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Performing Right Society

Financial Review

PRS
for MUSIC

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Basis of preparation

The figures presented in this financial review are for the Performing Right Society Limited (PRS). This review has not been audited. Audited financial statements for PRS are prepared using accepted UK accounting practices.

Foreword

2016 was another landmark year for PRS. For the first time in UK music history, member distributions exceeded half a billion pounds¹. We achieved record revenues of £621.5m, which on a constant currency basis represents 10.1 percent growth over 2015; we paid out to more members across more works than ever before and did this against significantly increased data volumes. This impressive set of results was made possible through our long-term strategy of investing in joint ventures, strategic partnerships, technology and data.

Of our four main revenue streams, international revenues generated from members' music played abroad was the largest and saw significant growth to £233.7m, an increase of 5.0 percent on 2015 on a constant currency basis. Revenue from music played via online platforms saw the biggest uplift, at 89.9 percent, to £80.5m, while public performance income grew 4.6 percent to £183.2m. Finally, broadcast revenues were stable at £124.1m.

Over the last year, we have continued to invest in our collaborations with partners to enable more efficient ways of operating our business and foster innovation that benefits both our members and the industry. In 2016 we announced our joint venture with PPL to streamline the experience of customers obtaining public performance licences, allowing them to secure a joint PPL and PRS licence. This came with the support of politicians, the members and boards of PRS and PPL and, importantly, our licensee customers. The joint venture, to be based in Leicester, will launch later this year.

ICE, our joint venture with Swedish society STIM and German society GEMA was rebranded and relaunched in 2016, adding online licensing, matching and processing services to its existing copyright service. ICE has been a key factor in enabling us to pay out more money, to more members, over more works, than ever before. Its expansion to incorporate the copyright databases of seven - soon to be eight - other societies has created the largest footprint of authoritative copyright data in the industry, enabling new levels of accuracy in distributions to members.

PRS continues to lead the campaign to raise awareness and promote solutions to the problem of the 'transfer of value' or 'value gap' in order to achieve fair value for our members when their music is used by digital services. In close collaboration with other industry partners, we successfully placed the issue high on the agenda of the European Commission as they considered possible amendments to European copyright law. As a result, the proposed text for the Copyright Directive tackles the unfair and ineffective operation of the online market. We are lobbying to ensure that the Commission's proposal passes into law and hope the European Parliament and Council of Members, including our own government, support its recommendations.

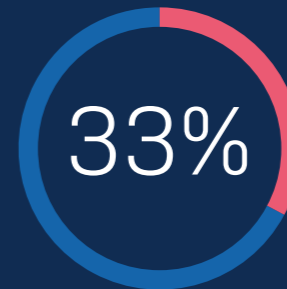
Robert Ashcroft,
Chief Executive Performing Right Society

£621.5m

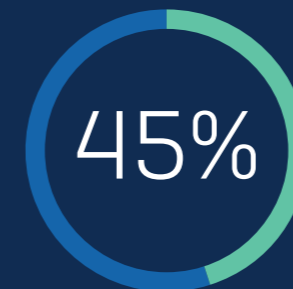
royalty revenues for 2016

£527.6m

paid out in royalties to songwriters,
composers and music publishers



more music creators
received royalties



more unique musical
works and songs paid



increase in uses, 4.3 trillion
performances of music processed

¹Adjusted to include distributions relating to PRS repertoire paid directly to PRS members by joint venture parties and overseas societies.

About us

The Performing Right Society was founded in 1914 and is one of the largest, most efficient collection societies in the world. We manage the performing rights assigned to us by our 125,000 songwriter, composer and publisher members.

We are committed to providing our members with the very best service and we exist solely to help our members earn from their music.

We provide businesses and other organisations with access to music from all around the world, from the largest media corporation or retail chain to the most intimate live performance space.

