London Business School

Eric Nicoli
Chairman, EMI Group
“The Long And Winding Road”

EMI and the music business
EMI – the first 100 years

1897
Gramophone established in London

1904
listed on LSE

1921
first HMV shop opens in London

1931
Gramophone and Columbia merge to form EMI

1948
33 1/3 rpm records introduced

1955
EMI acquires Capitol

1962
EMI signs The Beatles

1979
Thorn / EMI merge

1982
CDs introduced

1990
Chrysalis acquired

1992
Virgin acquired

1997
Thorn/EMI demerge

EMI today

- Public company
- Market capitalisation £2 billion
- No.1 music publishing company
- No.3 recorded music company
- Operations in 48 countries on six continents
- 6,700 employees worldwide
Geography

Group revenue by origin

- North America: 29.6%
- UK: 15.7%
- Rest of Europe: 31.8%
- Asia Pacific: 18.8%
- RoW: 4.1%

Source: EMI Group
The EMI Group – a worldwide leader in music

### EMI Music

An outstanding roster of recorded music stars and a rich catalogue of recordings

### EMI Music Publishing

An exceptional catalogue of songs and a roster of elite songwriters

<table>
<thead>
<tr>
<th>Summary financials</th>
<th>EMI Music</th>
<th>EMI Music Publishing</th>
<th>EMI Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£m</td>
<td>1,600</td>
<td>401</td>
<td>2,001</td>
</tr>
<tr>
<td>$m</td>
<td>2,944</td>
<td>738</td>
<td>3,682</td>
</tr>
<tr>
<td><strong>EBITA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£m</td>
<td>125</td>
<td>100</td>
<td>225</td>
</tr>
<tr>
<td>$m</td>
<td>230</td>
<td>184</td>
<td>414</td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>7.8%</td>
<td>24.9%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Source: EMI Group, IFRS adjusted FY 04/05
EMI Music Publishing

An impressive catalogue

Ain’t No Mountain High Enough  •  Angels  •  Bohemian Rhapsody  •
Can’t Take My Eyes Off You  •  Dancing In The Moonlight  •
Daydream Believer  •  Every Breath You Take  •  Fields of Gold  •
Get Down On It  •  Have Yourself A Merry Little Christmas  •
How Sweet It Is “To Be Loved By You”  •
Hungry Like The Wolf  •  I Heard It Through The Grapevine  •  I’m Not In Love  •  Lady
Marmalade  •  Let’s Get It On  •  Mamma Mia
Mony Mony  •  New York New York  •  Sexual Healing  •  Shout  •  Singin’ In The Rain  •
Strangers In The Night  •  That’s The Way (I Like It)  •  This Old Heart Of Mine  •  The James Bond Theme  •  The Loco-Motion
Walking On Sunshine  •  We Gotta Get Out Of This Place  •
We Will Rock You  •  What’s Going On  •  Wild Thing  •  You’ve Got A Friend  •  You’ve Lost That Lovin’ Feeling’  •
An exciting roster of current recording artists

Shirley Bassey • Beach Boys • Beastie Boys
The Beatles • Blondie • Marc Bolan • David Bowie • Kate Bush • Maria Callas • Enrico Caruso • Joe Cocker • Nat King Cole • Deep Purple • Fats Domino • Jacqueline du Pre • Duran Duran • Edward Elgar • Gracie Fields • George Formby • Hollies • Iron Maiden • Nigel Kennedy • Lenny Kravitz • Peggy Lee • John Lennon • Vera Lynn • Paul McCartney • Dean Martin • Massive Attack • Johnny Mercer • Steve Miller • N*E*R*D • Mike Oldfield • Edith Piaf • Pink Floyd • Andre Previn • Queen • Simon Rattle • Cliff Richard • Rolling Stones • Simple Minds • Spandau Ballet • Spice Girls • Stranglers • Frank Sinatra • Tina Turner • UB40 • Fats Waller
Major EMI labels
## EMI’s top selling albums worldwide 2005

