



Embedded Specialized Accomplished



Digital Music Industry Report

Summer 2013

Table of Contents

<i>Section I</i>	Market Observations
<i>Section II</i>	Public Comps and M&A Transactions
<i>Section III</i>	Select Transaction Case Studies
<i>Section IV</i>	Select Financing Case Studies

Information Gateway Case Study

Information Gateway acquired by Seawood Resources



has been acquired by

SEAWOOD
RESOURCES, INC.

*Siemer & Associates acted as the exclusive
financial advisor to Information Gateway*

- Information Gateway (“IG”) is a leading mobile entertainment and content distribution company, responsible for the majority of digital music sales in the Philippines
- S&A was retained as the exclusive financial advisor to IG in evaluating the Company's strategic options, including a sale of the Company
- S&A used its experience in the digital and music spaces, leveraging the expertise of its senior advisor, John Rudolph, a seasoned music executive, to work with the Company to formulate IG's strategic positioning and messaging to potential acquirers, and managed the creation of effective marketing materials, management presentations and financial models
- S&A identified and contacted likely acquirers in Asia, Europe, and the US. In a short timeframe, S&A was able to generate interest from several strategic acquirers and received multiple LOIs from Asia and the US
- Interest from multiple bidders resulted in a highly competitive process, driving substantial improvement in valuation and deal terms from initial offers to signed LOI
- S&A drove negotiations during the drafting of the definitive agreements, and the resulting transaction structure yielded an optimal payout for IG's shareholders

A “Win-Win” Situation:

- S&A used its unique global buyer network to sell a Philippines based company to a Hong Kong based private equity fund, resulting in a successful transaction with a premium valuation
- S&A was able to quickly expand relationships with players overseas, given our strong relationships with key strategic players in the music space

Countdown Media Case Study

Countdown Media acquired by Bug Music

countdown
M E D I A

has been acquired by



Siemer & Associates acted as the exclusive financial advisor to Countdown Media

- Countdown Media (“Countdown”) is a leading digital music licensing and digital distributor that owns and licenses one of the largest catalogs of any independent music label
- S&A was retained as the exclusive financial advisor to Countdown in evaluating the Company’s strategic options, including a sale of the Company
- S&A worked with the Company to formulate Countdown’s strategic positioning and messaging to potential acquirers, and managed the creation of effective marketing materials, management presentations and financial models
- S&A identified and contacted likely acquirers in a highly targeted and focused solicitation process. In relatively short order, S&A was able to generate interest from several strategic acquirers and received multiple LOIs
- Interest from multiple bidders resulted in a highly competitive process, driving substantial improvement in valuation and deal terms from initial offers to signed LOI
- S&A drove negotiations during the drafting of the definitive agreements, and the resulting transaction structure yielded an optimal payout for Countdown’s shareholders

A “Win-Win” Situation:

- S&A found and completed a successful transaction with a high quality strategic buyer at a premium valuation
- S&A was able to quickly reach out to buyers given our strong relationships with key strategic players in the music space

MARKET OBSERVATIONS

What to Expect in 2013

- **Smart Money Is Chasing Infrastructure Plays** – rights and metadata are still a problem as the digital music industry moves into mainstream expansion; companies like Rumblefish, Gracenote, Tunesat and startups like Songspace and qwire are solving real problems
- **Online Radio Services to Grow** – Pandora, iHeartRadio and other services will continue to grow but will begin to face competition from Apple’s iRadio and its competitive royalty rates (10% vs. Pandora’s 4%)
- **All Music Will Be Videos** – YouTube has proven that ad-supported music videos and channels work. The multi-channel networks (i.e. vevo, Fullscreen and Maker Studios) have proven they can generate real revenue; now every music master owner is creating a video, sometimes just a static image, to start to monetize non-hit music
- **Mobile First** – follow the consumer: The ability to get music “anywhere, any way” from individual songs to music apps is critical
- **Artist Power** – transparency in business models and deals with digital services will continue as artists go direct to the consumer and increasingly dis-intermediating traditional businesses however leveraging digital infrastructures (i.e. Tunecore, CDBaby and AdRev)
- **Content ID/License Authentication** – the monitoring of music usage in radio, TV broadcasts and online video sites will further maximize rights-holders’ monetization