We have well-established and long-standing relationships with societies world-wide. We collect international revenues from 96 reciprocal agreements with collecting societies in other countries and license broadcasters, digital service providers and UK businesses to perform music in public.

Our reach enables us to represent our members' repertoire across the globe, ensuring that they are paid whenever their music is used. To this end, PRS operates the largest and most pro-active international department in the world: for every royalty statement we receive, we send on average 24 times more queries back, ensuring the best possible revenue returns for all our members.

Each year, we license more than 350,000 businesses, including radio stations, television channels and a range of online digital service providers. Through our

business relationships and promotional activities, we champion the value of music and highlight its benefits in motivating staff and creating a welcoming environment for customers.

We invest in collaborations and technologies that enable us to keep pace with an increasingly complex licensing world and which help us maximise the income we distribute to our members. Our business is healthy and growing, our operating costs tightly controlled and we ensure that our investments are geared towards growth in revenue and improved quality of service to our members.

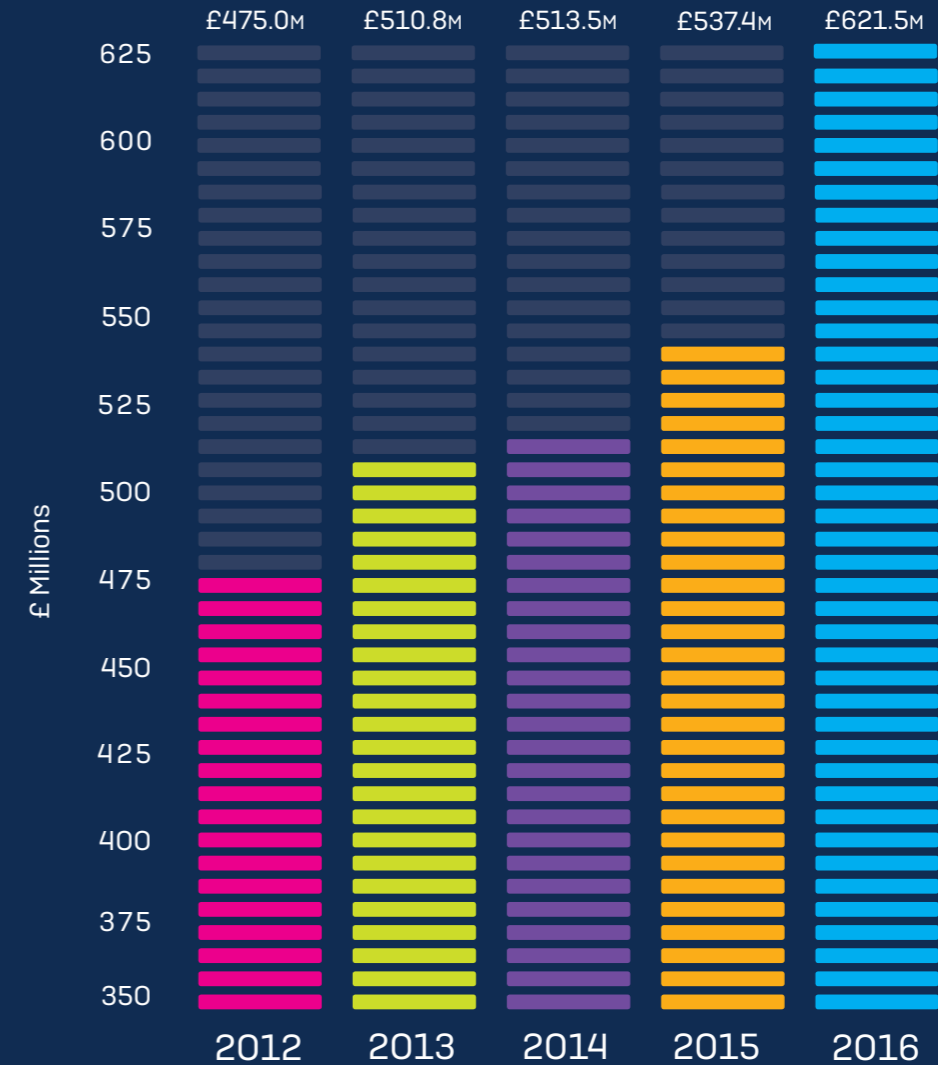
After deducting the costs of running our organisation, the revenue we receive from licence fees and investments is distributed swiftly to our members and affiliated society rightsholders. We are proud to have one of the lowest cost to income ratios of all the major international societies.

