Believe Q3 2021 Revenue

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Third Quarter Revenues

Denis Ladegaillerie

Chief Executive Officer, Believe

Introduction

Overview

Good afternoon, everyone. Welcome to our Q3 2021 Revenue Call for Believe. Today's presenter will be Xavier Dumont, Believe's Chief Operating Officer and Chief Financial Officer and myself.

Moving onto slide four, the Believe's mission, as a reminder, is developing independent local artists and labels with a unique model, which is our strength demonstrated again this quarter to offer services for artists at each stage of their career. It is this unique model which in Q3 again contributed to Believe's driving very significant revenue growth, +27% revenue growth We attracted many artists at all stage of their career which is really the uniqueness of our model and of Believe as a platform.

Moving onto slide five, the attractivity to artists and labels is really coming from the fact that Believe offers unique good market solutions which are really tailored for the digital age, thanks to digital first resources as well as technology investment. As you remember the model beyond innovation – digital innovation – is powered by two structural trends – the rise of independent artists and the rapid growth of streaming - we have continued to see and which has contributed to propel us in Q3 2021.

Let's jump to slide seven to go over the key achievements of Believe in Q3. These achievements overall really illustrate what has been the core group's story of Believe and what is driving our growth and what is driving our model. First, it was illustrated once again with a very strong attractivity for artists and labels at all stage of their careers. That attractivity was also driven by the investment we made earlier in local sales and marketing to build portfolio of new artists and attract new artists and labels. That attractivity was driven by the competitive advantage that we are driving in digital marketing innovation through technology investment, aiming at developing digital audiences for artists and strong positioning in the fastest growing digital music markets, the emerging markets as well as markets that have low streaming penetration rate.

Finally, in this quarter, last but not least, we have continued our commitment to shape music for good which as you know is the name of our CSR strategy with two key partnerships which I will explain in a moment.

First, moving onto slide eight, once again Q3 demonstrated very strong attractivity of Believe to artists and labels and that was illustrated with very strong market share gains across all market segments. As you remember, we have a unique vision of the music market which is one where there are three tiers of artists established in top artists, emerging and established artists and labels and DIY and self-produced artists. Once again, we gain market share and have been able to grow faster than the market as our unique model allows us to cater artists in all segments and we once again gained market share across all market segments.

On the right side of the slide, obviously, we have gained market share, illustrated by a fast growth of digital sales in all markets, driven by our existing portfolio of artists and labels which have grown as well as a record label of signings of new labels and new artists, once again across all market segments and with a stronger attractivity with the addition of new services in a number of key markets. Overall, that has translated into market share gain across the board.

The attractivity to artists and labels was also a key driver in the staged acquisition of Play Two. If we can move onto slide nine which is very illustrative of our strategy of growth in the mature market. Play Two is the largest independent label in France. It has been a client of Believe for international distribution of their content for several years.

They were originally in a partnership with a traditional label in France which they decided to end and come to Believe because they thought that in their market segment which is French Pop and Pop, that segment will become in the next 24 to 36 months, a digital music market segment and the founders of the label felt that Believe was a very attractive partner to help them accelerate their growth because of our digital technology and our digital knowledge to be their strategic partner for the coming years. These distinct elements of attractivity when we sign artists and labels were pivotal for Play Two in an acquisition scenario.

Our attractivity in building up technologies to accelerate artist development was really the core of the discussions with the founders of the labels and was once again illustrated by initiatives we took in Q3.

Moving onto slide ten to illustrate two of these technology-driven and digital initiatives. One, we invested in a media buy automation platform as we see across all markets in the emerging but as well as in the mature market, the more the world becomes digital, the more go to market strategies for artists are becoming digital. We have gone from a market where less than a third of marketing was digital to a world where 80-90% of the marketing campaigns for artists are becoming digital. Building media buy solutions in marketing, that are backed up by data and data platform to decide when to invest, where to invest, on YouTube, on TikTok, on Spotify, is becoming a critical component of building successful and positive, good market strategies for artists and that was a key part of our investments in Q3 with the acceleration of investment in the media buy platform.

