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MARKETS

Looking for High Yields? Consider ‘Sesame Street’ Songs

Lured by the potential for higher rates of return, some investors are buying the rights to musicians’ future earnings



Dave Goldberg, tired of low returns on more traditional investments, decided to buy the rights to future earnings for a group of ‘Sesame Street’ songs. PHOTO: RAMSAY DE GIVE FOR THE WALL STREET JOURNAL

By Ben Eisen

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Tired of low returns on traditional investments, David Goldberg recently turned to an unlikely place: Elmo and his friends on “Sesame Street.”

Mr. Goldberg paid more than half a million dollars to buy the future revenue for a group of songs, including “Sesame Street” favorite “Elmo’s Song,” through auction

website Royalty Exchange.

“Why park a bunch of money in cash that barely earns anything?” said Mr. Goldberg, 36 years old, who owns the shoe brand of former basketball player Patrick Ewing.

A small but growing number of investors is buying the rights to musicians’ future earnings, lured by returns that can run between 8% and 12% annually, or more when junk bonds are yielding less than 6%.

Private-equity-like funds focused on music royalties have raised or started raising roughly \$1 billion to purchase future revenue rights since 2013, when these investors started viewing the sector seriously as an income stream amid a low-rate environment, said Wes Swackhamer, who works with investors on royalties as a private-equity investment director at Boston-based consultancy Cambridge Associates.

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“You’re talking about an income stream that’s not necessarily tied to broader capital markets,” he said.

Royalty Exchange, which was formed in 2011, often handles

sales for less-expensive royalties. In the second quarter, the Denver-based site held auctions worth \$2.5 million, more than double the total from the last three months of 2016.

Music royalties are generated in multiple ways; songs can earn money when performed, played in a restaurant or in a film, or streamed through a service like Spotify. Songwriters are often the sellers of royalty streams, either for a period of time or permanently. Artists, labels and publishers also sell various types of royalties.

Rights can sell for anywhere from a few thousand dollars for a lesser-known tune or one whose popularity has peaked to millions for a well-known catalog with a history of consistent earnings.

But they come with risks. Royalty rights often last for 70 years after the death of the artist. Investors typically value the rights on a multiple of the previous year's earnings, but a song that generates revenue now isn't necessarily likely to do so at the same pace in the future, as trends and listeners' tastes change.



'Elmo's Song' was part of the group of songs that Mr. Goldberg bought royalties for on auction website Royalty Exchange. The popular 'Sesame Street' character poses here with cast member Suki Lopez. PHOTO: RICHARD TERMINE/ASSOCIATED PRESS

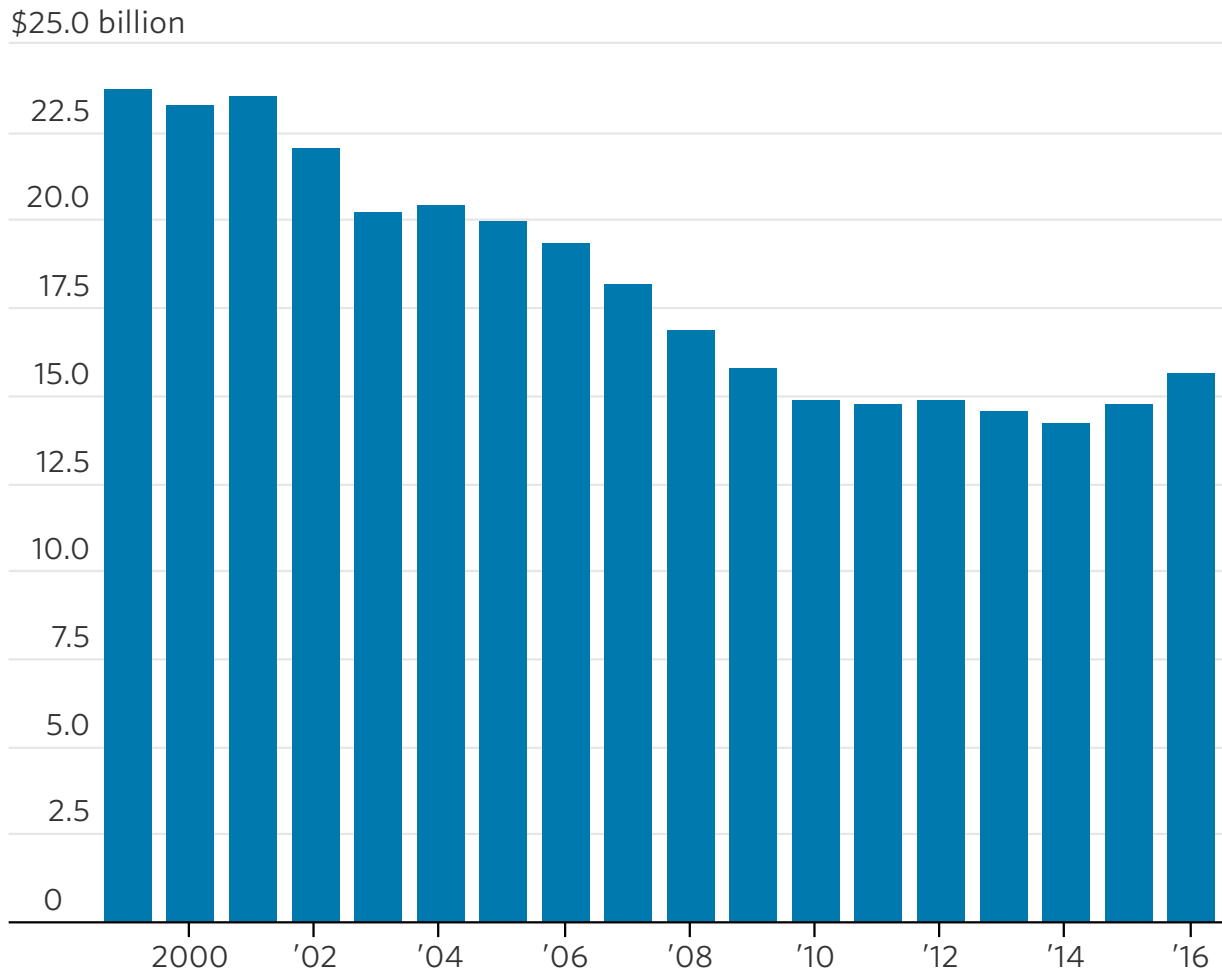
Last month, Royalty Exchange auctioned the performance revenues to the Black Eyed Peas' "Just Can't Get Enough" for \$17,200. The song generated almost \$17,000 through performances in the second quarter of 2011, but after a steady decline, it made just \$259 in the final quarter of 2016.