Digital Music Ecosystem

Performers / Composers

Traditional Record Companies

Music Publishing

Rights Management

Digital Aggregators

Music in the Cloud / Digital Lockers

Online Download and Retailer

Online Radio and Music Services

Social Music Sites and Services

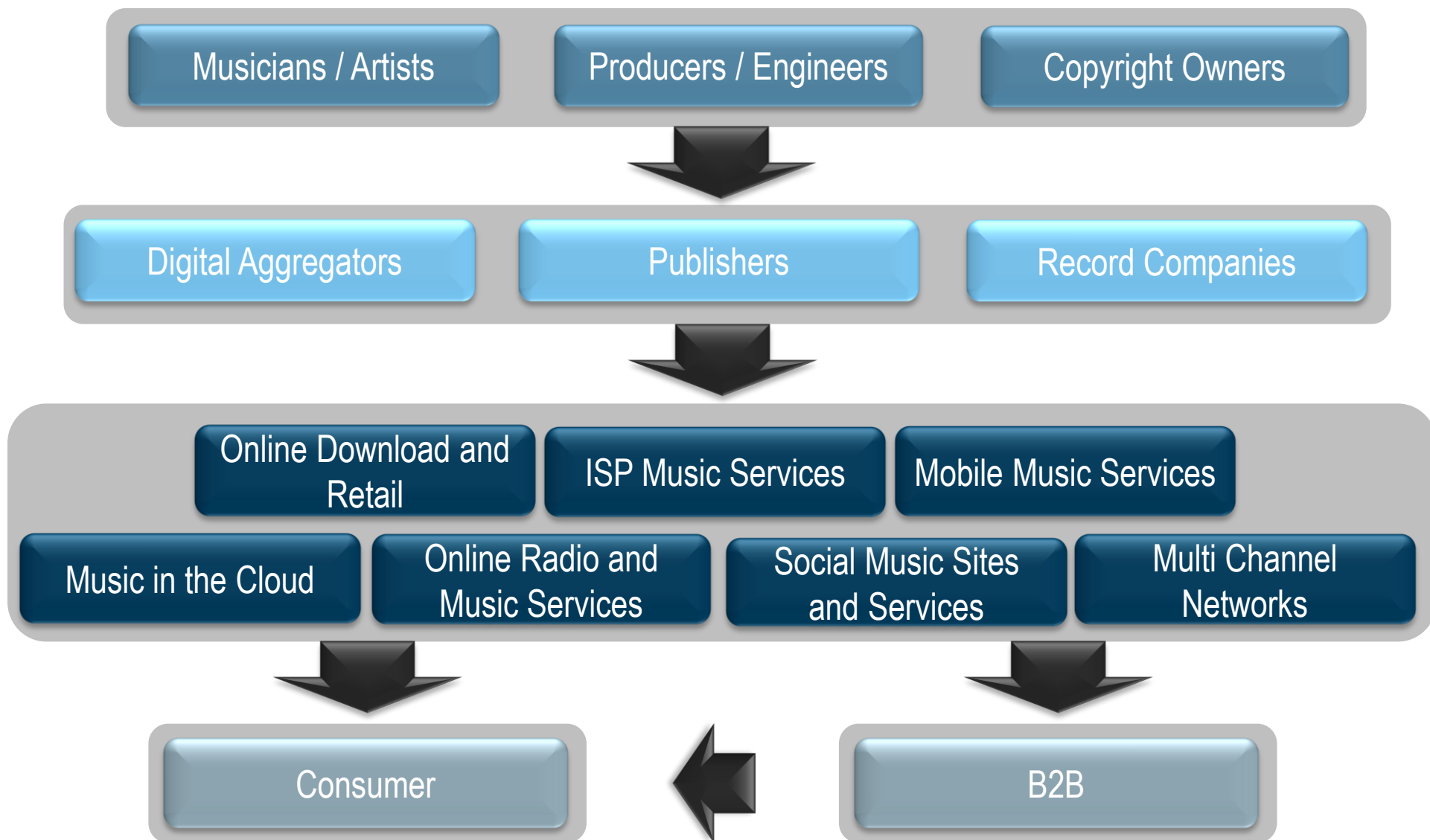
Mobile Music Services

ISP Music Services

Multi Channel Networks

Consumers

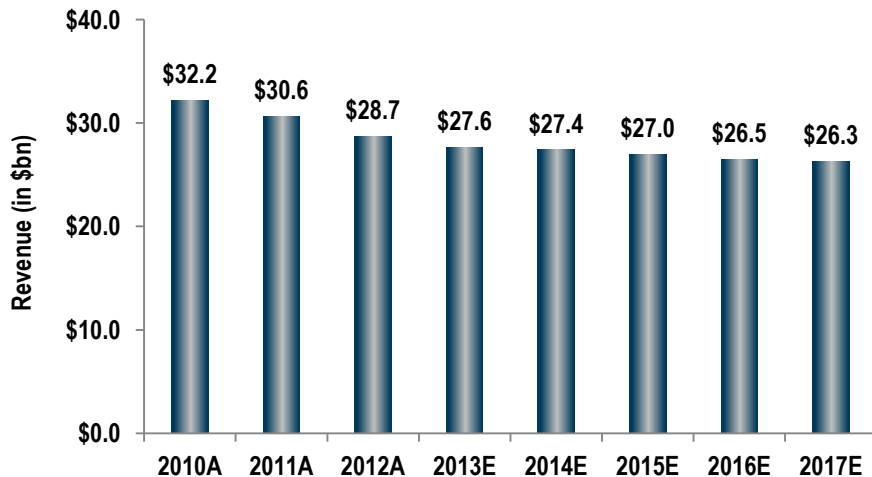
Digital Music Value Chain



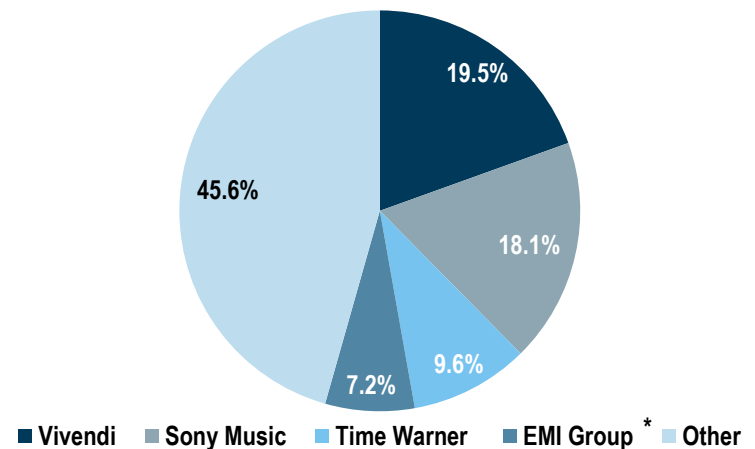
Music Industry Overview

- The global music industry in 2012 measured \$28.7bn, a decrease of 6.2% over the 2011 total of \$30.6bn
- The industry is expected to continue contracting at a 1.7% CAGR from 2012 to 2017 as many leading companies are still slowly adapting to the digital revolution
- Record labels are spending \$5.0bn on average, roughly 16.0% of revenue, on discovering, developing and marketing artists
- Online music streaming revenue increased 40.0% in 2012 to \$1.1bn, compared with 8.5% growth for digital music downloads
- Music publishers posted the strongest performance over the last few years as new streaming sites, such as Spotify and SoundCloud, drive demand for track and catalog licensing

Global Music Industry Revenue



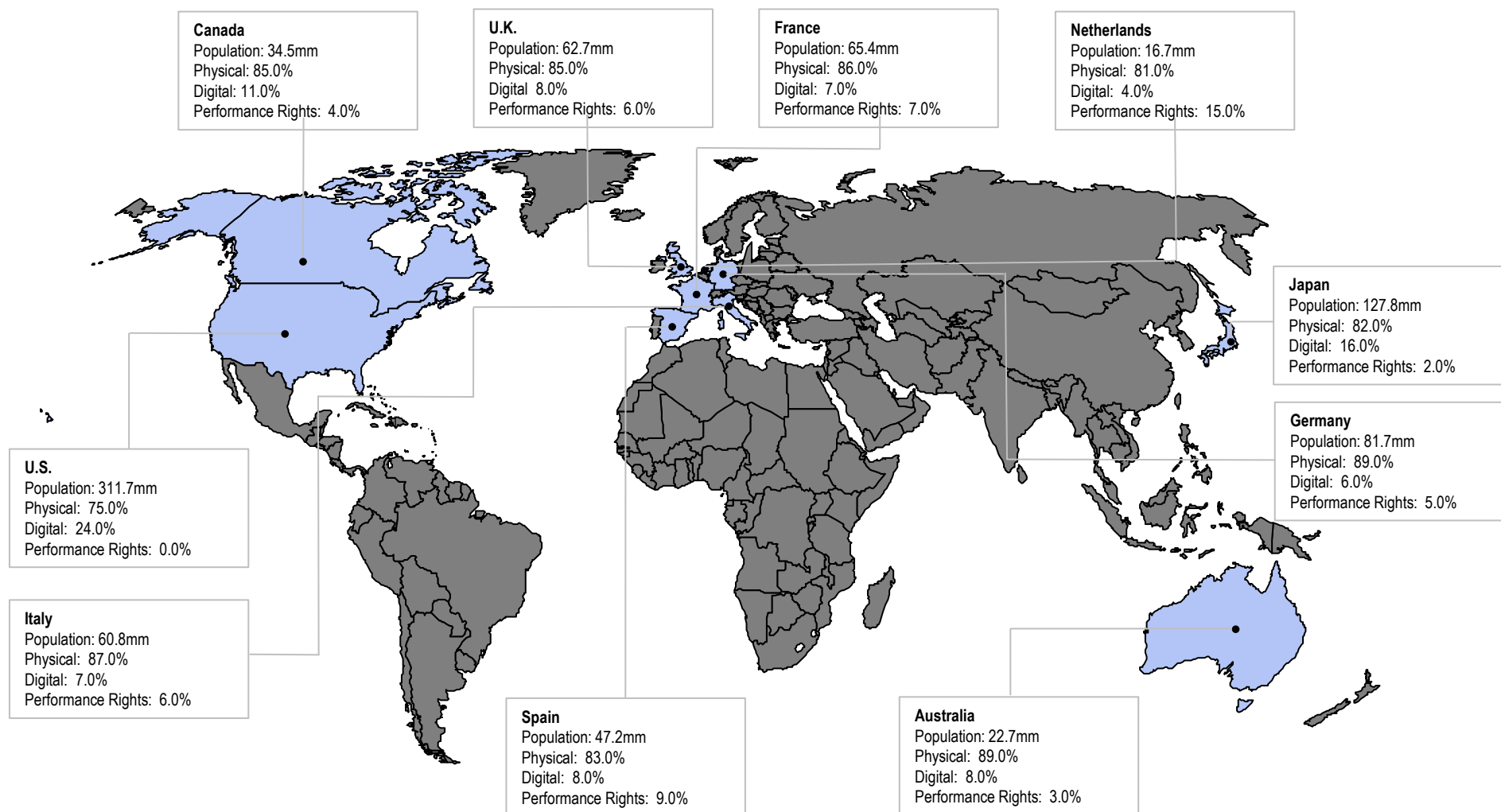
Global Music Industry Market Share for 2011



