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Hot Pandemic Market: Music Royalties

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Music Royalties Unable to tour, artists tap their catalogs for income as music rights increasingly are seen as 'a sound alternative asset'

When Sonia Leigh's tour dates were canceled this spring, erasing much of her expected income, the Nashville singer-songwriter looked to leverage one of her most valuable commodities: her songs.

Ms. Leigh is among many musicians who, unable to tour this year because of the coronavirus outbreak, are tapping their catalogs for income. The pandemic has heated up the market for music royalties, which was already surging thanks to the explosion in streaming. "When my U.K. tour schedule was canceled back in March, it was like a gut punch, as I'm sure it was to all of us who rely on touring for the majority of our income," said Ms. Leigh, 41 years old. "At that point, you look at your royalties to determine what the alternatives could be to access enough money to get through this time."

Ms. Leigh, who in addition to her own recording career has written songs recorded by Zac Brown Band and others, found a lifeline with Sound Royalties, a specialty music-finance firm that offers musicians cash advances based on projected future royalty income. Investors see music royalties as a relatively safe, stable asset amid current market volatility.

Executives who oversee transactions for borrowing against, buying and selling music rights and royalty streams say their phones have never been busier; they are closing a record number of deals. Low interest rates combined with an asset that produces yields largely untethered from the broader economy are making music an attractive investment.

"We've seen the demand rise to meet the increase in willing sellers," said Gary Young, co-founder of Royalty Exchange, a marketplace for buying and selling music royalties.

"We weren't sure if that was going to happen." He said new investor sign-ups—mainly individuals—over the past two months are four times higher than they have ever been.

Older catalog hits are commanding higher prices than they were pre-Covid-19, because they are generally perceived as the safest bet, thanks to a long record, and have seen a particular rise in streaming during the recent pandemic. Newer hits are holding steady, Mr. Young added. Sound recording royalties to REO Speedwagon's album "Hi Infidelity," which includes the 1980 pop-rock hit "Keep On Loving You," recently auctioned off for $179,500. Publishing royalties to Rihanna's song "Don't Stop the Music" closed at $203,000.

For many executives involved in such deals, the trend supports a selling point they have been pushing for years. "One of the key parts to our thesis is these songs are uncorrelated to what's happening in the market," said Merck Mercuriadis, chief executive officer of music-investment company Hipgnosis Songs Fund Ltd.

The company's shares, listed on the London Stock Exchange two years ago, are trading at a record, up 7% since the beginning of the year. Hipgnosis, which buys the rights to hit songs, including some recorded by Lady Gaga and Bruno Mars, said it expects income growth from a rise in music streaming to outweigh depressed earnings from songs played in businesses like gyms, restaurants and other public places that are currently closed.

"When you look at 'Don't Stop Believin' or 'Livin' on a Prayer'—consumption of these songs has gone through the roof during the pandemic," said Mr. Mercuriadis, pointing to feel-good hits the company owns part of.

The company said in investor documents that it is in active discussions on a pipeline with an acquisition value of more than £1 billion ($1.2 billion).Over the last three to five years, rising revenue from music-streaming services like Spotify Technology SA and Apple Inc.'s Apple Music has led to an increase in the value of music-rights ownership. Shares of Warner Music Group Corp. made their debut in the public market last month and now value the third-largest label and publisher at more than $15 billion. Vivendi SA sold a 10% stake in Universal Music Group to Chinese internet giant Tencent Holdings Ltd. for €3 billion ($3.37 billion) late last year, valuing the world's largest music company at more than $33 billion. Songwriter catalogs, meanwhile, have been commanding multiples of 10 to 18 times annual royalties, compared with eight to 13 times before, according to people involved in the deals.

"The world has finally recognized music rights as a sound alternative asset," said Larry Mestel, chief executive of music publisher Primary Wave, which he said has $500 million of deals in the pipeline—half originating before Covid-19, half as a result of financial hardship stemming from the pandemic.

"The market was very strong before Covid for deals," Mr. Mestel said. "It got even stronger because artists have a limited way of making money." Unlike firms seeking to buy assets outright, Sound Royalties—the company with which Ms. Leigh made her recent deal—encourages artists to hold on to their copyrights, which can have lucrative long-term value.

Artists can borrow between $5,000 and $10 million or more. Deals typically range from six months to five years and involve a fee based on length, whether the artist is borrowing against a song or catalog, and the age and historical performance of the songs. "No matter how much an artist earns, losing any portion of expected income takes its toll," Sound Royalties CEO Alex Heiche said. "You tend to expect and build a life around a certain amount of income."