Royalties tend to not change hands often, making them difficult to sell if needed. As prices rise and some rights have become overvalued, industry watchers say investors could end up with an expensive asset that they can't unload.

Investing in royalties is "still very much a niche thing, but it's becoming less niche now," said Josh Gruss, chief executive officer at Round Hill Music Royalty Partners, a private-equity firm focused on acquiring music copyrights.

Bounce Back

Global recorded music industry revenue has started to rebound in recent years, largely due to the popularity of streaming services.



Source: IFPI Global Music Report

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Round Hill, which has a portfolio that includes songs by the Beatles, raised more than \$200 million in 2014. It plans to launch another fund of a similar size or modestly larger,

according to a person familiar with the matter.

Los Angeles financier David Pullman first gave life to music-royalty investing two decades ago, when he packaged David Bowie's back catalog into an asset-backed bond and sold it to Prudential Financial. Mr. Bowie raised \$55 million in the deal, and the bonds paid interest of 7.9% annually for 10 years. The securitization was successful enough that Mr. Pullman repeated the idea with other artists, including James Brown and Marvin Gaye.

The move came as the emergence of digital-music services like Napster were starting to send the music industry into a tailspin as song downloads ate into

record sales. After over a decade of decline, record labels have been revitalized in recent years thanks in large part to the popularity of streaming services.

The American Society of Composers, Authors and Publishers, which collects and hands out royalties, distributed \$918 million last year, a 5.6% increase over the previous year. Broadcast Music Inc., a peer organization, distributed \$931 million in the year through June 2016, up 6% from the same period a year earlier.

Floyd Tyler, president and chief investment officer at investment firm Preserver Partners in Memphis, Tenn., bought royalties from an R&B songwriter for his mutual fund in 2013. He said he negotiated a deal to purchase the rights for a period of only a few years, with an agreement to later sell them back to the artist, whom he declined to name.

Mr. Tyler found the asset class didn't come with the interest-rate risk of bonds. Over the roughly two years he owned them, he says he earned 15% annually. "We'd love to do more," he said.



Mr. Goldberg, pictured in his Englewood, N.J. office in July, said he decided on the 'Sesame Street' collection after looking through financial information posted on Royalty Exchange for songs offering stable earnings and generous yields. PHOTO: RAMSAY DE GIVE FOR THE WALL STREET JOURNAL

Sitting in his Englewood, N.J. office on a Friday afternoon in June, Mr. Goldberg logged onto Royalty Exchange. Bidding for the group of "Sesame Street" songs, which also included other TV and film assets, had started at \$430,000 a week earlier, but few had put in bids. With a few hours left in the auction, Mr. Goldberg

made a bid of about half a million dollars. He had chosen the collection after looking through financial information posted on Royalty Exchange for songs offering stable earnings and generous yields.

Another potential buyer jumped in, and the two went back and forth, incrementally pushing up the price. Mr. Goldberg ultimately prevailed with a bid of \$580,000—over five times the \$108,500 the collection earned in 2016. If the songs generate similar revenue over the next year, they would yield almost 19%.

So far, Mr. Goldberg's royalties have earned around \$16,000, which he says is about what he expected. He was pleased enough with the purchase that he dropped another \$140,000 last month on the site, this time to purchase the royalties from a popular how-to book.