Source: IBIS World, Strategy Analytics * - EMI Music Publishing Acquired by Sony/ATV and EMI Records Acquired by Vivendi in Nov. 2011

Global Digital Music Penetration Rates in 2012

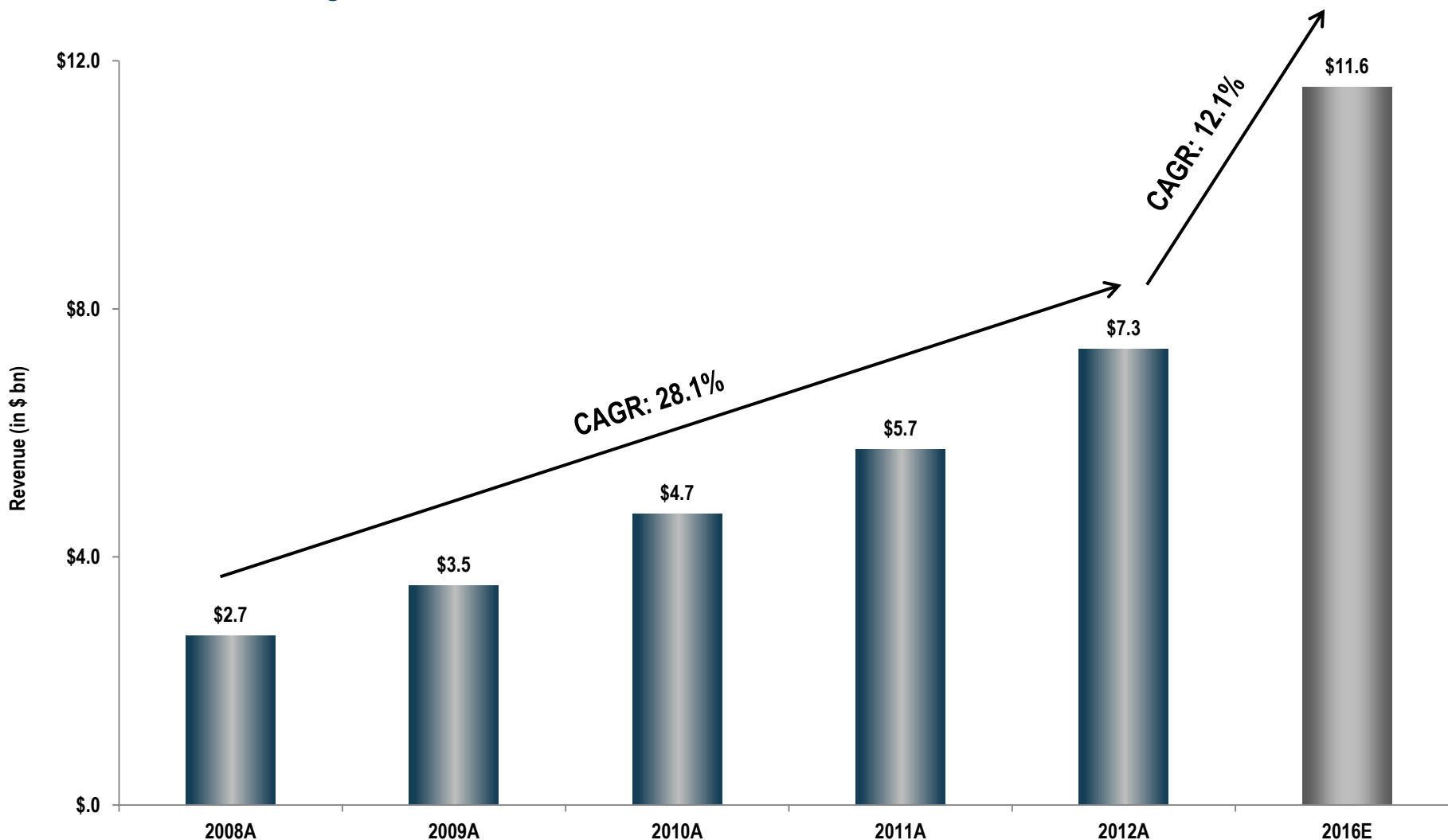
Digital music is expected to exceed physical music sales by 2017 as developed countries continue to overcome their technological challenges and emerging markets see rapid mobile proliferation and expanded connectivity.



