not have quarterly 2019 figures. We are recalculating the 2020 quarterly, so there is no comp available between 2020 and 2019.

Regarding the structure of the TikTok and Facebook contracts, they are fixed-amount contracts because neither Facebook nor TikTok have their reporting systems to be able to report royalties and calculate royalties as other stores do. They are going to get there. However, they are not there yet, so it is more a fixed amount that we get.

Denis Ladegaillerie: Yeah. And to complete Xavier's answer on this, for Facebook, TikTok, it is a pool of capital that is essentially divided, in the case of Instagram, Facebook, based on usage; in the case of TikTok, based on the number of asset creations are really market share-

based. And generally what happens is that when we move ahead, like is the case of YouTube Shorts or TikTok, typically, that pool of capital is available only to people participating very early. And then we move on to the same cycle of the other players so that there is a unique pool of capital for everyone.

And then the question on the working cap?

Xavier Dumont: The question on working cap, I must admit, I did not fully understand the calculation because the figures you put seems very high to me, so we may revert to you because I am not sure I understood the calculation. Negative €70 million of working capital seems to me quite high, so…

Richard Eary: No, last year, the free cash flow of the business was nearly negative €60 million. And so, if you look at the first half of last year, it was minus €20 million. The second half, negative free cash flow was about minus €40 million last year. What I am trying to understand is that, are we starting to see – would that free cash outflow improve year-on-year in the second half or will it be similar? And therefore, what are we thinking about the guidance for free cash flow on an absolute term for this year?

Xavier Dumont: Okay. First the €60 million was after M&A and not the free cash flow of the business. There are two elements in the calculation you have to take into consideration. The first one is the EBITDA and CAPEX level that are going to significantly increase in 2021 versus 2020. That will generate more cash flow, so that you have a negative impact that is going to be the net working capital in advance. And so, you have to take the two into consideration to get to your free cash flow level.

Richard Eary: Right. However, if margins are not going to improve significantly from last year, and therefore, going back to the previous question, is the second half EBITDA flat to slightly down to get that number, and we have still got working capital outflows and reinvestment, then does that mean that the second half free cash flow could be as large as the negative outflow in the first half of this year?

Xavier Dumont: We are going to see margin improvement. We are going to see CAPEX that are going also to be more limited. And so, as do we have higher margin, then we should be able to see cash flow that is around the same level as last year. Whether it is slightly above or slightly below, we do not give any guidance there. However, the dynamics at play, I would say, are pretty controlled in terms of how you get there.

Xavier Dumont: And also, minus the fact that in the cash flow of the first half, you had a significant advances on renewal for some of the larger renewals which are not going to happen in H2.

Richard Eary: Okay. Can I just ask a follow-up question on the TikTok, YouTube and Facebook deals? You said they were fixed contracts. And have we cycled the annual effect of those? If we are looking at fixed contracts, I presume there are price inflators in those deals, before we start to move into a revenue share model once the systems are in place.

Xavier Dumont: Yeah.

Richard Eary: Typically, what are the price inflators on that? So we can understand if the last 12 months have really benefited from ad-supported revenues, as you say, second half is going to be tougher. And if we come to the end of those contracts and there is more a price

inflator, then clearly, that will have a headwind a little bit in the second half. I am just trying to understand that.

Xavier Dumont: As we said, we cycle back, which is that we have a comparison between the two years. And renewal of these contracts or renegotiations will not have a significant impact this year. It is going to be much more later event that we will see on those contracts from an impact standpoint.

Richard Eary: Okay. Okay, thank you.

Nicholas Cote-Colisson: Yes, another question on your contractual relationship with the DSPs. Because I understand the pay-out mix is an agreed royalty pay-out rate net of some agreed amount on platform marketing credit. I was wondering, are you trying to get more transparency in the cash you received from DSPs? And also, how do you see the podcasts taking more of the DSPs revenue eventually? Does it have an impact on the royalty pay-out rate these days?

Denis Ladegaillerie: Not sure. I will start answering the second part and ask the first part of the question again, because I want to make sure I understood it correctly.

On the second part, the answer is no, podcasts do not have an impact on revenues. They are a different pool of revenues. The audio consumption is not taken into account in the pay-out to us; this is only music.

And would you mind rephrasing the first part of the question to make sure I address it correctly?