We support cross-industry initiatives to improve the legislative environment for copyright and continually advocate for improved industry data to enable faster and more accurate payment to our members.

We are the leading funder of new music in the UK and in 2016 donated £2.5m to the PRS Foundation, a registered charity dedicated to music of all genres across the UK, which supports a wide range of creative projects.

If you would like more information about PRS and our members, please visit prsformusic.com.

Our track record



PRS ROYALTY REVENUE 2012 - 2016

Headline results

Royalty revenue collected, costs and distributions to members

£ million	2016	2015	%
Revenue - royalties	621.5	537.4	15.6
Interest and other income	4.3	2.1	104.8
Total revenue	625.8	539.5	16.0
Costs	-77.4	-67.8	-14.2
Charitable donations	-2.7	-2.1	-28.6
Net Distributable Revenue pre deed	545.7	469.6	16.2
Deed payback from MCPS	0.0	4.5	
Net Distributable Revenue post deed	545.7	474.1	15.1
Cost to income ratio	12.8%	13.0%	
PRS distributions*	527.6	475.1	11.1

* Adjusted to include distributions relating to PRS repertoire paid directly to PRS members by joint venture parties and overseas societies.

Royalty revenue collected by source

£ million	2016	2015	%
International	233.7	195.6	19.5
Public Performance	183.2	175.2	4.6
Broadcast TV and radio	124.1	124.2	-0.1
Online	80.5	42.4	89.9
Total	621.5	537.4	15.6
Revenue on 2016 constant rates*	621.5	564.3	10.1

* The constant currency basis eliminates the impact of exchange rate fluctuations between the financial years.

- Revenues increased by 10.1 percent (£57.2m) on a constant currency basis.
- All revenue streams are in line with, or significantly above, 2015, with strong growth from International and Online.
- The 11.1 percent increase in member distributions was driven by underlying licensing growth and higher affiliate collections, supported by significant exchange rate gains.
- Increased costs were predominantly driven by commission fees linked to the significant uplift in online revenue, continued investment in strategic programmes to improve both member and customer experience, and the impact of exchange rate fluctuations.
- Interest and other income includes foreign exchange gains realised in 2016, primarily as a result of timing differences on the invoicing and payment receipt of foreign currency invoices.

