

Warner Music Group Corp.
Form 10-K
December 20, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4271875 (I.R.S. Employer Identification No.)
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1633 Broadway

New York, NY (Address of principal executive offices)	10019 (Zip Code)
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Registrant's telephone number, including area code: (212) 275-2000

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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

There is no public market for the Registrant's common stock. As of December 20, 2018 the number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding was 1,052. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

INDEX

	Page Number
Part I. Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	16
Item 1B. <u>Unresolved Staff Comments</u>	27
Item 2. <u>Properties</u>	28
Item 3. <u>Legal Proceedings</u>	28
Item 4. <u>Mine Safety Disclosures</u>	29
Part II. Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Selected Financial Data</u>	31
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	72
Item 8. <u>Financial Statements and Supplementary Data</u>	73
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	123
Item 9A. <u>Controls and Procedures</u>	123
Item 9B. <u>Other Information</u>	124
Part III. Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	125
Item 11. <u>Executive Compensation</u>	131
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	146
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	147
Item 14. <u>Principal Accountant Fees and Services</u>	149
Part IV. Item 15. <u>Exhibits and Financial Statement Schedules</u>	150
Item 16. <u>Form 10-K Summary</u>	155
<u>Signatures</u>	156

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (this “Annual Report”) includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, management’s beliefs and assumptions. Words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negative thereof or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. We disclaim any duty to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Introduction

Warner Music Group Corp. (the “Company”) was formed on November 21, 2003. We are the direct parent of WMG Holdings Corp. (“Holdings”), which is the direct parent of WMG Acquisition Corp. (“Acquisition Corp.”). Acquisition Corp. is one of the world’s major music-based content companies.

Acquisition of Warner Music Group by Access Industries

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the “Merger Agreement”), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (“Parent”) and an affiliate of Access Industries, Inc. (“Access”), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), on July 20, 2011 (the “Merger Closing Date”), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the “Merger”). In connection with the Merger, the Company delisted its common stock from the New York Stock Exchange (the “NYSE”). The Company continues to voluntarily file with the U.S. Securities and Exchange Commission (the “SEC”) current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Exchange Act as provided for in certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company’s common stock is owned by affiliates of Access.

Our Company

We are one of the world’s major music-based content companies. Our company is composed of two businesses: Recorded Music and Music Publishing. We believe we are the world’s third-largest recorded music company and also the world’s third-largest music publishing company. We are a global company, generating over half of our revenues in more than 50 countries outside of the United States. We generated revenues of \$4.005 billion during the fiscal year ended September 30, 2018.

Our Recorded Music business produces revenue primarily through the marketing, sale and licensing of recorded music in various physical (such as CDs, Vinyl and DVDs) and digital (such as streaming and downloads) formats. We have one of the world’s largest and most diverse recorded music catalogs. Our Recorded Music business also benefits from additional revenue streams associated with artists, including merchandising, fan clubs, sponsorships, concert promotions and artist management, among other areas. Some of these revenues streams are generated through rights we receive in our recording agreements. We often refer to these rights as “artist services and expanded-rights” and to the recording agreements which provide us with participations in such rights as “expanded-rights deals” or “360° deals.” We have also made a number of recent acquisitions aimed at expanding our Recorded Music business, including

Sodatone, a premier artist and repertoire (“A&R”) insight tool, UPROXX, one of the most influential media brands for youth culture; Spinnin’ Records, one of the world’s leading independent electronic music companies; Songkick, the live music and ticketing destination, and in October 2018 the acquisition of EMP Merchandising, one of Europe’s leading specialty music and entertainment merchandise e-tailers. Prior to intersegment eliminations, our Recorded Music business generated revenues of \$3.360 billion during the fiscal year ended September 30, 2018.

Our Music Publishing business owns and acquires rights to musical compositions, exploits and markets these compositions, and receives royalties or fees for their use. We publish music across a broad range of musical styles and hold rights in over one million copyrights from over 70,000 songwriters and composers. Prior to intersegment eliminations, our Music Publishing business generated revenues of \$653 million during the fiscal year ended September 30, 2018.

We maintain an Internet site at www.wmg.com. Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this Annual Report.