<table>
<thead>
<tr>
<th>Artist</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Coldplay</td>
<td>X &amp; Y</td>
</tr>
<tr>
<td>2 Robbie Williams</td>
<td>Intensive Care</td>
</tr>
<tr>
<td>3 Gorillaz</td>
<td>Demon Days</td>
</tr>
<tr>
<td>4 The Rolling Stones</td>
<td>A Bigger Bang</td>
</tr>
<tr>
<td>5 Various</td>
<td>Now That’s What I Call Music! Vol 19/20</td>
</tr>
<tr>
<td>6 Keith Urban</td>
<td>Be Here</td>
</tr>
<tr>
<td>7 Various</td>
<td>Now That’s What I Call Music! 62</td>
</tr>
<tr>
<td>8 KT Tunstall</td>
<td>Eye To The Telescope</td>
</tr>
<tr>
<td>9 KORN</td>
<td>See You On The Other Side</td>
</tr>
<tr>
<td>10 RBD</td>
<td>Rebelde</td>
</tr>
</tbody>
</table>
World recorded music market share

- BMG: 11%
- Sony: 14%
- EMI: 12%
- Warner: 12%
- Indies: 25%
- Universal: 11%
- Sony: 14%
- EMI: 12%
- BMG: 11%
- Indies: 25%
Global recorded music sales 1969-2005
USD billions

Source: Enders Analysis
2004 & 2005 figures are estimates
What do you do when your market takes a dive?

• Understand the root causes of decline
• Address the issues in your existing business
• Find new sources of income
• Redefine the business
Root causes of market decline

- General economic conditions
- Growth in competing entertainment products
- Piracy
  - Physical piracy
  - Online piracy
- Quality of music
Consumer spending is shifting away from traditional formats

Change in media and entertainment spend

Time spent 1998-2004 CAGR
Money spent 1998-2004 CAGR

Recorded Music -7% 306% (1)
Magazines -3% 156% (2)
Broadcast TV -2% NA
Broadcast Radio -2% NA
Books -2% 27%
Newspaper -2% 22%
Box Office 0% 7%
Satellite Radio 7% 1%
Home Video 13% 7%
Video Games 8% 6%
Wireless Phones 22% 20%
Internet 30% 27%
Cable & Satellite TV 9%
Digital Music 71%

(1) CAGR for 2002-2004 only
(2) 2001-2004 only
Note: All per capita data based on total U.S. population of 296MM
Source: Veronis Suhler, Forrester, Arbitron, Booz Allen analysis
The amount of media content competing for consumers’ attention has increased significantly


<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>245</td>
<td>283</td>
<td>281</td>
<td>287</td>
<td>308</td>
<td>339</td>
<td>390</td>
</tr>
</tbody>
</table>

Number of UK radio stations (1995-2005)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>225</td>
<td>354</td>
</tr>
</tbody>
</table>

Number of available US DVD titles (all formats: 2000-2004)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2002</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,000</td>
<td>20,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Sources: NCTA, DVD Entertainment Group, Media UK
Physical piracy: pervasive

Worldwide % of CD albums sold that are pirate

Major pirate markets

Paraguay: 99%
China: 85%
Indonesia: 80%
Ukraine: 68%
Russia: 66%
Mexico: 60%
Pakistan: 59%
India: 56%
Brazil: 52%
Spain: 24%
Digital piracy: in 2003, 80 million people were downloading music files from P2P networks

Songs downloaded - P2P networks 2003

P2P penetration rate

Source: IT Innovations & Concepts, Aug 2004
Number of illegal P2P users contained despite high broadband growth in US
Progress in fight against piracy

- Technological
  - Copy protection on discs
  - Pre-release security
  - P2P technical counter measures
  - Create new consumer experience on physical discs

- Legal alternatives
  - Enable and support new legal digital businesses
  - Enable ‘authorised’ sharing

- Industry efforts
  - Government lobbying: legislation, enforcement
  - Education: consumers, employees, third-parties
  - Lawsuits

- June 2005: Unanimous Supreme Court ruling in favour of the industry against Grokster
- September 2005: Australian Federal Court ruling in favour of industry against Kazaa
- Over 14,000 lawsuits filed against illegal file sharers to date
EMI Music transformation

• October 2001 – new management team
• Implemented cost reduction and restructuring programmes
  – Europe: combined Virgin and Capitol back offices, rationalised country and label structures
  – US: centralised management and marketing and created shared services for back office, restructured Virgin
  – Outsourced manufacturing: Europe, North America, Japan
  – Centralised international marketing and priority systems
EMI Music transformation (contd)

– Added or enhanced new business functions
  • created anti piracy/content protection team
  • established government affairs team in US, EU and UK
  • strengthened strategy team and consumer research capability
  • initiated comprehensive technology change programme
  • expanded management training and people development
EMI Music transformation (contd)

• Through this re-sizing and re-shaping of the business, we
  – reduced fixed costs by c.£150m
  – reduced staff by c.35%
  – cut artist roster by c.35%
• Drove culture shift
  – balance of business discipline and creative initiative
  – innovation
  – sharp consumer focus
EMI: embracing digital music opportunity

We want to enable consumers to find and consume...

any music ...