Where the money comes from



38%
International



29%
Public performance



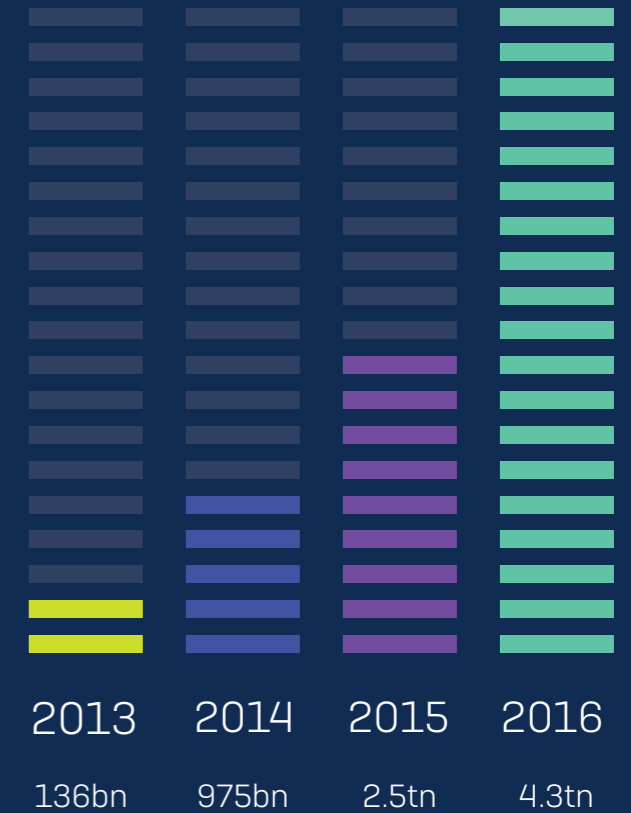
20%
Broadcast



13%
Online

Big data

In 2016, over 4.3 trillion uses of music were reported to PRS from across the globe. This figure was only 136 billion in 2013; the astonishing increase shows the remarkable growth in streaming and the success and popularity of PRS members' repertoire internationally.



Uses of music reported to PRS

International

Royalties from overseas societies

£ million	2016	2015	%
Europe	137.4	118.9	15.6
North America	47.1	40.8	15.4
Asia Pacific	26.3	20.4	28.9
Developing / Emerging	13.5	7.7	75.3
Cruise lines	5.9	5.2	13.5
Agencies	3.3	2.3	43.5
Other (incl. direct licensing)	0.2	0.3	-33.3
Total	233.7	195.6	19.5
Revenue on 2016 constant rates	233.7	222.5	5.0

- International revenues for 2016 totalled £233.7m, an increase of 5.0 percent (£11.2m) on a constant currency basis. This continues a strong upward growth trend in revenues over the last 10 years.
- European revenue growth was driven by a significant number of major live concerts and a steady increase in broadcast and online revenue, alongside our concerted effort to secure further cable TV money for distribution.
- The increase in North American revenue was driven by the continuing chart success of our members and online growth.
- £10m in revenue was generated from tracking and revenue assurance activities, along with a further £10m secured through the focused management of PRS repertoire in key markets.
- Direct licensing activities in PRS agency territories and licensing of various Cruise lines delivered £9m in revenues.

£233.7m



£137.4m

Europe



£47.1m

North America



£26.3m

Asia Pacific



£13.5m

Emerging markets



£5.9m

Cruise lines



£3.5m

Agencies / other



Public performance

Royalties from public performance and live

£ million	2016	2015	%
Pubs and clubs	42.4	44.0	-3.6
Live	30.9	28.3	9.2
Hotels and restaurants	24.5	22.8	7.5
Industrial premises	22.3	20.2	10.4
Shops	20.8	22.5	-7.6
Cinemas	9.8	8.3	18.1
Other	32.5	29.1	11.7
Total	183.2	175.2	4.6

- Public performance royalties increased by 4.6 percent (£8m) in 2016 to reach £183.2m, despite some major retailers removing music from their stores.
- The success of PRS Live Concert Services, higher ticket prices and an additional 7,600 concerts and festivals resulted in revenue growth of 9.2 percent in this sector.
- An 18.1 percent increase in Cinema revenues was driven by a growth of 19.5 percent in box office performance, supported by increased admissions of 9.2 percent and a 7.3 percent uplift in average ticket prices due to the success of major title releases.

£183.2m



£42.4m
Pubs and clubs



£9.8m
Cinemas



£30.9m
Live



£24.5m
Hotels and restaurants



£22.3m
Industrial premises



£20.8m
Shops



£32.5m
Other

351,500

businesses licensed

Broadcast TV and radio

Royalties from broadcast

£ million	2016	2015	%
TV	75.3	76.6	-1.7
Radio	48.8	47.6	2.5
Total	124.1	124.2	-0.1

- Broadcast revenues totalled £124.1m, a marginal decrease of 0.1 percent (£0.1m) on 2015.
- The Copyright Tribunal hearing for ITV's licence dispute ruled in our favour in 2016 and subsequently upheld this decision at appeal in January 2017. This will result in additional 2017 revenues of £9.5m, of which £7.2m relates to 2016 and prior years.
- 2016 commercial radio revenues reached their highest value since 2008. Year-on-year growth, based on audited returns, was 7.0 percent for the licensing year (October to September), translating to 5.0 percent growth on a calendar year basis.