Company History

Our history dates back to 1929, when Jack Warner, president of Warner Bros. Pictures, founded Music Publishers Holding Company (“MPHC”) to acquire music copyrights as a means of providing inexpensive music for films. Encouraged by the success of MPHC, Warner Bros. extended its presence in the music industry with the founding of Warner Bros. Records in 1958 as a means of distributing movie soundtracks and further utilizing actors’ contracts. For over 50 years, Warner Bros. Records has led the industry both creatively and financially with the discovery of many of the world’s biggest recording artists. Warner Bros. Records acquired Frank Sinatra’s Reprise Records in 1963. Our Atlantic Records label was launched in 1947 by Ahmet Ertegun and Herb Abramson as a small New York-based label focused on jazz and R&B and Elektra Records was founded in 1950 by Jac Holzman as a folk music label. Atlantic Records and Elektra Records were consolidated in 2004 to form the Atlantic Records Group. Since 1970, our international Recorded Music business has been responsible for the sale and marketing of our U.S. recording artists abroad as well as the discovery and development of international recording artists.

Chappell & Intersong Music Group, including Chappell & Co., a company whose history dates back to 1811, was acquired in 1987, expanding our Music Publishing business. We continue to diversify our presence through acquisitions and joint ventures with various labels, such as our acquisition of Ryko in 2006, our acquisition of a majority interest in Roadrunner Music Group B.V. (“Roadrunner”) in 2007 (we also acquired the remaining interest in Roadrunner in 2010), the acquisition of Spinnin’ in 2017, and the acquisition of music publishing catalogs and businesses, such as the Non-Stop Music production music catalog in 2007 and Southside Independent Music Publishing in 2011.

On July 20, 2011, we completed the Merger with an affiliate of Access pursuant to which Access became the beneficial owner of 100% of our equity and our controlling shareholder.

On July 1, 2013, we completed the acquisition (the “PLG Acquisition”) of Parlophone Label Group (“PLG”). PLG included a broad range of some of the world’s best-known recordings and classic and contemporary artists spanning a wide array of musical genres. PLG was comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K., as well as EMI Classics and Virgin Classics, and EMI’s recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. PLG’s artists included Air, Alain Souchon, Camille, Coldplay, Daft Punk, Danger Mouse, David Bowie, David Guetta, Deep Purple, Duran Duran, Eliza Doolittle, Gorillaz, Iron Maiden, Jean-Louis Aubert, Jethro Tull, Julien Clerc, Kylie Minogue, M. Pokora, Magic System, Pablo Alborán, Pink Floyd, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG’s EMI Classics and Virgin Classics brand names were not included with the PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato.

Warner Music Group is today home to a collection of record labels, including Asylum, Atlantic, Big Beat, Canvasback, East West, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Rhino, Roadrunner, Sire, Spinnin’, Warner Bros., Warner Classics and Warner Music Nashville, as well as Warner/Chappell Music, one of the world’s leading music publishers.

Our Business Strengths

We believe the following competitive strengths will enable us to grow our revenue and increase our margins and cash flow and to continue to generate recurring revenue through our diverse base of Recorded Music and Music Publishing assets:

Evergreen Catalog of Recorded Music and Music Publishing Content and Vibrant Roster of Recording Artists and Songwriters. We believe the depth and quality of our Recorded Music and Music Publishing catalogs stand out, with a collection of owned and controlled evergreen recordings and songs that generate steady cash flows. We believe these assets demonstrate our historical success in developing talent and will help to attract future talent in order to enable our continued success. We have been able to consistently attract, develop and retain successful recording artists and songwriters. Our talented A&R teams are focused on finding and nurturing future successful recording artists and songwriters, as evidenced by our roster of recording artists and songwriters and our recent successes in our Recorded Music and Music Publishing businesses. We believe our relative size, the strength and experience of our management team, our ability to respond to industry and consumer trends and challenges, our diverse array of genres, our large catalog of hit recordings and songs and our A&R skills will help us continue to generate steady cash flows.

Highly Diversified Revenue Base. Our revenue base is derived largely from recurring sources such as our Recorded Music and Music Publishing catalogs and new recordings and songs from our roster of recording artists and songwriters. In any given year, only a small percentage of our total revenue depends on recording artists and songwriters without an established track record and our revenue base does not depend on any single recording artist, songwriter, recording or song. We have built a large and diverse catalog of recordings and songs that covers a wide breadth of musical styles, including pop, rock, jazz, classical, country, R&B, hip-hop, rap,

reggae, Latin, alternative, folk, blues, gospel and other Christian music. We are a significant player in each of our major geographic regions. Continuing to enter into additional expanded-rights deals and to build and acquire artist services capabilities will further diversify the revenue base of our Recorded Music business, and we continue to make selective investments in established and emerging markets.