Source: IBIS World

Global Digital Music Revenue Continues to Ramp Up

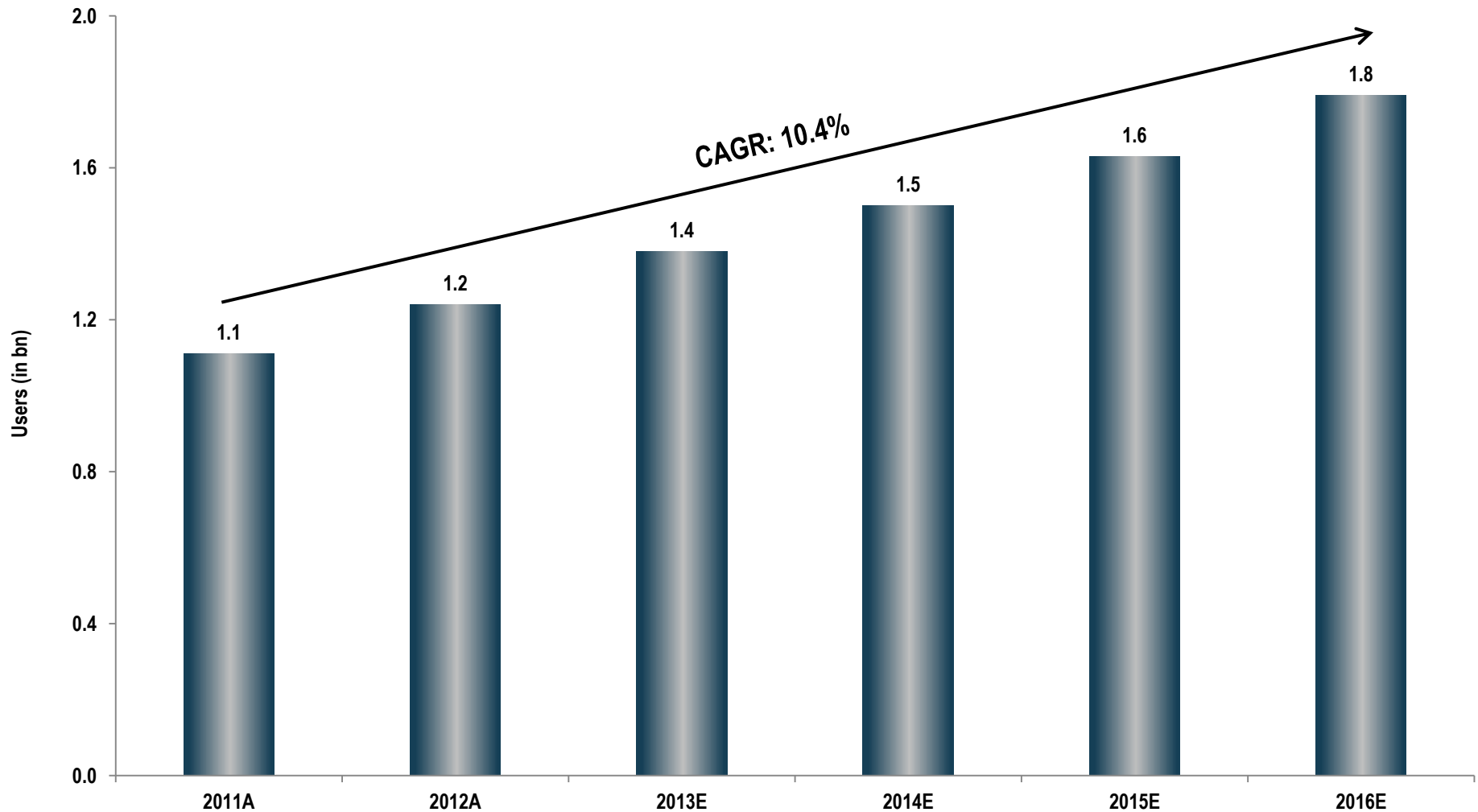
Global digital music revenue grew 63.0% between 2003 and 2012 and is expected to grow at a CAGR of 12.1% from 2012 to 2016, totaling \$11.6bn in 2016.



Source: AccuStream Research, TechNavio

Global Digital Music Users Steadily Increases

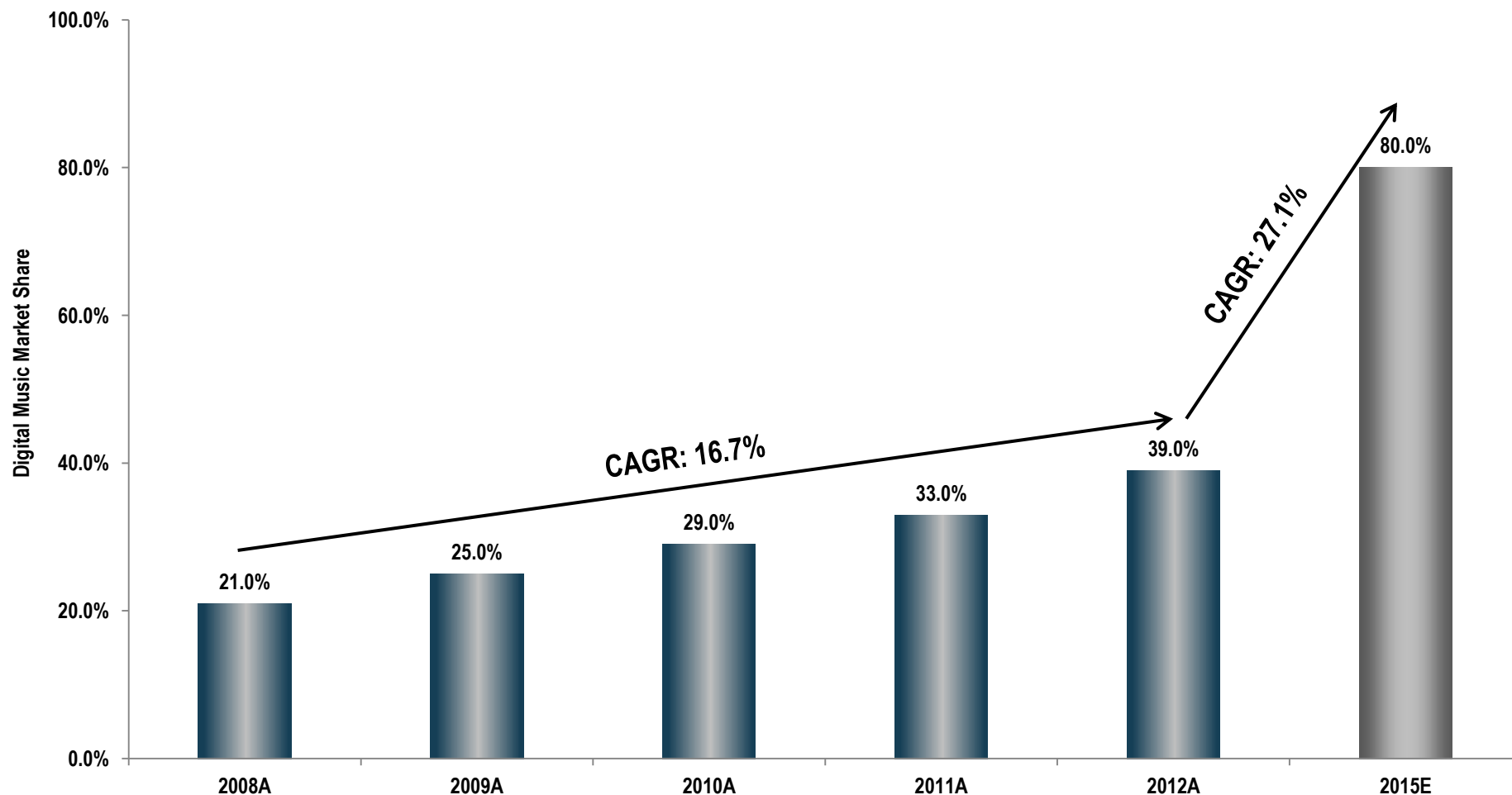
The number of global digital music users grew 9.0% from 2011 to 2012. By 2016, they are expected to comprise 1.8bn people, largely driven by the proliferation of more powerful mobile devices in emerging markets.



Source: Cisco Systems

Digital Revenue Market Share Continues to Grow

Between 2008 and 2012, digital music captured an additional 18.0% of the market for global music revenue, and industry analysts estimate that approximately 80.0% of music revenue will come from digital by 2015.