£124.1m



£75.3m
Television



£48.8m
Radio



Online

Royalties from online services

£ million	2016	2015	%
Streaming	61.5	23.7	159.5
Video-on-demand	9.4	10.0	-6.0
Downloads	5.5	6.1	-9.8
Gaming	4.1	2.6	57.7
Total	80.5	42.4	89.9

- Online revenues reached £80.5m in 2016, an increase of 89.9 percent (£38.1m).
- The increase was driven by improved multinational licensing capability with the development of ICE, together with a strong performance from our joint venture partners.
- Underlying growth in royalties from Subscription Video-on-demand services such as Netflix are not reflected in the headline numbers as 2015 included settlements for prior periods which were not repeated in 2016.
- The £1.5m year-on-year increase in Gaming revenues was a result of interim payments from a key licensee, pending licence finalisation.

£80.5m



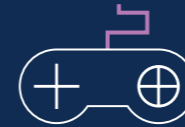
£61.5m

Streaming



£5.5m

Downloads



£4.1m

Gaming



£9.4m

Video-on-demand



Costs

£ million	2016	2015	%
People	39.7	37.5	5.9
Outsourced services	22.4	14.8	51.4
Professional and legal	7.9	7.9	0.0
Property	3.4	4.4	-22.7
Publicity and marketing	2.0	2.1	-4.8
Technology	2.6	2.3	13.0
Tax	0.2	0.2	0.0
Other	2.1	1.7	23.5
Total operating cost	80.3	70.9	13.3
Depreciation, disposals and impairments	9.3	8.9	4.5
Governance	0.9	0.9	0.0
Donations and rent subsidies	2.7	2.1	28.6
Pensions - defined benefit	0.8	1.3	38.5
PRS total cost	94.0	84.1	11.8
Service fee from MCPS	-13.9	-14.2	2.1
Net PRS cost	80.1	69.9	14.6

- The commission cost, directly linked to the significant increase in online revenue and distributions, accounts for over 50 percent of the 2016 cost increase (£5.1m).
- The impact of the weakening of sterling against major currencies in 2016 led to improved international collections, but adversely impacted service and commission costs from our overseas joint ventures (£1m).
- Through our continued investment in strategic programmes we improved our digital services and created a joint venture for public performance licensing with PPL, improving our offering to both members and customers.
- Our commitment to driving operational efficiencies and reducing costs continued, with the extension of flexible working creating the opportunity to sub-let further sections of our Kings Cross office, generating a cost recovery of £1.3m per annum.
- We maintain our support for new music and talent through our donation to the PRS Foundation, which increased to £2.5m in 2016.

How we operate

We are governed by our members, for our members. The PRS board comprises 11 creator and 11 publisher members, two external directors and the CEO. We are proud to operate on a not-for-profit basis.

Our governance structure ensures transparency and fairness with no bias towards any particular interest group. We believe it is this independence that makes us so trusted among our writers and composers, publishers, licensees, lawmakers and fellow collecting societies.

We are a strong advocate for modernisation as we continually embrace new approaches and technologies in our mission to offer ever-better services to members at an even lower cost.

This year we published, alongside our annual report and accounts, an Annual Transparency Report (ATR). This provides a detailed insight into the activities of PRS, including a comprehensive breakdown of income on a territory-by-territory basis. The ATR comes as a direct result of PRS pressure on the European Commission to establish minimum standards of transparency and reporting across European collective management organisations. This work culminated in the adoption of the Collective Rights Management Directive in 2014.