Flexible Cost Structure with Low Capital Expenditure Requirements. We have a highly variable cost structure, with substantial discretionary spending and minimal capital requirements beyond improving our IT infrastructure. We have contractual flexibility with regard to the timing and amounts of advances paid to recording artists and songwriters as well as discretion regarding future investment in new recording artists and songwriters, which allows us to respond to changing industry conditions. Our significant discretion with regard to the timing and expenditure of variable costs provides us with considerable flexibility in managing our expenses. In addition, our capital expenditure maintenance requirements are predictable. In fiscal years 2017 and 2018 we incurred additional capital expenditures in connection with the consolidation of our West Coast operations, and the relocation of our United States shared services center to Nashville. We also continue to focus on cost control by seeking sensible opportunities to convert fixed costs to variable costs, to enhance our effectiveness, flexibility, structure and performance by reducing and realigning long-term costs and continuing to implement changes to better align our workforce with the changing nature of the music industry by continuing to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams.

Continued Transition to Higher-Margin Digital Platforms. We derive revenue from different digital business models and products, including digital streaming of both audio and video content and digital downloads of single tracks and albums. We have established ourselves as a leader in the music industry's transition to the digital era by expanding our distribution channels through strong partnerships and developing innovative products and services to further leverage our content and rights. For the fiscal year ended September 30, 2018, digital revenue represented approximately 56% of our total revenue versus 52% for the fiscal year ended September 30, 2017 and in fiscal years 2017 and 2018 digital streaming was our largest source of Recorded Music revenue. We have integrated the development of innovative digital products and strategies throughout our business and have established a culture of product innovation. Through our digital initiatives we have established strong relationships with our customers and have become a leader in the expanding worldwide digital music business. Due to the absence of certain costs associated with physical products, such as manufacturing, distribution, inventory and returns, we continue to experience higher margins on our digital product offerings than our physical product offerings.

Strong Management Team and Strategic Investor. Our management team has continued to successfully implement our business strategy, including delivering strong results in our digital business, delivering a steadily increasing flow of new music and continuing to diversify our revenue mix. At the same time, management has remained vigilant in managing costs and maintaining financial flexibility. During fiscal year 2013, our management team successfully completed the PLG Acquisition and related financing. During fiscal years 2012 to 2018, management completed several refinancings of our debt, lowering interest expenses and in October 2018 financed the acquisition of EMP Merchandising. In addition, since our acquisition by Access in July 2011, we have benefited from our partnership with Access, which has provided us with strategic direction and planning support to help us manage the ongoing transition in the music industry.

Our Strategy

We expect to increase revenues and cash flow through the following business strategies:

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical element of our strategy is to produce a steadily increasing flow of new music by finding, developing and retaining recording artists and songwriters who achieve long-term success. We expect to enhance the value of our assets by continuing to attract

and develop new recording artists and songwriters with staying power and market potential. Our A&R teams seek to sign talented recording artists who will generate a meaningful level of revenues and increase the enduring value of our catalog on an ongoing basis. We also work to identify promising songwriters who write musical compositions that will augment the lasting value and stability of our music publishing catalog. We regularly evaluate our recording artist and songwriter rosters to ensure that we remain focused on developing the most promising and profitable talent and are committed to maintaining financial discipline in evaluating agreements with artists. We will also continue to evaluate opportunities to add to our catalog or acquire or make investments in companies engaged in businesses that are similar or complementary to ours on a selective basis.

Maximize the Value of Our Music Assets. Our relationships with recording artists and songwriters, along with our recorded music and music publishing catalogs are our most valuable assets. We intend to continue to exploit the value of these assets through a variety of distribution channels, formats and products to generate significant cash flow from our music-based content. We believe that the ability to monetize our music-based content will improve over time as we drive users and engagement across current and emerging distribution channels. We will seek to exploit the potential of previously under-monetized content in new channels, formats and product offerings. We will also continue to work with our partners to explore creative approaches and develop new deal structures and product offerings to take advantage of new distribution channels. We also intend to continue to expand our global footprint through strategic acquisitions, partnerships and organic growth in markets where we see opportunities to grow revenues, supplementing our global organization with local investment.