Second example was, I am sure many of you have read how much in the past year and a half TikTok has become a key driver of recommendation and music and for that reason, we started building platforms to identify, predict virality of tracks on TikTok which then we can accelerate through marketing and promotion and additional investment in the artists. These are two features that we rolled out for our clients, artists and labels, and for internal teams in Q3 to help them build ever more successful go-to-market strategies for artists and, obviously, as we are becoming more successful, that translate into artists selling digital music and Believe gaining market share overall, explaining part of our market share growth in Q3.

Moving onto slide 11. As we experienced in the prior quarter, our growth illustrates Believe’s unique positioning in the fastest growing markets and some of the emerging markets. As you see there, with the growth coming really from all the five main regions of the world for us, APAC and Africa where we are benefiting from very strong market share gains. As you know, Asia is our number one region of investment, expected to become the largest music market in this decade. It is one of our core focus; we are expanding our strong leadership position which translated for us into market growth and significant market share gains. This is also a geography where we made local sales investment in 2020 and 2021.

The Americas which as you remember is the US, Canada but as well Latin America - Brazil, Mexico and the other Latin America countries - experienced strong growth, same thing, thanks to solid investment in local sales and marketing. We strengthened our teams in a number or territories, which drove significant new signings of artists and labels and resulted in stronger revenue growth.

Europe as you remember, Europe excluding France and Germany, while including countries such as Russia and Turkey, also drove a significant market share gain and had fast-growing countries where paid subscription as well as ad funded revenues recovery both contributed to very strong growth in Q3.

In France we grew at 15.4% above market growth in digital. Overall performance was slightly affected by slower physical sales as was the case in Germany. This was something that we touched on earlier as growth has been slowed down since Q2 by the ongoing restructuring of our physical sales in the territory.

Finally, moving onto slide 12, shaping music for good is a core key pillar of our strategy to CSR strategy and is a basis on how we are building the model. One of the first of these four pillars is developing diverse and local talent for Believe and in the music industry. We signed two partnerships there. One with Keychange which is a commitment to reach full gender equality very specifically in the music industry which you know has been a core focus of Believe internally and we wanted to support that effort beyond Believe and a partnership with 50inTech and I am sure as you know as well, Tech is an environment where we target gender equality. We are investing into accelerating business talents and innovation with women in tech through that partnership.

So, overall, just to sum up, is Q3 was really reflective of the uniqueness of Believe's model and the strength of our model that resulted in very strong growth in the last quarter which Xavier will now highlight with financials.

Financial Outlook

Xavier Dumont

Chief Operating Officer & Chief Financial Officer, Believe

Financial Overview

Thank you, Denis. Hello, everybody. Yes, as Denis said, the quarter showed a very strong organic growth, let's go to slide 14 of the presentation. So, as you can see Q3 grew 27% organically and we are at 29% year-to-date. Interestingly enough Q3's organic and total growth are the same as DMC the Turkish label, which was the latest acquisition before Play Two, was integrated in August of last year.

So, this is a very strong performance. After a solid performance in Q1, a 20% organic growth, an acceleration in Q2, at 36% organic, driven by favourable comparison basis. Q3 has been better than expected as you may have noticed as we have higher market growth in the geographies where we are positioned. We have higher market share gains than we expected and we had also less physical decrease than we expected, specifically, in Germany with the review of the contracts.

The digital revenues are increasing by 33% outperforming the market year-to-date in every quarter. This is a very strong performance that demonstrates the attractivity of our model for both artists and labels and the success of our platform model.

Now if we switch to page 15. When you see the revenue by segment, year-to-date in 2021. Just as a reminder, we have two segments, Premium Solution that address the mid-tier and high tier of the market, so from established to top artists, and we have Automated Solutions that address the DIY market. So, if we take first Premium Solutions, revenues are growing significantly with an organic growth of 32% driven by the market growth and market share gains. Those market share gains were achieved thanks to the roll out of services and key investments we made in the last 24 months when we rolled out the artist solutions in 25 new markets. We rolled out also the artist service brands for top artists in 50 new markets, which has also been driving the growth.

The main countries that contribute to that growth are India, Russia, Turkey, France, Mexico and China. So, as you can see, those are market where we are building our teams to capture market share and where we can ensure future growth.