Nicholas Cote-Colisson: Yeah, sure. Sorry, I should have been clearer. The contract you have with the DSP, obviously, you have a royalty pay-out rate that you have discussed with them. However, I suspect that this is net of some reinvestment in the platform in terms of marketing credits. I wonder how these things were working and whether you had a stronger hand when discussing the contracts of the pay-out rates. Does it make sense?

Denis Ladegaillerie: Yeah, absolutely. Thank you very much. Actually, the two are split; meaning that we have a negotiation on the rate, and then, we have a separate negotiation around the marketing spend that we are going to do on the platform, for some of the platforms. The two dynamics are quite separate. At this point, there is no offset between one or the other. It is essentially the more we invest on the marketing side, the more discount we get. However, that does not impact the terms of the main deal.

Nicholas Cote-Colisson: Okay. That is very clear. Thank you.

Tom Singlehurst: Hey, it is round two. Actually, funnily enough, I had a question which Richard touched on, and it was just to pin down that point around once the big labels turn up on TikTok, I presume, just from the way you are describing it, that either your share of the pool of revenue from TikTok or the absolute amount of revenue goes down, and presumably that started earlier in the year when the big labels signed their deals with TikTok. I just wanted to make sure that I specifically understood that, that already you have taken a revenue impact from having a lower share of TikTok's overall expenditure on music licensing. I think that was the first thing I wanted to clarify.

And then the second thing, in a way it is linked, but it just feels like the music industry is going to go down the route of NFTs, or, at least, it is an industry which is ripe for disruption by an innovation like NFT. And I know there are a number of blockchain-based NFT platforms out there. For DIY artists, that, in particular, feels like an opportunity they might jump on, and want to be exposed to fairly early. I am just wondering whether you guys have a view on that, and what, if anything, you are doing in that space. Thank you.

Xavier Dumont: Thank you for your questions. I will answer the first question and I will let Denis answer the second.

On the first question, the way TikTok or the likes are working is that basically, they have a pool of revenue and then they allocate that revenue on a market share basis. They already take into consideration that later on, if a big player has not struck a deal with them, they take into consideration that that big player will have also a share of the pool. There is no decrease in revenue. On the contrary, when you have a renegotiation, the pool of revenue is expanding because the monetisation they get on the music is extending because they are much more proficient into monetising the music and tracking the usage of music and monetising them through advertising on their systems.

Tom Singlehurst: Got it.

Denis Ladegaillerie: Yeah. And what we have seen, for example, to a story like TikTok, what we were saying earlier is TikTok, when you get in early, there is a pool of capital. You participate in that pool. And then when they enlarge to everyone, they typically increase the pool of capital and benefits to everyone. And what we have seen with TikTok is, as we have done this, we have benefited from the early pool very significantly with very high market share. And in the second pool, which was significantly larger, we have slightly lower market share but significantly increased revenues because the pool was much larger.

Tom Singlehurst: That is super clear, yeah. You are not really over-earning per se, that is the important point. You are not over-earning in that first stage.

Denis Ladegaillerie: Exactly. And then, on the second area areas, on the NFTs, yes, absolutely, that is a very strong area we are looking at. We are working on a few things there. Our view is very simple, it is either for DIY artists or for top artists. This will be a great way to monetise. We think this is actually going to be, both at that stage, probably a significant revenue driver for very specific projects at the top. We have done a lot of market surveys on this, studies to look at what is happening in the art space, what the experiments have been in music. We have looked at the various technology platforms – hardware, software – to see what we could do. We have already done a number of early experiments. This is something where you are going to see us being quite active in the coming months.

Tom Singlehurst: Yeah. It looks very exciting, so that is great to hear.

Denis Ladegaillerie: Yeah. We think ultimately the NFTs is really the technology tool for us to help manage the core audiences of the artist, which typically represents anywhere between 0.5% to 1-1.5% of the audiences of the artist, but with really high monetisation power. That is how we are looking at it.

Tom Singlehurst: Makes total sense. Thanks a lot.

Speaker: There is one question on the webcast. It is just about if we will have a chance to get the earnings call transcription? The answer is yes, in a few days.

Denis Ladegaillerie: Perfect. Well, as there are no other questions, thank you very much everyone. And we hope Xavier and I answered your questions and wish you all a good afternoon and good evening.

[END OF TRANSCRIPT]