Capitalize on Digital Distribution and Emerging Technologies. We are embracing commercial innovation and believe the growth of digital formats will continue to produce new means for the distribution, exploitation and monetization of the assets of our Recorded Music and Music Publishing businesses. We believe that the continued development of legitimate online and mobile channels for the consumption of music-based content and increasing access to digital music services present significant promise and opportunity for the music industry. Legitimate digital music services offer ease of use, discovery, quality, portability and seamlessness relative to illegal alternatives. We intend to continue to extend our global reach by executing deals with new partners and developing optimal business models that will enable us to monetize our content across various platforms, services and devices. For the year ended September 30, 2018, our Recorded Music digital revenue significantly exceeded physical revenue. We also intend to continue to support and invest in emerging technologies, including artificial intelligence, artificial reality, virtual reality, high-resolution audio, mobile messaging, social and other technologies to continue to build new revenue streams and position us for long-term growth.

Focus on Continued Management of Our Cost Structure. We plan to continue to maintain a disciplined approach to cost management in our business and to pursue additional cost savings with a focus on aligning our cost structure with our strategy and optimizing the implementation of our strategy. As part of this focus, we will continue to monitor industry conditions to ensure that our business remains aligned with industry trends. We also plan to continue to aggressively shift resources from our physical sales channels to efforts focused on digital sales channels and other new revenue streams. As digital revenue makes up a greater portion of total revenue, we plan to manage our cost structure accordingly. In addition, we will continue to look for opportunities to convert fixed costs to variable costs through realigning or outsourcing certain functions or leveraging more effective IT systems where these initiatives provide additional cost savings. We are constantly monitoring our costs and seeking additional cost savings.

Contain Digital Piracy. Containing piracy continues to be a major focus of the music industry and we, along with the rest of the industry, continue to take multiple measures through the development of new business models, technological innovation, litigation, education and the promotion of legislation and voluntary agreements to combat piracy, including filing civil lawsuits, participating in education programs, lobbying for tougher anti-piracy legislation and other initiatives to preserve the value of music copyrights. We expect that the effectiveness of technological measures to deter piracy will continue to improve including the ability to automate large-scale takedowns of infringing links, the identification of major brands advertising on rogue sites, sending notices via ISPs to repeat infringers and website/domain blocking and takedowns of infringing mobile applications. We believe these actions and technologies, in addition to the expansive growth of legitimate online and mobile music offerings, will help to limit the revenue lost to digital piracy. Research conducted by AudienceNet, a recognized third-party market research firm, on behalf of the International Federation of the Phonographic Industry (“IFPI”), shows that the net incidence of music being consumed based on some form of copyright infringement across 18 key countries in 2018 reached 38%, with ‘streamripping’ being the dominant form. However, pirated content only accounted for 7% of total music listening time in a typical week, eclipsed by legitimate sources of music such as radio and licensed audio and video streaming services.

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Recorded Music (84% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2018, 2017 and 2016)

Our Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing music and marketing and promoting artists and their products.

In the United States, our Recorded Music operations are conducted principally through our major record labels—Atlantic Records and Warner Bros. Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations, reissues of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music operations through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music activities are conducted in more than 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, we also market and distribute the music of those artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute our records to non-affiliated third-party record labels.

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (“WEA Corp.”), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to an expanded universe of digital partners, including digital streaming services such as Amazon, Apple, Deezer, Napster, SoundCloud, Spotify, Tencent and YouTube, digital radio services such as iHeart Radio, Pandora and Sirius XM and digital download services such as Apple’s iTunes and Google Play.

We have integrated the exploitation of digital content into all aspects of our business, including A&R, marketing, promotion and distribution. Our business development executives work closely with A&R departments to ensure that while music is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. We also work side-by-side with our online and mobile partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of music content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, we provide services to and participate in artists’ activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create. We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with artists and allows us to more effectively connect artists and fans.

A&R

We have a decades-long history of identifying and contracting with recording artists who become commercially successful. Our ability to select artists who are likely to be successful is a key element of our Recorded Music business strategy and spans all music genres and all major geographies and includes artists who achieve national, regional and international success. We believe that this success is directly attributable to our experienced global team of A&R executives, to the longstanding reputation and relationships that we have developed in the artistic community and to our effective management of this vital business function.

In the United States, our major record labels identify potentially successful recording artists, sign them to recording agreements, collaborate with them to develop recordings of their work and market and sell or license these finished

recordings to legitimate digital channels and retail stores. Increasingly, we are also expanding our participation in image and brand rights associated with artists, including merchandising, sponsorships, touring and artist management. Our labels scout and sign talent across all major music genres, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. Internationally, we market and sell U.S. and local repertoire through our network of affiliates and licensees in more than 50 countries. With a roster of local artists performing in various local languages throughout the world, we have an ongoing commitment to developing local talent aimed at achieving national, regional or international success.