... in any form ...

... at any time ...

... in any place...

It is all about taking our music to the consumer
Consumers have been embracing new ways to listen to music

Source of music listening in the US

- Radio: 86%
- CD on home stereo: 71%
- Physical CD on a computer: 41%
- Music video on TV: 40%
- Digital music file on computer: 32%
- Online radio: 23%
- Music DVD: 16%
- MP3 player: 13%
- Live concert: 8%

Source: NPD Music Lab, Online survey, February 2005, Ages 13+ n=4,700 Results projected to total U.S. population
Consumers and legitimate music purchasing

Motivation for legal digital music buying

- Easier to find songs: 54%
- Better value for money: 40%
- Instant gratification: 37%
- Good way to sample new music: 32%
- Easier to store: 26%
- Better assortment: 26%
- Better sound quality: 23%

Source: NPD
“Now that I own an iPod…

- I listen to music more than I used to
- Music is a bigger part of my life
- I buy more music than I used to

% agreeing with statement

- Total
- Age 13-17
- Age 18-25

Source: NPD MusicLab December 2005, EMI analysis Base: Own an iPod
EMI is working with all major players in the digital space
Growth of broadband & MP3 player penetration will facilitate wider uptake of digital services

- External predictions show broadband penetration doubling in these countries over the next 4 years\(^1\)
- Researchers forecast that the US market for portable MP3 players will treble between 2004 and 2008\(^2\)
- As the technology develops and becomes more widespread, digital music demand should continue to benefit

Source: Understanding & Solutions, 2004. MP3 penetration % population. Broadband % homes
Notes: \(^1\)Carat 2005 \(^2\)Jupiter 2004
The development of mobile phone technology provides significant new opportunities for music consumption

- Today, less than 10% of mobile phones are capable of playing music
- Forecast that 50% of mobile phones will be music phones in 2008
- The roll-out of 3G and wireless broadband technology will drive consumer uptake
- All major handset manufacturers and mobile service providers investing in mobile music opportunity

Source: Strategy Analytics
Accelerating device sales – accelerating digital track sales

iPod sales and iTunes tracks downloaded

- 14 million iPods were sold in Q4 05 – three times the number sold in the same period a year earlier
- Downloads on iTunes have been gathering pace – it will not be long before downloads reach 1 billion
- 42 million iPods shipped to date
- Over 12 million iTunes videos downloaded to date

Source: Apple, EMI estimates
Digital development varies by region

EMI Music’s digital revenues by type and region (H1 05/06)

Source: EMI Group
From where to here ...

- Over five years of significant industry challenges
  - technology fuelling explosion in piracy
  - rise in competing products
  - declining shelf space at retail
  - new business models slow to emerge

- We saw the threats – and the opportunities – and took action
  - radical restructuring of our global operations
  - increased investment in IT/systems, strategy, consumer research and anti piracy efforts
  - continued to focus on the music
  - embracing digital music – new products, new partners, new models
... and moving forward

- Industry prospects improving
  - piracy growth being contained
  - continued increase in new digital products and services
  - growth in broadband and mobile phone capabilities will spur consumer uptake of digital music and lead to even greater product expansion
Digital sales drive further market trend improvement

% change in value of global music market

Source: Based on EMI Group estimates
Note: FY04 and H1 05 include digital sales
The future potential from digital is significant

- Digital sales are an appreciable contributor to revenues already
- Significant advances in broadband, music phone and portable MP3 penetration are still to come
- Digital could represent up to 25% of the global music industry by 2010
- Driving 5% CAGR in industry sales by 2010
Potential growth of the global wholesale recorded music market

Digital could represent approximately 25% of music industry in 5 years

LECG / EMI: Planning scenario – Digital Day, 1 July 2004
Not a forecast
London Business School

Eric Nicoli
Chairman, EMI Group