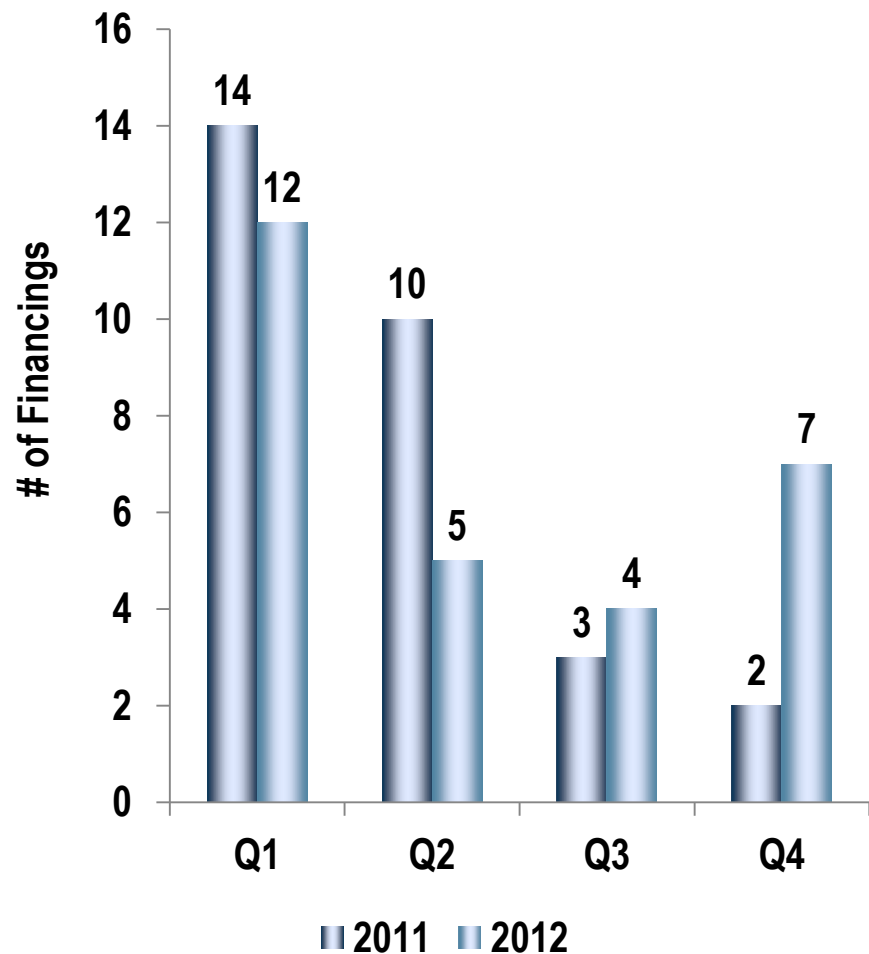
Source: Strategy Analytics and S&A Estimates

MUSIC M&A AND FINANCING TRANSACTIONS

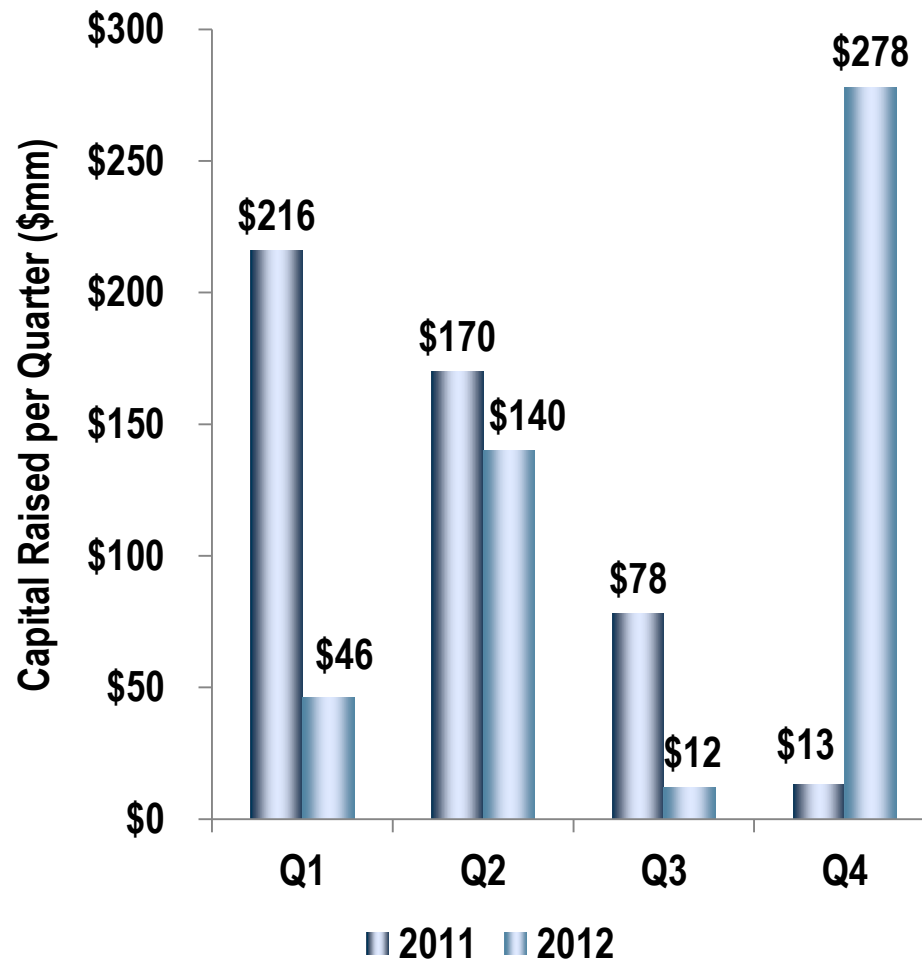
Recent Music Financing Activity and Capital Raised

Financing activity was strong in the early part of 2012, though larger raises were seen toward the end of the year with Spotify and Deezer each raising over \$100.0mm.

Financings Volume



Aggregate Capital Raised



Source: Capital IQ and Siemer & Associates' proprietary research database

Select Precedent Music Financings

Date	Company	Description	Investors	Amount Raised (\$mm)	Total Raised (\$mm)	Round
02/07/13	EVNTLIVE	Live streaming platform	Troy Carter (Lady Gaga), Steve Wadsworth, Vint Cerf, Yogen Dalal, Dave House, Ellen Levy, Steve Wadsworth, Walter Kortschak, Jack Lasersohm	\$2.3	\$2.3	NA
01/23/13	Semetric	Provider of the Musicmetrics analytics service	Imperial Innovations, Pentech	4.7	7.3	NA
01/14/13	Moontoast	Social commerce platform for musicians and other influencers	The Martin Companies	5.0	11.0	B
11/19/12	theAudience	Social media marketing for artists, actors and other celebrities	Founders Fund, Guggenheim Partners, Participant Media, Capricorn Investment Group, Intertainment Media	20.0	20.0	A
11/15/12	Chromatik	Sheet music app and digital learning platform for music	500 Startups, Kapor Capital, Launchpad LA, MuckerLab, Learn Capital Venture Partners	2.0	2.0	NA
11/13/12	Base79	Manages YouTube channel content for rightsholders and media firms	MMC Ventures, The Chernin Group	10.0	14.3	B
11/14/12	Spotify	On-demand music streaming service	Goldman Sachs, other unnamed investors	100.0	288.0	NA
10/20/12	Musicplayr	Web music playlist creator	Lars Langusch	0.7	0.7	NA
10/07/12	Deezer	Music streaming service	Access Industries	130.0	149.0	D
10/03/12	Rap Genius	Crowdsource site containing explanations for rap lyrics	Andreessen Horowitz	15.0	15.0	NA
09/01/12	DJZ	Global community for dance music	Index Ventures, KPCB, True Ventures, Troy Carter, Shari Redstone, Google Ventures	1.0	1.0	NA