We launched our Code of Conduct in 2012. It covers all aspects of PRS membership and areas we license, from shops to new online streaming services. It complies with the British Copyright Council's Principles of Good Practice for Collective Management Organisations Policy Framework. This code also outlines the roles and responsibilities of PRS, sets best practice and determines the standards that govern how the society operates.

Importantly, it explains how we can help each other and what to do if things go wrong. Please visit our website to read the Code of Conduct.

prsformusic.com/codeofconduct

These are the figures for 2016:

Licensing

- 2,463,806 contacts made
- 92 complaints recorded
- No complaints referred to the Ombudsman
- Four outstanding at the end of the year, of which two were received on or after 20 December and two required legal and commercial assistance

Membership

- 38,567 contacts made
- Nine complaints recorded
- Two complaints referred to the Ombudsman
- No complaints were upheld
- Zero outstanding at the end of the year

Our customers

We provide businesses and other organisations - from the largest media corporation or retail chain to the most intimate performance space - with access to music from all around the world.

351,500

businesses of all types

Including...



1,600
Online services



488
Television channels



672
Radio stations

As well as...



769
Amusement arcades



47
Call centres



37,357
Pubs



88,899
Shops



53
Bandstands



35,199
Salons



27,619
Offices



439
Stadiums



21,176
Restaurants



222
Bowling alleys



883
Universities



34
Offshore platforms

The future

Our record financial performance in 2016 cements PRS' position as a global leader in collective rights management and is a result of our forward thinking, long-term strategy. Throughout 2017 we will continue our programme of strategic investment to deliver new capabilities and collaborations, bringing value to both our members and the wider industry.

We will launch our joint venture with PPL in 2017. This will significantly simplify music licensing for UK businesses and bring greater value back to members.

There will be further investment in the ICE platform and its technical capabilities. We believe our hub strategy will drive the future success of the industry. We anticipate collaborating with more hubs to ensure that the data standards on which we all work are improved and consolidated.

We pioneered the improvement of data management by establishing ICE in collaboration with our partners and are working with others to develop new solutions to ensure that our members receive the money that is rightfully theirs. The ability to link data across databases and achieve consensus on which data sets carry most authority is critical to this initiative.

In 2017, PRS announced its participation in two separate, but related, initiatives to improve the identification of sound recordings and musical works and the links between them. We have already built a successful proof of concept with PPL which is gaining interest from other societies worldwide.

Now we are in the process of prototyping a new shared system of managing authoritative music copyright information using blockchain technology with ASCAP and SACEM. We are also engaged in conversations with others in the industry to gain their input in the development of a universal protocol for a data authority hierarchy to benefit the entire industry.

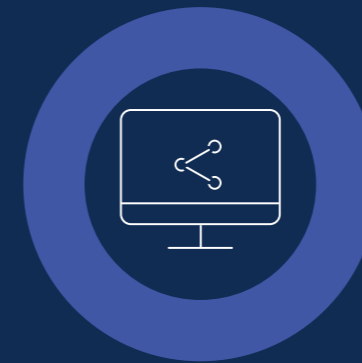
We have paid out our largest distribution in terms of both volume and value and the ICE joint venture has enabled us to achieve the best balance in the industry between distribution timeliness and payment accuracy, a never-ending endeavour.

Our international business continues to grow steadily and our global reach and influence give us the ability to best represent our members across the world. In 2017 we will embark on the next phase of our growth strategy to drive more income for the use of our members' repertoire around the world. This follows a detailed analysis of markets where we believe there is more potential to grow revenues via different approaches for the use of our members' works.

Investing in the future

We are one of the most efficient collection societies in the world.

In 2016 we achieved record breaking results. We paid out more money, to more members, across more works and against significantly increased data volumes, than ever before. This has been made possible through our long-term strategy of investing in technology, data, joint ventures and strategic partnerships.



Transforming our digital services



Championing the value of music



Processing smarter

= more money for our members

The story of a song



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