Many of our recording artists continue to appeal to audiences long after we cease to release their new recordings. We have an efficient process for sustaining sales across our catalog releases. Relative to our new releases, we spend comparatively small amounts on marketing for our catalog.

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We maximize the value of our catalog of recorded music through our Rhino business unit and through activities of each of our record labels. We use our catalog as a source of material for re-releases, compilations, box sets and special package releases, which provide consumers with incremental exposure to familiar songs and artists. Rhino also releases new soundtrack albums and new music from legacy artists; as well as exploiting the name and likeness of certain artist estates and brands.

Representative Worldwide Recorded Music Artists

A Boogie wit da Hoodie	Deftones	James Blunt	My Chemical Romance	Sigur Rós
A-ha	Jason Derulo	Katherine Jenkins	Nek	Simple Plan
Air	Disturbed	Jane's Addiction	New Order	Skillet
Alt-J	Donkeyboy	Jethro Tull	Nickelback	Skrillex
Andra Day	The Doors	Johnny Hallyday	Stevie Nicks	Slipknot
Jean-Louis Aubert	DRAM	Julien Clerc	Nico and Vinz	The Smiths
Avenged Sevenfold	Dream Theater	k.d. lang	Notorious B.I.G.	Spandau Ballet
Frankie Ballard	Duran Duran	Kehlani	Paolo Nutini	Regina Spektor
The Baseballs	Eagles	Kid Rock	Opeth	Staind
Jeff Beck	Brett Eldrege	Killswitch Engage	Pablo Alborán	Rod Stewart
Gary Clark Jr.	Eliza Doolittle	Kobukuro	Panic! At the Disco	The Streets
Biffy Clyro	Missy Elliott	Kodak Black	Pantera	Sturgill Simpson
Big Smo	The Enemy	Korn	Paramore	Alain Souchon
Billy Talent	Enya	Kraftwerk	Partynextdoor	Stone Sour
Birdy	Jimmy Fallon	Jana Kramer	Laura Pausini	Stone Temple Pilots
The Black Keys	Flaming Lips	Larry the Cable Guy	Pendulum	Superfly
Black Sabbath	Fleetwood Mac	Hugh Laurie	Christina Perri	Cole Swindell
Blur	Flo Rida	Led Zeppelin	Peter Fox	Mariya Takeuchi
Miguel Bosé	Aretha Franklin	Ligabue	Tom Petty	Tegan and Sara
Michelle Branch	Foreigner	Lil Pump	Pink Floyd	Tina Turner
Bruno Mars	fun.	Lil Uzi Vert	Plan B	Tinie Tempah
Michael Bublé	Galantis	Lily Allen	Portugal. The Man	Theory of a Deadman
Cardi B	Kevin Gates	Linkin Park	Primal Scream	Trans-Siberian Orchestra
The Cars	Genesis	Dua Lipa	Prince	Trey Songz
Tracy Chapman	Rhiannon Giddens	Lynyrd Skynyrd	Charlie Puth	Ty Dolla \$ign
Ray Charles	Gloriana	M. Pokora	The Ramones	Jolin Tsai
Charlie XCX	Lukas Graham	Machine Head	Randy Travis	Twenty One Pilots
Cher	Gojira	Christophe Maé	Red Hot Chili Peppers	Twisted Sister
Chicago	Goo Goo Dolls	Magic System	Bebe Rexha	Uncle Kracker
Eric Clapton	Josh Groban	Maná	Damien Rice	Van Halen
Kelly Clarkson	Grateful Dead	Melanie Martinez	Kenny Rogers	Westernhagen
Coldplay	Green Day	Mastodon	Roxette	Whitesnake
Ornette Coleman	Gorillaz	matchbox twenty	Rudimental	Wilco
Phil Collins	Gucci Mane	MC Solaar	Rumer	Wiz Khalifa
John Coltrane	David Guetta	Bette Midler	Rush	The Wombats
Alice Cooper	Halestorm	Luis Miguel	Todd Rundgren	Yes
The Corrs	Hard-Fi	Mac Miller	Alejandro Sanz	YFN Lucci
Crosby, Stills & Nash	Emmylou Harris	Kylie Minogue	Seal	Neil Young
Daft Punk	Hunter Hayes	Janelle Monáe	Sean Paul	Young the Giant