Automated solution is growing by 12%. Automated Solutions has been adversely affected by COVID-19 pandemic as we had a boom in new customers last year with the expansion of lockdown and a surge in distribution rate, notably in Q3 and Q4 2020. That has obviously, stopped with the exit of lockdown and the reopening of the economy. When we look at the growth comparing to 2019, we are growing double digits on a yearly basis.

If we go to page 16, because of the Q3 strong performance and a better Q4 outlook, we have revised our financial year 2021 guidance. So, we now expect to be at least at 27% organic growth at constant perimeter and constant rate. We do not expect the Play Two acquisition to have a significant impact in our sales for the last quarter as the integration is slowly ramping up.

We also revised our adjusted EBITDA margin as we have more revenues, we think that the margin expansion is going to be higher than anticipated and we now guide to an adjusted EBITDA margin above 3% which is well above 2020 level.

Regarding the free cashflow. So, the net working capital amplification that we saw in H1 is completely under control. In net working capital, the main driver is the customer advances component as they are integrated in the services we are providing. Those advances are growing with the business. You may remember that we had a high number of large renewals in H1. We do not expect the equivalent in H2 but we think that customer advances are going to continue increasing in H2, reflecting our expansion and the success of our customers. However, they are expected, as the percentage of revenue, to be at the same level than in H2 2020.

So, the change in networking capital despite growing revenue base, we expect that it is going to be equivalent in H2 2021 than in H1 of 2021.

Regarding the Play Two transaction, as mentioned in the previous slide, the company is valued below €50 million which is circa one time revenue 2022. We are therefore very much in line with our previous acquisitions. We acquired, as we said, 25% of the business with option to fully acquire in the future years.

On page 17, we have the midterm targets that we are confirming, thanks to our good performance in Q3 and actually since the beginning of the year so I will not comment them in detail as they have not changed since the IPO.

On page 18, as a conclusion, I think, we can say that Q3 illustrates the strategy and the growth levers of Believe and our position versus structural market trends. We are at the heart of the digital transformation and digital megatrends. With strong revenue growth driven by attractivity for artists and labels and with further investments in sales, marketing, technology to drive growth, we have demonstrated that the investments that we made in the past months have really translated into further growth and also leverage on the adjusted EBITDA level.

We have consolidated our market position in France with the Play Two transaction that perfectly illustrates our M&A strategy and confirms also the attractivity to independent labels and thanks to those performance, we have uplifted 2021 financial guidance to a higher level than we thought we would achieve.

So, I think, we are on the right track to build the number one global artist development platform.

I think it is now time for some Q&A.

Q&A

Tom Singlehurst (Citi): Yes, good evening. Thank you, Denis, thank you, Xavier and congratulations on the results. A handful of questions, if it is okay. If we can start by talking about digital music sales and automated solution because, obviously, the revenue only grew 2 or 3%, but the overall group digital sales are up over 30% so I presume there is very rapid growth in DMS automated solutions but your share of that revenue is going down which is, obviously, great for the artist but a lower take for you. I was just wondering whether you could comment on what will lead to a reacceleration in revenue as you recognise it for automated solutions? Well, what will be the catalyst for the number of artist, for the number of assets on the platform to start growing again? That was the first question.

The second question was on the Play Two deal. Obviously, it sounds like a very interesting asset and one just the nature of the deal is in line with what you have done in the past. So, I am just slightly surprised that you focused on France, where you already have such a strong position. So, can you explain what is the rationale for the doubling down in France and can you also talk about what emerging markets you are opening-up organically and via acquisition?

Then the final question again links to Play Two. It is a minority stake. How should we think about your accounting? Is it just going to be an associate line? The way you were talking about it – of impacting revenue made me think that you might be proportionately consolidating, but some clarity on that would be great. Thank you.

Xavier Dumont: Thanks for your question. So, we will do with the first one –

Denis Ladegaillerie: And then I will take the second one.

Xavier Dumont: Okay. On the first one on automated solutions. What we think is that as we said we have a strong historical background for Q3 and Q4 on the DIY segment. What we think is that the slower growth is going to continue until the end of the year. We do think, however, that we should be able next year to resume to a higher growth when we have less stringent historical figures, and we have also a couple of initiatives that we are also working on that might also drive growth, but that is a little bit too soon to say more at the moment.