Source: Wall Street Research

Select Precedent Music Financings

Date	Company	Description	Investors	Amount Raised (\$mm)	Total Raised (\$mm)	Round
08/15/12	Songza	Playlist-focused music streaming app	Amazon, Deep Fork Capital, Metamorphic Ventures, 1-800 Flowers, Brian Lee, Baron Davis	\$1.5	NA	NA
08/09/12	OUYA	Games console with several streaming music partnerships	Kickstarter	8.6	8.6	NA
07/26/12	BalconyTV	Popular YouTube channel featuring up-and-coming music acts	Polaris Venture Partners, Lerer Ventures, Greycroft Partners	0.8	0.9	A
05/17/12	Pinterest	Social sharing site and app	Rakuten, Andreessen Horowitz, FirstMark Capital, Bessemer Venture Partners	100.0	138.0	NA
05/08/12	Mobile Backstage	Fan relationship management platform	Finnvera Venture Capital, Miston	1.3	1.3	NA
05/07/12	Gumroad	E-commerce tool allowing artists to sell music via social media	KPCB, CrunchFund, First Round Capital	7.0	8.1	A
04/27/12	Viddy	Social video sharing site and app	Battery Ventures, Goldman Sachs Group	30.0	36.0	B
04/24/12	Chirpify	Twitter commerce platform for musicians	Voyager Capital, Geoff Entress, Andy Liu, Rudy Gadre, Ryan Holmes	\$1.3	\$1.3	NA
02/16/12	Backplane	Social networking platform managing Lady Gaga's Little Monsters website	Google Ventures, Founders Fund, Menlo Ventures, SV Angel, Battery Ventures	\$4.0	\$5.8	NA
02/15/12	Exfm	Social music discovery platform	Spark Capital	\$1.5	\$2.8	NA
02/08/12	TastemakerX	Music discovery app and social gaming platform for music fans	Baseline Ventures, AOL Ventures, True Ventures, Guggenheim Partners, Tekton Ventures	\$1.8	\$1.8	A

Source: Wall Street Research

Select Precedent Music Financings

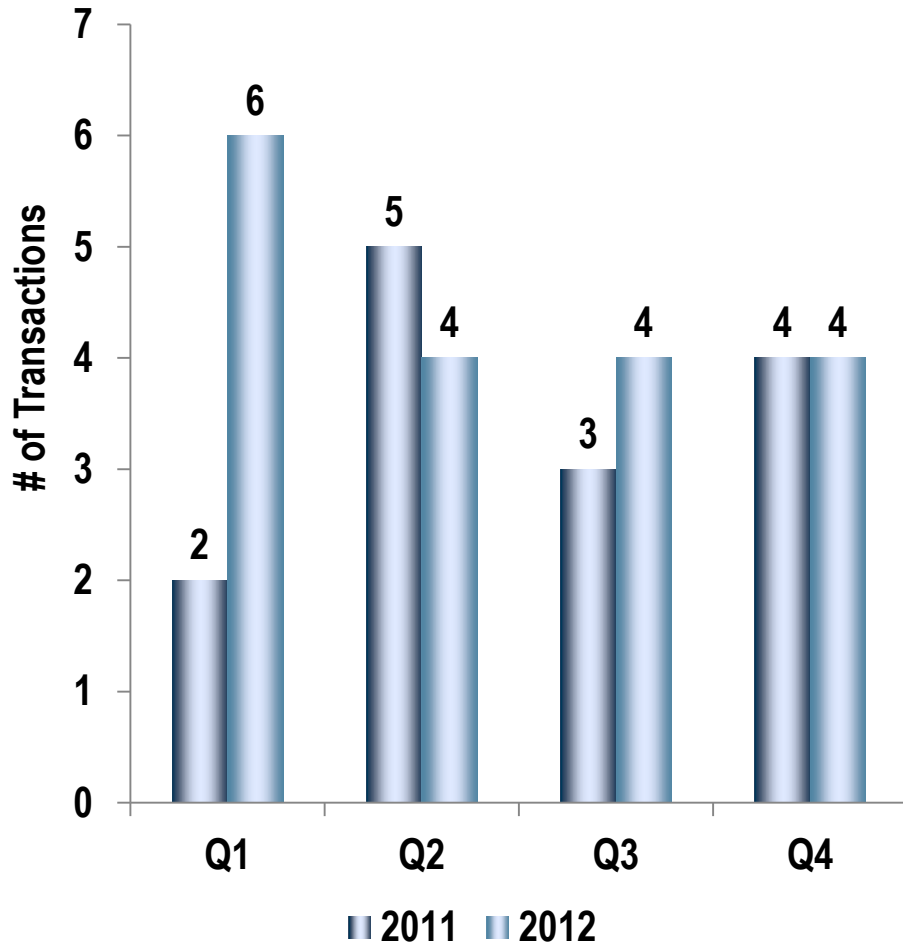
Date	Company	Description	Investors	Amount Raised (\$mm)	Total Raised (\$mm)	Round
02/08/12	Ovelin	Music learning app	True Ventures	\$1.4	\$1.4	NA
02/07/12	Viddy	Social video sharing site and app	Battery Ventures, Qualcomm Ventures, Greycroft Partners, Sky Dayton, Jarl Mohn, Biz Stone	6.0	\$36.0	A
01/26/12	955 Dreams	Self-publishing platform for music	500 Startups, m8 Capital, Kapor Capital, Felicis Ventures, CrunchFund, James Joaquin	3.3	\$3.3	NA
01/25/12	Murfie	Community-oriented music marketplace	NA	1.4	\$1.4	NA
01/23/12	Gobbler	Hosted file backup and organization platform for media creators	ff Venture Capital, Black Ocean Group, Aber Whitcomb, Dan Rose, Jermey Wenokur, Mike Jones, Matt Coffin, Mike Herring, Glenn Schiffman	1.8	\$3.1	NA
01/18/12	PlayMySong	Crowdsource music DJ service	Lifeline Ventures	0.4	\$0.4	NA
01/11/12	GetGlue	Social network for entertainment	Rho Capital Partners, Union Square Ventures, RRE Ventures, Time Warner	12.0	\$24.0	D
01/05/12	Moontoast	Social commerce platform for musicians and other influencers	NA	6.0	\$6.0	A
01/03/12	Next Big Sound	Provider of online music analytics and insights	IA Ventures, Foundry Group, SoftTech VC, Troy Henikoff	6.5	\$7.5	A
11/01/11	Free All Media	Ad-supported music download service	NA	0.7	\$1.7	NA
10/31/11	Smule	Interactive music app developer	Shasta Ventures, Granite Ventures, Bessemer Venture Partners	12.0	\$25.5	NA
				Mean	\$15.1	\$25.8
				Median	\$4.4	\$6.0