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Dan + Shay	The Head and the Heart	The Monkees	Seed	Young Thug
Danger Mouse	Faith Hill	Ashley Monroe	Ed Sheeran	Youssou N'Dour
David Bowie	Nipsey Hussle	Jason Mraz	Blake Shelton	Zac Brown Band
Death Cab for Cutie	Iron Maiden	Muse	Shinedown	ZZ Top

6

Recording Artists' Contracts

Our artists' contracts define the commercial relationship between our recording artists and our record labels. We negotiate recording agreements with artists that define our rights to use the artists' copyrighted recordings. In accordance with the terms of the contract, the artists receive royalties based on sales and other forms of exploitation of the artists' recorded works. We customarily provide up-front payments to artists called advances, which are recoupable by us from future royalties otherwise payable to artists. We also typically pay costs associated with the recording and production of albums, which in certain countries are treated as advances recoupable by us from future royalties. Our typical contract for a new artist covers a sufficient number of master recordings to constitute a single initial album and provides us with a series of options to acquire subsequent albums from the artist. Royalty rates and advances are often increased for subsequent albums for which we have exercised our options. Many of our contracts contain a commitment from the record label to fund video production costs, at least a portion of which in certain countries is treated as advances recoupable by us from future royalties.

Our established artists' contracts generally provide for greater advances and higher royalty rates. Typically, established artists' contracts entitle us to fewer albums, and, of those, fewer are optional albums. In contrast to new artists' contracts, which typically give us ownership in the artist's work for the full term of copyright, some established artists' contracts provide us with an exclusive license for some fixed period of time. It is not unusual for us to renegotiate contract terms with a successful artist during the term of their existing agreement, sometimes in return for an increase in the number of albums that the artist is required to deliver.

While the duration of the contract may vary, our contracts typically grant us ownership for the duration of copyright. See "Intellectual Property-Copyrights." United States copyright law permits authors or their estates to terminate an assignment or license of copyright (for the United States only) after a set period of time in certain circumstances. See "Risk Factors—We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

We are also continuing to transition to other forms of business models with recording artists to adapt to changing industry conditions. Many of the recording agreements we currently enter into are expanded-rights deals, in which we share in the touring, merchandising, sponsorship/endorsement, fan club or other non-traditional music revenues associated with those artists.

Marketing and Promotion

Our approach to marketing and promoting our artists and their recordings is comprehensive. Our goal is to maximize the likelihood of success for new releases as well as to stimulate the success of catalog releases. We seek to increase the value of music, and help our artists connect with their fans.

The marketing and promotion of recorded music is carefully coordinated to create the greatest sales momentum, while maintaining financial discipline. We have significant experience in our marketing and promotion departments, which we believe allows us to achieve an optimal balance between our marketing expenditure and the eventual sales of our artists' recordings. We use a budget-based approach to plan marketing and promotions, and we monitor all expenditures related to each release to ensure compliance with the agreed-upon budget. These planning processes are regularly evaluated based on updated artist retail sales reports, streaming service playlists and radio airplay data, so that a promotion plan can be quickly adjusted if necessary.

Manufacturing, Packaging and Physical Distribution

Technicolor SA, a technology provider for the media and entertainment sectors, which acquired in 2015 the North American optical disc manufacturing and distribution assets from Cinram Group Inc., is currently our primary supplier of manufacturing, packaging and physical distribution services in the U.S. and Canada. We also have arrangements with other suppliers and distributors, in addition to Technicolor, as part of our manufacturing, packaging and physical distribution network throughout the rest of the world. We believe that the pricing terms of our manufacturing, packaging and physical distribution agreements reflect market rates.

Sales and Digital Distribution

We generate sales from the new releases of current artists and our catalog of recordings. In addition, we actively repackage music from our catalog to form new compilations. Our sales are generated in digital formats including streaming and downloads, CD format, as well as through historical formats, such as vinyl albums.

Most of our physical sales represent purchases by a wholesale or retail distributor. Our sale and return policies are in accordance with wholesale and retailer requirements, applicable laws and regulations, territory and customer-specific negotiations, and industry practice. We attempt to minimize the return of unsold product by working with retailers to manage inventory and SKU counts as well as monitoring shipments and sell-through data.