Denis Ladegaillerie: Thanks, Xavier. Tom, on your questions on Play Two first and then the acquisitions in the other territories. On Play Two, our view as you know, our strategy in the mature markets is, one, we think that Europe is going to be by the end of the decade the second largest music market in the world after Asia, so it is a key real investment for us and we think there is plenty of growth potential there.

In the case of Play Two, Play Two operates in a part of the market, which is pop music, French Pop, where Believe is not operating so far because this was not yet a naturally digital business. This was a more traditional physical business. However, we have seen the signs of acceleration so that market is turning to digital music, we do think that in the near future the maturity of the revenues will become digital and this is what exactly the reason why the label came to us versus the traditional labels they were currently partnered with because they said they felt the same way as we did and we thought there was an opportunity for us and for them to help accelerate growth through the partnerships. I would say the way we are thinking about the strategy globally, I am a strong believer that there is no limit even in a mature market like France which is a top five market where we can grow. I do think this is a market like others where we have the potential to become market leader ahead of any of the other players of the market because we have a model that is more powerful, and the market becomes more digital. We thought this was a great opportunity for us at a value that we felt was right with a potential to accelerate, which is why we are looking at these types of opportunities and we are going to continue to do so. We are looking at opportunities in other markets in Europe, in the UK and Germany as well and a few other markets.

We are also, obviously, looking at opportunities in some of the emerging markets. A number of the discussions M&A, discussions that we have had are in emerging markets. So, our focus is not going to be in Europe, it is going to be in these markets that are key for us and, especially, Asia so that we will come back with M&A in these fast-growing regions as well.

Xavier Dumont: Maybe on the last part your question regarding the impact of Play Two acquisition. We are going to distribute Play Two. We will have the recording, revenue of Play Two that will be in our financials as distributor with the associated margin and we will have also in the EBITDA the percentage of the net profit of the net result of Play Two, but that is going to be 2022 as it is not going to be material for 2021.

Tom Singlehurst: Okay. So, it is bringing with it organic growth. I know maybe we should think about how we define that additional growth, but it is a strategic investment that brings with it incremental volume into the platform.

Xavier Dumont: Exactly. Knowing that we used to distribute also a part of Play Two – and so we enlarge the distribution contract as they were very happy with the service we have provided. And therefore, that acquisition also allows us to enlarge our distribution contract along with other synergies that will, of course, derive from that transaction, and we are going to help them grow their business on the digital front and have synergies and the like in merchandising front.

Tom Singlehurst: Perfect. One very final question. On the automated solution side, are there any new markets planned? You mentioned a couple of initiatives and we will find out about those when we get them, but is there other any new markets coming on next?

Xavier Dumont: No new markets. What we do is that we are localising TuneCore into markets, but nothing new and nothing significant on that front. We are really consolidating – as you know we deployed TuneCore in 14 markets and we are consolidating our positions in those markets before expanding to further geographies this year.

Tom Singlehurst: That's great. Thank you very much.

Nicholas Cote-Colisson (HSBC): Thank you. A few questions to start with. Would you have an indication of central platform costs in H2? Would it be above H1, in % of revenues? Also sorry, just to come back on Play Two. I'm not sure I got it completely in terms of how we should treat that into the P&L. So, currently with 25% you do not have the control, so I cannot see why you should book the revenue, I'm sorry if I miss something.

Maybe if I can a more broad-range question on privacy which is centre to debates these days, and, obviously, data is a key element of your business model. So, I wonder how much stricter privacy rules are impacting you. And maybe you can tell us the access to first party data from other music, for example, has changed in the last month. Thank you.

Xavier Dumont: Thank you for your question. So, first, maybe, on the technical question on the consolidation. So, what's happening is that we are distributing Play Two; and as distributors, we are taking 100% of their recording revenue as part of our main business. So, this is why we have revenues coming from Play Two; whatever the percentage of control we have, we get 100% of the recording revenues.