Source: Wall Street Research

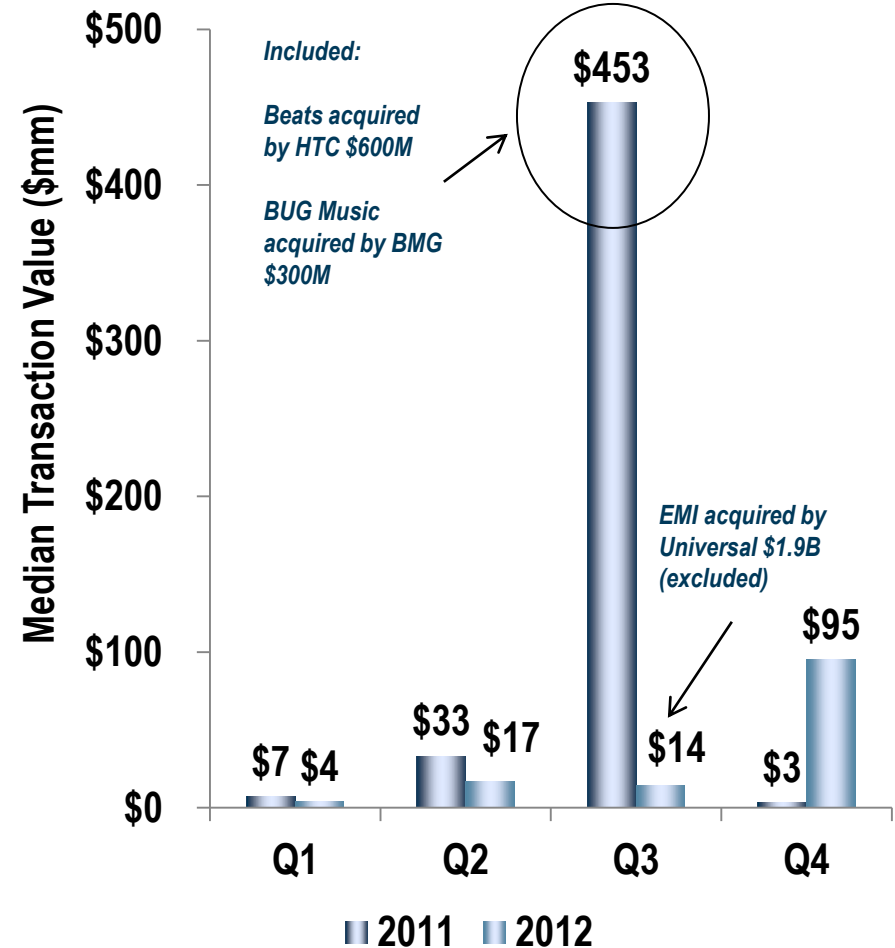
Recent Music M&A Transaction Volumes and Values

M&A activity was strongest in the early part of 2012, though larger deal values were seen in Q3 – Q4 2012. Recent deals announced in early 2013 suggest M&A activity will remain strong.

M&A Transaction Volume



Median Transaction Value



Source: Siemer & Associates' proprietary research database

* - Does not include acquisition of EMI Music Recording by Universal Music Group for \$1.9bn on Sept. 28th

Select Precedent Music & DRM Transactions

(figures in millions of \$USD)

Date Announced	Target	Acquirer	Implied EV	EV / LTM	
				Revenue	EBITDA
02/15/2013	Sanctuary Records	BMG Rights Management	\$62.5	4.9x	8.9x
02/06/2013	Parlophone	Warner Music Group	725.9	NA	NA
12/12/2012	Audiogalaxy	Dropbox	NA	NA	NA
10/30/2012	disco volante	Senzari	NA	NA	NA
10/02/2012	Liquid Spins	Max Sound Corporation	8.3	NM	NM
08/24/2012	MOG Music Network	Townsquare Media	NA	NA	NA
07/15/2012	MakeMusic	LaunchEquity Partners	5.8	0.3x	NM
07/11/2012	Musicoola	Stingray Digital Group	NA	NA	NA
07/02/2012	M-Audio LLC and AIR Software Group	Numark Industries	13.9	NA	NA
07/02/2012	MOG	Beats Electronics	NA	NA	NA
06/14/2012	we7	Tesco	NA	NA	NA
05/31/2012	Redmatica	Apple	NA	NA	NA
05/14/2012	Buonigiorno	NTT DOCOMO	318.4	1.0x	10.9x
05/09/2012	mSpot	Samsung	8.8	NA	NA
03/20/2012	Beyond Oblivion	Huntsman Gay Global Capital	4.2	NA	NA
03/06/2012	Beezik	ebuzzing	NA	NA	NA
12/09/2011	RightsFlow	Google / YouTube	NA	NA	NA
11/15/2011	CELL	DWANGO	37.6	1.1x	NA
11/11/2011	EMI Music Publishing	Sony / ATV Music Publishing	2,200.0	NA	NA
11/11/2011	EMI Recorded Music	Vivendi	1,900.0	NA	NA
11/02/2011	Recordare	MakeMusic	NA	NA	NA
10/27/2011	WiMP Music	Aspiro Music	4.9	NA	NA
10/03/2011	Napster	Rhapsody	NA	NA	NA
09/12/2011	Bug Music	BMG Rights Management	300.0	NA	NA
07/06/2011	GoConnect	Private Buyer	4.7	13.1x	NM
06/14/2011	Countdown Media	Bug Music	12.1	NA	NA

Source: Capital IQ and S&A's proprietary research database

Select Precedent Music & DRM Transactions

(figures in millions of \$USD)

Date Announced	Target	Acquirer	Implied EV	EV / LTM	
				Revenue	EBITDA
05/05/2011	Warner Music Group	AI Entertainment Holdings	\$2,994.3	1.0x	7.9x
04/19/2011	DaDaNet	Buongiorno	44.6	0.4x	3.1x
04/10/2011	PushLife	Google	25.0	NA	NA
02/28/2011	ThumbPlay	Clear Channel	NA	NA	NA
02/27/2011	Independent Media Distribution	Vitruvian Partners	52.8	3.2x	11.5x
12/15/2010	KKBOX	KDDI Corporation	81.1	NA	NA
12/08/2010	Oricon	Lawson	107.4	1.4x	7.6x
12/03/2010	Widevine Technologies	Google	158.0	NA	NA
12/01/2010	Musicar	Carvajal	3.9	NA	NA
11/26/2010	Chrysalis Group	BMG Rights Management	206.0	1.8x	22.4x
09/20/2010	EverGreen Copyright Acquisitions	Trilantic Capital Management and BMG	80.0	NA	NA
08/26/2010	Wormee	Deezer.com	NA	NA	NA
07/01/2010	JukeFly	Sonic Solutions	NA	NA	NA
04/22/2010	iPeer Multimedia	TFN Media	3.9	NA	NA
03/01/2010	2 entertain	BBC Worldwide	63.7	0.2x	NA
Mean			\$345.6	2.4x	10.6x
Median			\$44.6	1.1x	9.4x