The digital sales channel has become an important sales channel within our business. We currently partner with a broad range of digital service providers, such as Amazon, Apple, Deezer, KKBox, Napster, Spotify, Telefonica, Tencent, YouTube and Google, and are actively seeking to develop and grow our digital business. Online sales also include sales of traditional physical formats through both the online distribution arms of traditional retailers such as fye.com and walmart.com and traditional online physical retailers such as amazon.com, bestbuy.com and barnesandnoble.com. In addition, digital service providers sell digital music on a per-album or per-track basis. Various mobile service providers also offer their subscribers the ability to stream or download music on mobile devices. In digital formats, per-unit costs related directly to physical products such as manufacturing, distribution, inventory and return costs do not apply. While there are some digital-specific variable costs and infrastructure investments needed to produce, market and sell digital products, it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. We sell our physical recorded music products through a variety of different retail and wholesale outlets including music specialty stores, general entertainment specialty stores, supermarkets, mass merchants and discounters, independent retailers and other traditional retailers. Although some of our retailers are specialized, many of our customers offer a substantial range of products other than music.

Our agreements with digital service providers generally last one to three years. We believe that the short-term nature of our agreements enables us to maintain the flexibility that we need given the continuing changes to digital business models.

We enter into agreements with these service providers to make our masters available for access in digital formats (e.g., streaming, and digital downloads). We then provide digital assets for our masters to these service providers in an accessible form. Our agreements with these service providers establish our fees for the distribution of our product, which vary based on the type of product being distributed. We typically receive accounting reports from these service providers on a monthly basis, detailing the distribution activity, with payments rendered on a monthly basis.

Our business has historically been seasonal. In the recorded music business, purchases have historically been heavily weighted towards the last three months of the calendar year. However, since the emergence of digital sales, we have noted our business is becoming less seasonal in nature and driven more by the timing of our releases. As digital revenue continues to increase as a percentage of our total revenue, this may continue to affect the overall seasonality of our business. However, seasonality with respect to the sale of music in new formats, such as digital, is still developing.

Music Publishing (16% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2018, 2017 and 2016)

While recorded music is focused on exploiting a particular recording of a composition, music publishing is an intellectual property business focused on the exploitation of the composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, our Music Publishing business garners a share of the revenues generated from use of the composition.

Our Music Publishing operations are conducted principally through Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music library collectively branded as Warner/Chappell Production Music.

Music Publishing Portfolio

Representative Songwriters

Rhett Akins	Ben Hayslip	Tim Nichols
Steve Aoki	Brett James	Nickelback
Beyoncé	Jay Z	Paramore
Belly	Juanes	Katy Perry
Brothers Osborne	Ian Kirkpatrick	Plain White T's
Brody Brown	Kool & the Gang	Cole Porter
James Brown	Kygo	The Ramones
Bruno Mars	Lady Antebellum	Pricilla Renea
Michael Bublé	Kendrick Lamar	Damien Rice
busbee	Led Zeppelin	Rihanna
Captain Cuts	Lil Wayne	Liz Rose
Harry Chapin	Little Big Town	Mort Shuman
Eric Clapton	Tove Lo	Stephen Sondheim
Dido	Madonna	Staind
Dream	Maná	Chris Stapleton
Dr. Dre	Curtis Mayfield	A Thousand Horses
fun.	Johnny Mercer	Justin Tranter
Nicole Galyon	George Michael	Twenty One Pilots
Kenneth Gamble and Leon Huff	Julia Michaels	Kurt Weill
George and Ira Gershwin	Lin-Manuel Miranda	Barry White
Brantley Gilbert	Nick Monson	John Williams
Lukas Graham	Van Morrison	Pharrell Williams
Green Day	Muse	Wiz Kalifa
Halestorm	Kacey Musgraves	Wolf Cousins
Jerome Harmon	Dave Mustaine	Rob Zombie

Representative Songs

1950s and Prior	1960s	1970s
As Time Goes By	Build Me Up Buttercup	A Horse With No Name
Dream A Little Dream Of Me	Everyday People	Ain't No Stopping Us Now
Frosty The Snowman	For What It's Worth	Cat's In The Cradle
Jingle Bell Rock	I Only Want To Be With You	Hot Stuff
Misty	Save The Last Dance For Me	Killing Me Softly
Night And Day	This Magic Moment	Layla
Summertime	Viva Las Vegas	Listen To The Music
That's All Right	Walk On By	Moondance
When I Fall In Love		