On the EBITDA level we take, of course, the profit made on the distribution contract; and as Play Two is consolidated under the associate method, we are going to take in the EBITDA 25% of their net results in our P&L. Denis, you may want to answer to the privacy issue?

Denis Ladegaillerie: On the privacy side, privacy has been a core topic for us under our CSR strategy. We have always considered that data protection for our artists was absolutely key. Where the current – this is not something that we touched on before in our calls, but we have been engaged in very, very active dialogue with our partners; Spotify, YouTube, Apple – all of the DSPs to actually do much more in terms of privacy protection which they are doing today.

One illustration is all of these services are providing data dump to date on a daily basis to a number of providers which we consider or not being authorised under our contracts, neither do we think that they are questionable from a legal point. So, we do think that the current environment – and that is something that we have been fighting and which is especially, important for us for TuneCore – and we have seen a lot of progress with web services such as Spotify closing progressively their APIs to third party access. A lot of these changes that we have seen has actually been driven into the background by us leveraging and pushing for this. Same thing as the ads in YouTube. So, what we expect is that data that is now largely available outside – and that to some extent is being used by some of the traditional labels to identify and source artists, we do expect that data will progressively become private and create much more value for us because of the funnel of artists we are distributing through a TuneCore. So, we think this is actually a very good news for us and we, from a Believe standpoint, have long deployed practices internally that are very protective of our clients' data.

Nicholas Cote-Colisson: Okay, that is very clear.

Denis Ladegaillerie: Regarding to the central platform, we said that, essentially, the central platform will increase compared to last year roughly in the same rate that we had in H1. So, much, much lower than the growth of sales. And, of course, with the percentage of revenue, the central platform will be lower.

Nicholas Koliso: Thank you.

Christophe Cherblanc (Société Générale): Yes, good evening. I have a few questions on my side. First one was on YouTube, the exposure to YouTube. When you look at the contribution of YouTube, it has been growing like the total growth of YouTube. And if it does then it implies that the non-YouTube part of your business going in the low 20s. Is that the correct assumption?

The second question was, sorry, to come back on Play Two, but I think Xavier you say that you were already distributing part of Play Two. So, what will be the net impact in 2022 on your revenues and will it be the full new revenues minus what you are doing previously and will it be reported as organic? Also on Play Two, what is the timetable to gain full control, I think, you mentioned option to take full control, but I don't think you said anything about the timing?

The very last one is on the networking capital. So, I think, it is clear it is two times the outflow of H1. Should we expect that to reverse to some extent in 2022 or is it done for the time being? Thank you.

Xavier Dumont: So, first question was about YouTube?

Christophe Cherblanc: Yeah.

Xavier Dumont: YouTube growth. I think, as you know because we are in emerging territories, YouTube is the main driver of growth. However, when we look at the various territories, wealth of YouTube by territory hasn't increased versus other stores, and so the stores are growing more or less at the same rate. I must admit I do not have any figures on the YouTube total growth, so I can just speak for us but it is more a question of geographical presence than a question of growth of one store versus the other.

On the Play Two acquisition, yes, we have been distributing Play Two but it was only a fraction of the catalogue. It is too soon to give you some view now about Play Two impact for next year because it is going to depend on the integration progress. And as the acquisition has been literally signed today, we are not in a position to give you more guidance at this stage about next year.

Denis Ladegaillerie: Play Two, Christophe's question was around the options, when do we increase the stake, and get full control.

Xavier Dumont: Yes, sorry. Yes, we don't communicate Christophe about exactly which year we are going to increase stage two. That's why we are just going to be communicating in the next few years, but this will be before the next ten years. It is really in our hand to decide, depending on the options that we have.

On the net working capital, we say the current level that we are experimenting is that on customer advances, we are the same percentage as last year. We have no indication at this stage to know whether that trend is going to be materially different. At this stage, we see that the commercial activity is still very strong. We are signing under the same financial conditions than we used to, so there is no significant variance on our end that would change that picture at this stage.

Christophe Cherblanc: Okay, and then maybe if I can have just one follow up on Germany. I think, in the slide show you are mentioning that the impact of the reorganisation was going to be lesser than what you are expecting. Can you just give us some absolute number in terms of impact? I think, you are saying that you are giving it on some physical contract. Is it 5 million impact, a 2 million impact? Any number would be helpful.

