

Do Music Royalties Offer a Compelling Alternative Investment Opportunity?

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Over a decade ago, I founded an early-stage, venture-backed company in the music technology space. At the time, the music industry was undergoing a seismic shift with the emergence of the iPhone, the growing popularity of streaming platforms like Spotify, and the rise of software that gave anyone with a computer the ability to create chart-topping hits without picking up a physical instrument. In fact, I came to befriend a group of songwriters and producers from Virginia who have become some of the most successful in the world with over 30 combined #1 hits, often without touching a physical instrument. With these shifts, the music business has changed considerably over the last decade, shifting balances of power across the entire ecosystem.

In October 2023, we [published an article](#) detailing lessons on owning a professional sports team, which outlined the niche investment opportunity in that alternative asset class. This week, we will explore the investment merits of another niche alternative asset class: music royalties. Since this concept is likely unfamiliar to many, we will start by providing a high-level overview before shifting to a brief discussion on the investment merits of the asset class.

What are Music Royalties?

At a high level, music royalties are compensatory payments received by rights holders (recording artists, songwriters, producers, labels, etc.) in exchange for their music licensing. These royalties are paid out by institutions that use the music (advertisers, radio stations, streaming platforms, etc.) to rights holders via intermediaries that collect royalty payments on their behalf. While that may seem straightforward, the music royalty business is notoriously complicated and involves many players who typically have partial ownership of copyrights of a song or record. This can include recording artists, producers, songwriters, record labels, publishers, and intermediaries, all with stakes in the revenue streams. Moreover, multiple layers of deals and calculations determine exactly what each party takes home, further complicating matters.

Do Music Royalties Offer a Compelling Private Equity Investment Opportunity?

While the music royalty business is inherently complex, viewing each song as an intellectual property (IP) asset reveals their potential to offer rights holders significant, predictable income over a long period.

Despite the disruption caused by streaming platforms, which often receive a bad rap from industry insiders, they have brought greater stability and predictability to music royalty cash flows from an investment perspective. As a result, there is increased confidence in owning music IP assets and the royalty income derived from them.

Typically, at the song level, music royalty income experiences its highest returns within the first year of a song's release. Subsequently, income declines to lower levels over the next 5-10 years. However, thereafter, the remaining "tail" of income remains relatively stable and predictable.

Another significant benefit of owning a stake in music IP assets is their low correlation with markets. In general, the music royalties business offers a unique combination of stable recurring income, attractive yields, and low correlation to broader macroeconomic conditions.

However, it's essential to recognize that music royalty income isn't fixed. As mentioned earlier, music royalty cash flows for a song almost always decline over time. Thus, ensuring that you're not overpaying for the asset is particularly important when seeking to maximize yield. Additionally, technology and regulatory risks could significantly impact this asset class in the future.

Another emerging trend in the music industry is artists taking back control over their music by rerecording and releasing songs/albums. Taylor Swift is the most notable example of this, as she publicly criticized Scooter Braun for acquiring the rights to some of her music before selling them to an investment consortium. By rerecording many of her songs, Swift now owns the copyright to all the new recordings. If this emerging trend gains broader traction, it's conceivable that it could disrupt how investors view this asset class.

In conclusion, while the music royalty business provides a unique opportunity to own IP assets with stable recurring income and low correlation to the macroeconomic environment, the landscape is complex. It requires a deep understanding of the industry.

If you're an Evergreen Gavekal client interested in learning more about private market opportunities, including investment opportunities in niche and non-correlated assets, please contact your wealth consultant.

Disclosure: Private market opportunities often require investors to meet investor certain qualification levels such as Accredited Investor, Qualified Client, and/or Qualified Purchaser. Private market investments are not suitable for all investors.

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