Source: Capital IQ and S&A's proprietary research database

Select Publicly Traded Media Companies

Company Name	Share Price as of: 2/14/2013	Market Cap (mm)	Enterprise Value (EV)	EV / LTM		EV / CY 2013E		LTM Annual Revenue Growth
				Revenue	EBITDA	Revenue	EBITDA	
Digital Music & Video Services								
Aspiro AB	\$0.14	\$48.4	\$32.9	0.7x	NM	NA	NA	21.4%
DWANGO Co., Ltd.	2,614.67	533.4	468.1	1.2x	12.8x	NA	NA	2.5%
Entertainment One Ltd.	2.88	767.4	938.2	1.2x	17.3x	NA	NA	9.9%
Netflix, Inc.	187.40	10,493.2	10,176.9	2.8x	NM	2.1x	21.9x	12.6%
Pandora Media, Inc.	12.66	2,153.2	2,072.7	5.4x	NM	3.5x	NM	59.3%
Saregama India Ltd	1.37	23.8	32.4	1.1x	7.8x	NA	NA	15.6%
Youku Tudou Inc.	22.52	3,682.4	3,088.1	13.2x	NM	6.4x	NM	NM
Mean			\$2,401.3	3.7x	12.6x	4.0x	21.9x	20.2%
Median			\$938.2	1.2x	12.8x	3.5x	21.9x	14.1%
Online Media								
AOL Inc.	\$39.33	\$3,012.7	\$2,665.1	1.2x	6.3x	1.1x	5.9x	-0.5%
Apple Inc.	466.59	438,155.1	398,335.1	2.4x	6.7x	1.9x	5.7x	28.8%
Google Inc.	787.82	259,715.3	218,837.3	4.4x	13.4x	3.1x	8.6x	32.4%
Microsoft Corporation	28.04	234,869.9	180,989.9	2.5x	6.3x	2.0x	4.7x	1.2%
Yahoo! Inc.	21.18	25,049.3	21,035.4	4.2x	9.9x	4.5x	12.1x	NM
Mean			\$164,372.5	2.9x	NA	2.5x	7.4x	15.5%
Median			\$180,989.9	2.5x	NA	2.0x	5.9x	15.0%
Traditional Media								
Comcast Corporation	\$40.34	\$106,279.0	\$151,760.0	2.4x	7.2x	2.2x	6.8x	12.0%
News Corp.	28.49	66,613.3	76,766.3	2.2x	10.0x	2.0x	9.0x	0.5%
The Walt Disney Company	54.88	99,082.3	115,686.3	2.7x	10.1x	2.3x	8.4x	4.6%
Time Warner Inc.	53.63	49,983.2	67,014.2	2.3x	9.4x	2.2x	8.3x	-0.8%
Mean			\$102,806.7	2.4x	9.2x	2.2x	8.1x	4.1%
Median			\$96,226.3	2.4x	9.7x	2.2x	8.4x	2.6%
Blended Statistics								
Mean			\$78,118.7	3.1x	9.8x	2.8x	9.2x	14.3%
Median			\$15,606.1	2.4x	9.6x	2.2x	8.4x	11.0%

Source: CapitalIQ

SELECT TRANSACTION CASE STUDIES

Dropbox Acquires Audiogalaxy (12/13/2012)



ACQUIRES



■ **Acquirer:** Dropbox

■ **Bus. Description:** Cloud storage and sharing services

■ **Deal Commentary**

■ Audiogalaxy differentiates Dropbox's now largely commoditized storage offering

■ Enables deeper collaboration for their users through new media services

■ **Target:** Audiogalaxy

■ **Bus. Description:** Cloud music storage and cross-platform streaming services to all devices

Source: Wall Street Research

Beats Electronics Acquires MOG (7/2/2012)



ACQUIRES



- **Acquirer:** Beats Electronics (partially owned by HTC)
- **Bus. Description:** Leading digital audio technology and market leader in headphones
- **Implied EV:** \$14.0mm
- **Deal Commentary**
 - MOG provides Beats and its partial owner and leading smartphone maker, HTC, a platform to deliver a more diversified consumer offering
 - Moves Beats away from core hardware and into content delivery
- **Target:** MOG
- **Bus. Description:** Subscription-based music streaming service

Source: Wall Street Research

Tesco Acquires we7 (6/14/2012)



ACQUIRES



- **Acquirer:** Tesco
- **Bus. Description:** Leading UK CD retailer
- **Implied EV:** \$16.8mm
- **Deal Commentary**
 - Tesco continues to beef up its digital portfolio and will leverage we7 alongside its previous acquisition of Blinkbox to create a full digital home entertainment offering
- **Target:** we7
- **Bus. Description:** Music download and streaming platform

Source: Wall Street Research

Samsung Acquires mSpot (5/9/2012)



ACQUIRES



- **Acquirer:** Samsung
- **Bus. Description:** Manufacturer and distributor of electronic devices
- **Target:** mSpot
- **Bus. Description:** Cloud entertainment service that syncs content across devices
- **Deal Commentary**
 - By leveraging the syncing capabilities of the mSpot platform, Samsung can use mSpot as a centralized music hub across Samsung's connected devices
 - Samsung provides mSpot with extensive platform capabilities, including TVs, tablets and smartphones

Source: Wall Street Research

SELECT FINANCING CASE STUDIES

- **Company Name:** theAudience
- **Bus. Description:** Social media marketing for artists, actors and other celebrities with analytics to track fan engagement
- **Deal Commentary:**
 - Manages accounts of 300+ celebrities with over 800mm fans; with rumored \$5K/month fees (per NYT), this suggests monthly revenue of at least \$1.5mm
 - “Significant” seed round investment by the William Morris Endeavor agency
 - Capital raised to build out staff and further attract sponsors
- **Participating Investors:** Founders Fund, Guggenheim Partners, Participant Media, Capricorn Investment Group, Intertainment Media
- **Amount Raised:** \$20.0mm
- **Total Capital Raised:** \$20.0mm
- **Round:** Series A

- **Company Name:** Base79
- **Bus. Description:** Manages YouTube channel content for rights-holders and media firms
- **Deal Commentary:**
 - YouTube's largest European partner with over 550mm monthly video views
 - With The Chernin Group as lead investor, the deal could provide entry to working with related companies, including Pandora, Fullscreen Media, Tumblr and Flipboard, companies that, like YouTube, also play a role in aggregating content
 - Base79 says that it will be using the funds to expand its YouTube channels to cover markets across Europe and into other territories as well as to make further moves into developing original content
- **Participating Investors:** MMC Ventures, The Chernin Group
- **Amount Raised:** \$10.0mm
- **Total Capital Raised:** \$14.3mm
- **Round:** Series B

Deezer (10/7/2012)

- **Company Name:** Deezer
- **Bus. Description:** Free and legal music streaming service allowing unlimited access to songs
- **Deal Commentary:**
 - Pre-investment metrics: 2.0mm paying customers; 7.0mm MAU; 26.0mm registered users
 - Has relied heavily on carrier partnerships to cross-sell its service, including those with France Telecom's Orange and T-Mobile, among others
 - Capital to be used for large-scale international expansion into Middle East, Africa, Brazil and Asia; 50.0% expansion of editorial team to provide locally relevant content; improvement of recommendation engine to provide more curated content
- **Participating Investors:** Access Industries (owner of Warner Music Group)
- **Amount Raised:** \$130.0mm
- **Total Capital Raised:** \$149.0mm
- **Round:** Series D

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