Xavier Dumont: Yeah, we think that Germany – as we said last time, Germany, I think, will be a growing roughly at the same rate as we saw in likely the last few months. We expected it to be much more stringent than that, but actually between better results on some labels and artists that are very digitally driven that we are experimenting and the curtail of the physical heavy commercial contracts, I think, Germany will be ballpark at the same level of growth that we have been experimenting in the last few months.

Christophe Cherblanc: Okay, *merci*.

Emilie Megel: Okay, so we got a question from Richard Eary from UBS. The first one you already answered. It is, why did automated revenue growth slow to single digit? what are the expectations for the full year in your plus 27% growth guidance?

Second question was Play Two one of few initial target? What is happening with the rest of the M&A pipe?

Third question is full year 2021 working capital guidance around minus 20 million€?

Fourth question, are physical revenue within premium still forecast to decline?

Xavier Dumont: So, I think, we answered the first one. The second one, yes, Play Two was one of the initial targets, so the other targets we are working on it and we should be able to make some announcement in the next few weeks. And yes, we are currently working on the geographies mentioned by Denis.

Sorry, what was the last –

Emilie Megel: It was a question on physical from Richard. Are physical revenues within premium still forecast to decline?

Xavier Dumont: Yes, in our forecast we are taking in a decline in physical revenues, specifically with the impact of the Germany contract actually.

Emilie Megel: What proportion of the revenues is related to better physical sales, when talking about the upgrade to plus 27%?

Xavier Dumont: The main upgrade comes from our market positioning and market share gain. Physical plays a minor part in our upgraded performance.

Emilie Megel: Then we got a question on the adjusted EBITDA margin. Can you tell us what you mean about 3%? Does it mean about 5% or about 3.5%? Very precise question. Thank you, Richard.

Xavier Dumont: I stand by what I said

Emilie Megel: We then have a question from Nicola Langlet from BNP Paribas. His question is as follows: is EBITDA margin guidance upgrade only reflecting higher like for like sales or also better control of the platform cost?

Xavier Dumont: No, it is reflecting higher like for like sales. Central platform costs, as I said, we are on target as we demonstrated in H1 and so it is really higher sales that translate into a higher EBITDA margin.

Emilie Megel: Then we got a question on Play Two to know if we have call options to increase tech in Play Two? Is the associated margin on Play Two revenues is in line with the Premium Solution Divisions, I mean, around 13%?

Denis Ladegaillerie: So, are there call options to increase taking Play Two? Yes, that is what we have communicated on. The associated margin on Play Two revenues, I would say, overall, yes, we think that it is going to be – I would not give precise figure but we would be in line with the same type of transactions that we are doing. And, maybe, one thing to add up on Play Two; the way we are approaching some of the M&A deals is really as staged acquisitions. And as Xavier was saying, the staged acquisitions generally worked quite well for us because– in all of these staged acquisitions, we are able to combine commercial contracts that are allowing us generally to distribute, integrate part of the revenues of the label businesses that we are acquiring and therefore helping them accelerate their digital music sales. Likewise, for the case for Play Two. And we do think that having a staged acquisition over a course of three years, four years, five years leading to full acquisition in market segments where we don't operate is a good way for us managing the risk and properly integrating the businesses. So, this is something that you have seen in some of the deals that we had done pre-IPO with Tôt ou Tard in France and with a few of our labels, and this is a structure that we think, for the reasons I just described, were working well for us. But as we were saying we view them as staged acquisitions, meaning the intention is really to take control or full ownership of these divisions after a certain period of time.

Emilie Megel: We got another question from Richard on the working capital. Please can you clarify if the nominal working capital outflows this year is €20 million?

Xavier Dumont: No, for H1 was 18 and so we think that H2 is going to be around €20 million. So, the total is going to be more around 18 plus 20 million.

Emilie Megel: Last question from Richard has already been answered and was on Play Two. It was about the impact on revenues and EBITDA of the transaction? That is our last written question. Okay.

Denis Ladegaillerie: Perfect. We thank all of you for your time and your attention, and we wish you pleasant rest of your day. Thank you very much everyone.

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